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BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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

DIRECT TESTIMONY

OF

TERESA K. MILLION

QWEST CORPORATION

MAY 20, 2004

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EXECUTIVE SUMMARY

Current Responsibilities:

My title is Staff Director - Service Cost. My responsibilities include preparing expert testimony and testifying about the cost of service for all products and services that Qwest offers, including its traditional retail services and the more contemporary wholesale services.

Purpose of Testimony:
My testimony presents and describes the Total Service Long Run Incremental Cost (TSLRIC) studies that have been filed in support of the price changes filed in this proceeding. My testimony provides an overview of the economic principles considered in the studies, and describes the cost calculation procedures followed in the studies.

Summary of Testimony:
My testimony is organized into five parts: (a) the principles of TSLRIC; (b) Qwest's TSLRIC Study procedures; (c) descriptions of each study; (d) comparison of TSLRIC and TELRIC principles; and (e) calculation of the revenue deficiency Qwest is requesting from the Arizona Universal Service Fund (AUSF).

Principles of TSLRIC. TSLRIC studies assume forward-looking technology (not what is actually used for current services). The studies are replacement cost studies, meaning that they calculate the cost of replacing the network used to provide service based on the asset costs of technology used to provide telecommunications service. These studies estimate a cost per unit of demand assuming demand at the existing level of service provided by Qwest. The costs are identified in terms of Direct costs and Network Support costs. These costs are only the primary costs of service; the common costs of the firm which need to

be recovered from the prices charged for service are included in what the studies refer to as fully allocated costs (FAC).

TSLRIC Study Procedures. My testimony describes the procedures used by Qwest cost analysts to estimate recurring and non-recurring costs. Recurring costs are those that are ongoing, based on investment related to the physical asset, and last as long as the service is provided. Non-recurring costs are those that are one-time, usually incurred when service is established, and are primarily labor related. The recurring cost procedures describe the process of converting investment data into monthly recurring costs. The non-recurring cost procedures describe the process of obtaining work times for tasks required for order taking and installation, as well as the probabilities that each task will occur, and converting those times and probabilities into non-recurring costs. Both recurring and non-recurring cost studies are validated with other data sources.

Qwest TSLRIC Studies. In the Exhibits to my testimony I provide a cost summary sheet and detailed descriptions of each study for the purpose, scope and application of the study, description of the service, the models, and the key assumptions used, including a key assumption that primary costs be consistent with the Arizona Corporation Commission's decisions to the extent they were addressed in Docket No. T-00000A-00-0194.

TSLRIC vs. TELRIC. I compare and contrast the principles used in both of these types of cost analyses. Although many of the principles are the same or similar I point out that the application and objectives of the two study types are very different. Whereas Total Element Long Run Incremental Cost (TELRIC) studies estimate the costs of unbundled network elements (UNEs) that are used to provide service, Total Service Long Run Incremental Cost (TSLRIC) studies estimate the cost of providing a service that a customer receives. TELRIC studies have been used by Commissions, such as the Arizona Corporation

Commission, to set the prices charged to Competitive Local Exchange Carriers (CLECs) to enable competition in the local market. In these situations, TELRIC equals the wholesale price. TSLRIC studies are used to determine the lowest cost to provide a single service and therefore are useful in determining the price floor of a service. For retail services, TSLRIC does not equal the price charged to customers. Because TSLRIC represents the forward-looking *theoretical* cost of providing service, the aggregation of TSLRIC would not equate to an overall revenue requirement that would be established in, for example, rate case proceedings.

The Arizona Universal Service Fund. I discuss the calculation of the revenue deficiency that results from TSLRIC costs for the wholesale wire center zones (i.e., UNE zones 2 and 3) and provide an exhibit that details the funds that Qwest is requesting from the AUSF pursuant to Article 12 of the Arizona Administrative Code.

Conclusion and Recommendation. The Commission should approve the use of Qwest's TSLRIC studies as the appropriate price floor for the services in this proceeding.

IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Teresa K. (Terri) Million. My business address is 1801 California Street, Room 2050, Denver, Colorado 80202. I am employed by Qwest Services Corporation as a Staff Director, Service Costs, in the Public Policy Department. In this position, I am responsible for preparing testimony and testifying about Qwest's cost studies in a variety of regulatory proceedings.

Q. PLEASE REVIEW YOUR EDUCATION, WORK EXPERIENCE AND PRESENT RESPONSIBILITIES.

A. I received a Juris Doctor from the University of Denver, College of Law in 1994 and am licensed to practice law in the state of Colorado. I also have a Master of Business Administration from Creighton University and a degree in Animal Science from the University of Arizona.

I have more than 20 years experience in the telecommunications industry with an emphasis in tax and regulatory compliance. I began my career with Qwest, (formerly Northwestern Bell Telephone Company and U S WEST) in 1983. Between 1983 and 1986 I administered Shared Network Facilities Agreements between Northwestern Bell and AT&T that emanated from divestiture. I held a variety of positions within the U S WEST, Inc. tax department over the next ten years, including tax accounting, audit, and state and federal tax research and

planning. In 1997, I assumed a position with responsibility for affiliate transactions compliance, specifically compliance with section 272 of the Telecommunications Act of 1996 (the "Act"). 47 U.S.C. §272. In September 1999, I began my current assignment in the cost organization. In this position, I am responsible for managing cost issues, developing cost methods and representing Qwest in proceedings before regulatory commissions.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS COMMISSION?

A. Yes. On April 24, 2000, I filed direct testimony in Phase I of the wholesale cost docket (Docket No. T-00000A-00-0194). I also filed direct and rebuttal testimony in Phases II and IIA of that proceeding. In addition, I have provided testimony in numerous proceedings in Arizona, Colorado, Idaho, Montana, Nebraska, New Mexico, South Dakota, Washington, and Wyoming.

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony presents and describes the Total Service Long Run Incremental Cost (TSLRIC) studies that have been filed in support of the price changes in this proceeding. I provide an overview of the economic principles considered in the studies, and describes the cost calculation procedures followed in the studies.

My testimony also discusses the computation of the revenue deficiency that results from TSLRIC costs for the wholesale wire center zones (i.e., UNE zones 2 and 3) and the funds that Qwest is requesting from the Arizona Universal Service Fund (AUSF) pursuant to Article 12 of the Arizona Administrative Code.

Q. HOW IS YOUR TESTIMONY ORGANIZED?

A. My testimony is organized into five major sections. First, I describe the cost principles used in the studies. Second, I describe the procedures that Qwest used in preparing the studies for this proceeding. Third, I describe the specific studies filed in this proceeding. Fourth, I discuss the differences between TSLRIC and TELRIC studies. Finally, I discuss and provide an example calculation of the amount of the revenue deficiency that Qwest is requesting from the AUSF.

TSLRIC PRINCIPLES

Q. PLEASE SUMMARIZE THE ECONOMIC PRINCIPLES THAT SHOULD BE APPLIED IN TSLRIC STUDIES.

A. Total Service Long Run Incremental Cost (TSLRIC) studies identify the *forward looking, long run* incremental costs that are *directly caused* by offering a service or group of services, plus the costs that are shared among services or groups of services. The description used in Qwest's cost studies for TSLRIC is *Total Direct*. The assumptions, methods, and procedures used in TSLRIC cost studies are designed to yield the long run forward-looking *replacement* costs of reproducing

the telecommunications network, considering the most efficient *least cost* technologies that are currently available.

Q. IS IT IMPORTANT THAT TSLRIC STUDIES CONTAIN REALISTIC FORWARD-LOOKING ASSUMPTIONS?

A. Yes. A properly constructed TSLRIC study identifies the forward-looking costs that are likely to be incurred in the future, based on the latest available technologies and methods of operations. Therefore, only commercially available and tested technologies currently being used in the industry should be considered. Theoretical future technologies should not be considered in constructing TSLRIC studies, because it is impossible to know how much such theoretical technologies will cost or how they will be configured or if, in fact, they will ever become commercially available.

Q. WHAT DEMAND ASSUMPTION IS USED FOR TSLRIC STUDIES?

A. A TSLRIC study considers a forward-looking network that is designed to accommodate current levels of demand for all services and basic network functions. This means that TSLRIC studies consider the costs of a network that is "built from scratch," assuming current wire center locations, to serve all current demand as well as demand anticipated within the current universe of customer locations. These studies identify total "replacement" costs, rather than the costs of adding equipment to an existing network to meet a small increment in demand.

Thus, the studies consider the efficiencies associated with building a network to serve total demand.

TSLRIC studies consider the average cost for all units of demand, rather than the marginal cost of the next or last unit of demand. Therefore, the TSLRIC studies identify the total cost of offering the service—defined as the total costs incurred by Qwest while offering the service. In the Qwest studies, these total service costs are unitized, and stated as an average cost per unit. The TSLRIC or direct costs serve as a price floor of Qwest's retail services, such that the retail rate equals or exceeds the price floor pursuant to the Arizona Administrative Code (AAC) regulations regarding the pricing of services (A.A.C. § R14-2-1310).

Q. DO THE COST STUDIES IDENTIFY DIFFERENT TYPES OF COSTS?

A. Yes. The Qwest cost studies identify the total long run incremental costs directly associated with the service. These are the direct costs that would be eliminated if the service were not offered, and include *volume sensitive* costs (i.e., costs that vary with the volume of a service) and *service specific fixed* costs (i.e., costs that are caused by the service, but do not vary with volume).

The TSLRIC includes the costs associated with the investment needed to provide the service (e.g., depreciation, maintenance) plus other expenses associated with offering the service (e.g., product management, sales expense, etc.). Qwest's cost studies normally show TSLRIC on a unitized basis, which is simply the total

service long run incremental cost divided by the total number of units of the service.

The studies also identify *Network Support* costs associated with the provision of a group of services. Network support costs are network administration and engineering costs that vary directly with the total volume of the group of services being provided and is not directly dependent on the quantity of any individual service in that group. The Qwest cost studies also display Network Support costs on a unitized basis.

Finally, the cost studies display the sum of the Total Direct (TSLRIC) and the Network Support costs (Shared Costs).

Q. DOES QWEST INCUR OTHER COSTS ABOVE AND BEYOND THE DIRECT AND NETWORK SUPPORT COSTS?

A. Yes. Qwest also incurs *common overhead* costs. Common overhead costs are the costs a firm incurs as a result of doing business that are not associated with a specific service or a specific group of services. These costs represent a significant expense to the corporation. Examples of common overhead costs include executive compensation and planning expense, cost for accounting, finance, public policy, human resources and legal organization, and general and administrative expenses not directly related to services or groups of services. Common costs are not included in the TSLRIC calculated in Qwest's studies, but nonetheless

represent real costs that must be recovered in prices (sometimes referred to as *contribution to common cost*) and, thus, are included in calculating the fully allocated cost (FAC) of a service or services.

Q. DO TSLRIC STUDIES FOLLOW THE PRINCIPLE OF COST CAUSATION?

A. Yes, TSLRIC studies follow the principle of cost causation. If a service causes an investment to be made, or an expense to be incurred, these costs are included in the study for the service. When investments (e.g., switching) are utilized by more than one service (e.g., basic exchange service, message telecommunications service, switched access), the investment costs are assigned to each service based on the consumption (usage) of the investment by the given service.

Q. ARE QWEST'S TSLRIC STUDIES BASED ON THE ASSUMPTIONS AND PRINCIPLES THAT YOU DISCUSS ABOVE?

A. The answer to that question is complex. This is because Qwest's TSLRIC studies utilize investments determined by the Commission for unbundled network elements (UNEs) in the wholesale cost docket (Docket No. T-00000A-00-0194). Those investments resulted from models and cost studies that were used to develop TELRIC. As I discuss below, there are many similarities between TELRIC and TSLRIC cost methodologies, especially as relates to the development of the underlying investments utilized by the cost studies. However, as asserted in the cost docket, Qwest does not agree with many of the determinations made by the Commission in that docket. Nevertheless, because those investments were

adopted by the Commission to form the basis of the cost of its forward-looking network for Qwest's competitors in Arizona, and because Qwest assumes that the Commission would reach the same conclusions in this proceeding with respect to forward-looking costs, I have used those same investments to form the basis of its TSLRIC costs.

Q. ARE ALL OF QWEST'S TSLRIC COSTS BASED ON INVESTMENTS FROM THE TELRIC DOCKET?

A. No. There are some retail services that do not rely on investments from the Commission-determined wholesale costs either because there are not corresponding unbundled elements that have been reviewed in a cost docket, or the wholesale rates established by the Commission are not based on a discernable cost model.[1] For example, in the case of Switched Access, Toll MTS, and Directory Assistance Qwest has developed investments using its own retail models. Thus the costs that result from these TSLRIC studies are based on the assumptions and TSLRIC principles discussed above, including the principle of cost causation.

Q. HOW SHOULD THE TSLRIC DATA SUBMITTED BY QWEST IN THIS PROCEEDING BE USED?

[1] For example, in Phase IIA of the cost docket the Commission set interim unbundled transport rates based on the results of an AT&T Arbitration for which there are no corresponding cost model or calculations available. Being unable to replicate the ordered transport rate Qwest used its current transport cost model to develop transport costs in its TSLRIC studies, including the Switched Access, Toll MTS and Basic Exchange services.

A. The information provided in the Qwest TSLRIC studies should be used as one input in the pricing process. The economic costs that I am sponsoring provide price floor information for each service (and group of services) in accordance with the Commission rules. However, these costs do not by themselves define the appropriate price level. Market demand and other factors should also be considered in determining the actual price.

Studies are useful in determining whether the direct revenues associated with a service will cover the direct forward-looking costs associated with the service. That is, the Commission rules require the revenues for a service or group of services to cover the direct costs (i.e., TSLRIC) of the facilities, components or capabilities used to provision the service or services. Therefore, if the price of a service equals or exceeds the TSLRIC of the service, stated as a cost per unit, the service passes the test without question. (A.A.C. § R14-2-1310 C(1))

While the TSLRIC is useful in determining whether the direct revenues from a service cover the direct costs, TSLRIC by itself does not provide any information as to whether the service covers its proportionate share of shared costs (network support) and common overhead costs, which may be substantial. Nevertheless,

the Commission's pricing rules state only that a service must exceed TSLRIC as a price floor.[2]

The pricing of a company's services must also consider common overhead costs. Thus, Qwest must price its services so that in total, among *all* services its common overhead costs are recovered in addition to its Total Direct and Network Support costs to remain a healthy, viable and growing corporation that can continue to invest in new products and services. If the firm can not receive contribution from products to help recover these overhead costs, the products are not likely to be offered by the firm.

QWEST'S TSLRIC STUDY PROCEDURES

Q. WHAT PROCEDURES DOES QWEST USE TO IDENTIFY ITS TOTAL SERVICE LONG RUN INCREMENTAL COSTS?

A. Although each study is performed separately, the Qwest TSLRIC studies all utilize a common approach in the calculation of results. The majority of costs can be described as recurring or non-recurring, but some fall into the category of transaction costs that occur as transactions are made. Examples of transaction costs occur with Directory Assistance, Message Toll, Switched Access, and Operator services. In this section of my testimony, I describe the methods used to calculate recurring and non-recurring costs because they represent the majority of the costs Qwest incurs.

1 **Q. PLEASE DEFINE RECURRING COSTS.**

2 A. Recurring costs are the ongoing costs associated with providing a service.
3 Recurring costs are generally physical asset or "investment-related", and include
4 both capital costs and operating expenses. These costs are often presented as a
5 cost per month or per unit of usage (e.g., per minute of use, or per call or inquiry),
6 and are incurred throughout the time period the service is provided to a customer.

7 **Q. PLEASE DEFINE NON-RECURRING COSTS.**

8 A. Non-recurring costs are the one-time costs that are incurred at the time a customer
9 establishes, disconnects or changes service. These costs, also referred to as
10 provisioning costs, normally result from a customer service order and are
11 predominantly labor-related.

12 ***A. Recurring Cost Procedures***

13 **Q. PLEASE SUMMARIZE THE PROCEDURES USED TO CALCULATE**
14 **RECURRING COSTS.**

15 A. Qwest's cost models all employ the same basic procedures to arrive at monthly
16 recurring Total Direct or TSLRIC, Network Support and common overhead cost
17 estimates that make up the fully allocated costs. The basic steps of performing a
18 study are as follows:

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[2] Arizona Administrative Code (A.C.C.) § R14-2-1310.

1. **Define the Service.** The cost analyst works with product management and technical staff to define the service to be studied. This step includes identification of all the network components that are needed to provide the service, and an estimation of demand for the service.

2. **Development of Investment.** Normally the investment required to provide the service is estimated either based on a special study or using investment models utilizing the forward-looking cost principles discussed above. However, as I have already mentioned, the studies I am sponsoring in this proceeding are based on the investments determined by the Commission previously in the wholesale cost docket. To the extent that the TSLRIC studies require investments for elements that were not determined in the cost docket, those investments are based on Qwest's forward-looking engineering practices and include the actual vendor prices for material and equipment, plus the cost to place the equipment, including capitalized labor costs.

When appropriate, investment loading factors are used. For example, investment in land and buildings is identified via the application of an investment loading factor to central office equipment investment.

3. **Estimation of Investment-related Capital Costs.** Investment-related capital costs (i.e., depreciation, cost of money, income tax) are calculated based on the application of annual cost factors to the investment. Capital cost comprises a large portion of total service cost, and the level of capital cost is

impacted by the depreciation lives for the relevant plant accounts and the weighted cost of debt and equity capital that is used.

4. **Estimation of Operating Costs.** Operating expenses for TSLRIC recurring cost studies fall into three major cost categories – direct costs, shared costs, and fully allocated costs. These costs are estimated, in most cases utilizing annual cost factors.

Direct costs consist of network costs (capital, maintenance, and other operating taxes), element-specific expenses (i.e., billing and collection, application software, etc.) and marketing costs. Network capital and maintenance costs are investment-related expenses which are calculated based on annual cost factors and applied to product/service investment amounts. Other operating taxes are calculated based on forward-looking investment amounts and are expressed as cost factors. Element-specific expenses are costs unique to each service and are typically determined on an individualized basis. Marketing costs are calculated based on annual cost factors for specific business segments (i.e., retail or wholesale).

Shared costs consist of Network Operations expenses. They are calculated based on forward-looking investment amounts and are expressed as cost factors which are applied to the direct cost amounts.

Fully allocated costs consist of support asset costs (i.e., land, buildings, computers, etc.), common overhead costs, and uncollectibles, and are calculated in a hierarchical nature. These are expressed as cost factors to be applied to all

preceding cost elements. The uncollectible cost factors are unique for the retail and wholesale specific business segments.

5. **Validation of Results**. After costs have been estimated, this data is reviewed and compared with other cost data, to assure reasonableness. Results are compared across states and across services to check for reasonableness. In addition, forward-looking loop investment data is compared with actual recent construction expenditures.

Q. HOW DOES THE COST ANALYST OBTAIN THE VARIOUS INPUTS FOR THE STUDY?

A. On a day-to-day basis, as a cost analyst is completing a study, he or she works closely with a broad spectrum of resources and personnel within Qwest, and external to Qwest. A cost analyst collects data and analyzes all the resources Qwest uses to provide a service or group of services—a function that is considered critical to the success of the product team.

The cost analysts work with product managers to develop service descriptions and to evaluate proposed methods of operation. They work closely with the engineers that design the service to identify component parts for the service, and to determine engineering capacity. Cost analysts work with depreciation specialists to determine the economic life of the equipment, with billing personnel to identify the billing requirements, and with product managers and demand and forecasting analysts to estimate demand. They also work with Qwest purchasing personnel

1 and vendors to determine prices charged to Qwest, and of course, the cost
2 analysts work closely with other analysts and managers within the cost
3 organization.

4 **Q. IS QWEST SUBMITTING RECURRING COSTS IN THIS PROCEEDING?**

5 A. Yes. The recurring costs that I am sponsoring in this proceeding are summarized
6 in Exhibit TKM-01.

7 ***B. Non-recurring Cost Procedures***

8 **Q. PLEASE SUMMARIZE THE GENERAL PROCEDURES USED BY QWEST TO**
9 **CALCULATE NON-RECURRING COSTS.**

10 A. Qwest follows six steps to produce non-recurring costs:

11 1. The cost analyst, working with a product team, identifies the activities
12 necessary to establish a particular service or network element for a customer,
13 e.g. installation of a telephone line.

14 2. Based on special studies and input from subject matter experts, the cost
15 analyst estimates the work time, and probability of occurrence associated with
16 each of these non-recurring activities. For example, the cost analyst evaluates
17 Qwest business office processes to detail the time needed for service
18 representatives to take particular types of service orders.

3. The cost analyst calculates the expenses for each activity by multiplying the time required for each non-recurring activity by the appropriate labor rate.

4. The total costs for each separate activity are aggregated into a subtotal.

5. Operating expenses for TSLRIC nonrecurring cost studies fall into two major cost categories – direct costs and fully allocated costs. These costs are estimated using the same annual cost factors as were described above for recurring cost studies, with two exceptions. Other operating taxes (which primarily consist of property taxes) are not assigned to nonrecurring cost studies. Shared network operations costs are also not assigned to nonrecurring cost studies.

6. The costs for each service are validated to assure reasonableness. These validations include comparisons with non-recurring estimates for similar Qwest provided services, and comparisons with competitor estimates to the extent that is possible. Input time and labor estimates are validated across service and element offerings to assure consistent application.

Q. PLEASE IDENTIFY SOME OF THE MAJOR WORK ACTIVITIES THAT ARE INCLUDED IN NON-RECURRING COST STUDIES.

A. A non-recurring cost study includes the costs of activities associated with a customer's request for service. These activities may include: order negotiation and preparation, plant assignment, circuit design, installation, testing, and order completion.

Q. IS QWEST SUBMITTING NON-RECURRING COSTS IN THIS PROCEEDING?

A. No. None of the products or services for which Qwest proposes to change prices involve non-recurring rates, therefore I am not submitting non-recurring costs in this proceeding.

QWEST'S TSLRIC STUDIES

Q. IN THIS PROCEEDING, IS QWEST PROVIDING TSLRIC STUDIES FOR ALL COMPETITIVE AND NON-COMPETITIVE SERVICES?

A. No, in this proceeding I am sponsoring recurring cost results only for the services for which Qwest proposes to change prices or make other changes. In addition, I am providing the cost results for the basic exchange products that are used in calculating the appropriate level of the AUSF funding need. Finally, I am providing cost results for Switched Access service and Message Toll Service (MTS) due to the consolidation of the Cost of Access Docket (Docket No. T-00000D-00-0672) with this proceeding. Exhibits TKM-03 through TKM-11 provide non-proprietary descriptions of each cost study. Proprietary Exhibit TKM-01 is a summary of the results of these studies.

Q. WHICH STUDIES HAVE BEEN INCLUDED IN THIS PROCEEDING?

A. The studies are identified in the Index of Exhibits by the descriptions attached to this testimony as Exhibits TKM-03 through TKM-11.

TSLRIC vs. TELRIC

Q. SINCE THE LAST RATE CASE, THE COMMISSION HAS REVIEWED CONSIDERABLE DETAIL REGARDING QWEST'S COSTS FOR UNBUNDLED NETWORK ELEMENTS AND THE USE OF TELRIC STUDIES. DO TSLRIC AND TELRIC STUDIES FOLLOW THE SAME ECONOMIC PRINCIPLES?

A. In principle, yes. While a Total Element Long Run Incremental Cost (TELRIC) study identifies the cost of a *network element*, and a TSLRIC study identifies the costs associated with a *service*, both studies follow the same overall economic cost principles. Both TSLRIC and TELRIC studies identify the *forward-looking* costs associated with the provision of a UNE or service in the *long run*. These studies identify *total cost* of the UNE or service, i.e., the average incremental cost of providing the entire quantity of the element or service. The assumptions, methods, and procedures used in Qwest's TSLRIC and TELRIC studies should be designed to yield the forward-looking *replacement* costs of reproducing the telecommunications network, considering the most efficient *least cost* technologies that are currently available.

In this proceeding the investments utilized in Qwest's TSLRIC studies are the same as the investments determined by the Commission for TELRIC in the previous wholesale cost docket. Those TELRIC investments are not based on Qwest's models and inputs, rather they are the result of assumptions and inputs to AT&T's HAI model with which Qwest disagrees. Nevertheless, because the Commission has determined those TELRIC investments to be the appropriate

forward-looking investments in Arizona, Qwest has utilized them as the basis for its TSLRIC costs in this proceeding.

Q. ARE THERE DIFFERENCES BETWEEN TSLRIC AND TELRIC STUDIES?

A. Yes. While TSLRIC and TELRIC studies have the same economic underpinnings, there are some methodological differences between the studies.

Q. PLEASE SUMMARIZE THE MAJOR DIFFERENCE BETWEEN A TSLRIC AND A TELRIC STUDY.

A. As I noted earlier, TELRIC studies by definition capture the costs associated with unbundled network elements while TSLRIC studies capture the costs associated with finished services, (such as Residence Flat Rated, Business Flat Rated, etc.). The major methodology difference between the two types of studies relates to how certain costs are categorized. TSLRIC studies separately identify Total Direct (i.e., TSLRIC), Network Support and common overhead costs that in total represent fully allocated cost (i.e., FAC).

TELRIC studies seek to assign a greater portion of costs directly to a network element, per the FCC's methodology. The FCC's TELRIC methodology explicitly calls for some of the costs that are shared among services in a TSLRIC study to be considered direct or *attributed* costs for an unbundled network element in a TELRIC study. In addition, TELRIC results should include a percentage for common costs in the total estimate. In contrast, Qwest's TSLRIC results include

only the direct costs for each of the single services, whereas the costs which are shared among services and the common costs result in what is referred to as the fully allocated cost.

Q. GIVEN THE METHODOLOGY DIFFERENCES THAT YOU HAVE DESCRIBED, DO QWEST'S TSLRIC AND TELRIC COST STUDIES USE SIMILAR INPUTS?

A. Yes. As discussed above, the studies use the same investment data. In addition both TSLRIC and TELRIC studies use capital cost factor formulas, maintenance factors, and other direct factors. Beyond the basic investments for the elements that comprise the services represented by the studies, the inputs and assumptions that are used by Qwest in its TSLRIC studies are those that it believes properly reflect forward-looking costs to be used in this proceeding. The remaining costs assigned (with the exception of marketing, advertising, and product-specific costs) are the same, but are developed separately as retail and wholesale factors.

Q. WOULD YOU PLEASE CLARIFY THE PURPOSE OF THE TSLRIC STUDIES?

A. As I mention above, the purpose of TSLRIC studies is to provide information to be used as a price floor for retail services as required by Commission rules.

THE ARIZONA UNIVERSAL SERVICE FUND

Q. MR. TEITZEL'S TESTIMONY RECOMMENDS ALLOWING QWEST TO DRAW FROM THE ARIZONA UNIVERSAL SERVICE FUND (AUSF) TO DEFRAY ITS COST OF PROVIDING SERVICE IN HIGH COST WIRE CENTERS. HOW SHOULD THE LEVEL OF AUSF SUPPORT BE CALCULATED?

A. The level of fund support should be calculated by determining the difference between Commission-approved residential local exchange rates plus End User Common Line Charge (EUCL) and Qwest's current costs for residential local exchange service in wire centers represented by cost zones 2 and 3 as established in the wholesale cost docket for UNE loops (Docket No. T-00000A-00-0194). Arizona Administrative Code 14-2-1202(A) states:

> The amount of AUSF support to which a provider of local basic exchange telephone service is eligible for a given AUSF support area shall be based upon the difference between the benchmark rates for basic local exchange telephone service provided by the carrier, and the appropriate cost to provide basic local exchange telephone service as determined by the Commission, net of any universal service support from federal sources.

Commission rule 14-2-1201(7) defines "benchmark rates" as local exchange rates approved by the Commission for the local service provider, "plus the Customer Access Line Charge approved by the Federal Communications Commission." To determine the level of AUSF support, benchmark rates should be the statewide local exchange rates currently in effect for residential and business customers, plus the current EUCL. The Qwest local exchange tariff would continue to reflect current rates, while the AUSF offset would ensure that residential customers in Zone 2 and 3 wire centers pay precisely the same rate for local service as residential customers in Zone 1 wire centers and allow Qwest, or other competitive providers of local service, to recover the costs of providing local service in these high cost wire centers.

A sample calculation illustrating the required level of AUSF Zone 3 support is shown below. For example, if the residential local exchange cost for wire centers located in Zone 3 is $50.00, the approximate level of AUSF support required on a per-line basis for a primary residential line in Zone 3 is $30.32 ($50.00 less the recurring line rate of $13.18 less the End User Common Line Charge of $6.50). For a secondary residential line, if the cost is $48.00, the approximate level of AUSF support is $31.41 per line ($48.00 less the recurring line rate of $10.00 less the additional line EUCL charge of $6.59). This same calculation could be made for Zone 2 using the Zone 2 residential line costs.

An example of the calculation of the monthly funding need for Zone 3 residential lines using the sample per-line rate calculated above is provided in the table:

AUSF Support Estimate for Qwest Zone 3 Residential Lines

	Zone 3 Residential Lines in Service	AUSF Funding Need Per Line	Total AUSF Monthly Funding Need
Primary Line	160,000	$30.32	$4,851,200
Additional Line	20,000	$31.41	$628,200
Grand Total AUSF Need	180,000		$5,479,400

A similar calculation can be made for the total AUSF monthly funding need for residential local exchange lines for wire centers located in Zone 2. Specific

calculations by zone, based on the confidential cost results for basic exchange services contained in Proprietary Exhibit TKM-01, are provided in Proprietary Exhibit TKM-02.

Q. YOU HAVE PROVIDED A SAMPLE CALCULATION FOR RESIDENTIAL LINES LOCATED IN WIRE CENTERS REPRESENTED BY WHOLESALE ZONES 2 AND 3. DOES THE AUSF CALCULATION APPLY ONLY TO RESIDENTIAL LINES?

A. No. As shown in detail in Proprietary Exhibit TKM-02 the same AUSF calculation has been made for business local exchange lines in Zones 2 and 3, as well. In calculating the business package cost, the costs may also include an amount for the features and/or additional lines that are part of the package. Based on the calculations in Proprietary Exhibit TKM-02 only the business local exchange lines in Zone 3 require AUSF funding, and although the overall business revenue deficiency amounts to $1.75 million, it represents only 2.7% of Qwest's total annual AUSF fund request of $64.04 million.

Q. FOR LARGE EXCHANGE CARRIERS THE COMMISSION'S RULES REQUIRE AN AUSF SUPPORT AREA TO USE U.S. CENSUS BLOCK GROUPS AND BE TSLRIC BASED. IS QWEST'S AUSF REQUEST CONSISTENT WITH THIS PROVISION?

A. Yes. The Model Documentation for the HAI cost model approved by the Commission in the TELRIC cost docket (Docket No. T-00000A-00-0194) indicates that census block information for loop costs is used as the basis for customer locations. As I discussed above, Qwest utilized the HAI-based investments

previously determined by the Commission in the wholesale docket in its TSLRIC studies.

Q. YOU HAVE USED QWEST'S FULLY ALLOCATED COST TO CALCULATE THE AMOUNT OF AUSF SUPPORT NECESSARY. PLEASE EXPLAIN WHY THIS IS APPROPRIATE.

A. A.C.C. Rule 14-2-1202(A) states that AUSF support "shall be based upon the difference between the benchmark rates for basic local exchange telephone service *provided by the carrier*, and the appropriate cost to provide basic local exchange telephone service *as determined by the Commission*...." As I explained above, the total cost to provide a retail service includes the direct cost of the service, the costs that are shared among groups of services and a contribution to the common overheads of the corporation. If the AUSF support were calculated using an amount that recovered less than the total cost to provide the service, then the shared costs as well as the amount of contribution to common overheads from basic local exchange telephone service would be borne entirely by the lines located in Zone 1. Any necessary contribution not recovered from the Zone 1 lines would have to be recovered from Qwest's other retail services. This would result in an implicit subsidy of the Zone 2 and 3 business and residential basic exchange customers. The purpose of a universal service fund is to help maintain affordable rates in high cost areas and at the same time eliminate implicit subsidies for high cost service.[3] In addition, it is important to note that Qwest's CLEC competitors in

[3] For example, Arizona Corporation Commission Decision No. 65472, December 19, 2002 states:

Zones 2 and 3 pay for unbundled network elements on the basis of TELRIC rates that include shared and common costs. As discussed in Mr. Teitzel's testimony, because AUSF support is portable to qualifying CLECs it is important that the AUSF surcharge calculation, based on the AUSF funding need, be sufficient to cover the costs of any qualified provider on a competitively neutral basis. Therefore, the appropriate cost to use in calculating the AUSF support amount is Qwest's fully allocated cost.

Q. WILL YOU EXPLAIN HOW TO ESTIMATE THE PER-LINE AUSF SURCHARGE NECESSARY TO FUND THE AMOUNT RESULTING FROM YOUR ABOVE CALCULATIONS?

A. No. Mr. Teitzel's testimony contains an explanation of the estimation of the per-line AUSF surcharge based on the monthly funding requirement calculated in my Proprietary Exhibit TKM-02. However, as Mr. Teitzel explains, the actual level of the AUSF surcharge must be calculated based on the AUSF fund amount determined by the Commission in this docket in combination with actual data provided by all telecommunications service providers in Arizona to the AUSF fund administrator.

CONCLUSION AND RECOMMENDATION

Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION?

"Pursuant to Decision No. 56639, Dated September 22, 1989, the AUSF was established to maintain statewide average rates and the availability of basic telephone services to the greatest extent reasonably possible."

A. The Commission should approve the use of the TSLRIC results from Qwest's cost studies (Proprietary Exhibit TKM-01) as meeting the Commission's requirement for TSLRIC information. In addition, the Commission should base the computation of the AUSF funding need on Qwest's fully allocated costs as represented in the calculations above and as shown in Proprietary Exhibit TKM-02.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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

EXHIBITS

OF

TERESA K. MILLION

QWEST CORPORATION

MAY 20, 2004

INDEX OF EXHIBITS

DESCRIPTION	EXHIBIT
Summary of TSLRIC Results	TKM-01 (Proprietary)
Calculation of AUSF Funding Requirement	TKM-02 (Proprietary)
Residence and Business Basic Exchange	TKM-03
8XX Database Access Service	TKM-04
Directory Assistance – Complete A Call	TKM-05
Local Directory Assistance	TKM-06
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Message Toll Service	TKM-08
Switched Access Service	TKM-09
Customized Call Management Services	TKM-10
DS0 Private Line Service	TKM-11

Arizona Summary of Recurring Costs

TSLRIC	TSLRIC + Shared	Fully Allocated TSLRIC

REDACTED

TIM CODE	REC/N ON	RES/BUS	USOC	PRESENT QUANTITY	PRESENT CHARGE	CALC	TOTAL	UNE ZONE	COST	CONTRIBUTION	USF AMOUNT

REDACTED

BASIC EXCHANGE COSTS

A. PURPOSE, SCOPE, AND APPLICATION

The purpose of this study is to estimate QWEST's recurring long-run incremental costs to provide customers with Basic Exchange service on the telecommunications network. This study includes local access (access line) and usage costs.

B. DESCRIPTION OF SERVICE

The following defines the cost components of the various services provided with this study:

The access line is defined as all the non-traffic sensitive plant facilities and operating expenses associated with the customer's basic telephone service. That is to say, those costs that do not vary with the amount or type of usage. Access lines include the subscriber loop facility, drop (service wire) facility, and the non-traffic sensitive portion of the central office (NTS COE). In addition to those physical parts, the access line also includes costs associated with the maintenance of the basic number listing database for the telephone directory, and the billing and collection costs for the basic customer monthly bill.

The subscriber loop is composed of those outside plant and circuit facilities extending from the central office switch to and including the customer serving terminal. The cost of the loop does not include any inter-office trunk (wire center to wire center) facilities. Inter-office facilities are considered part of the traffic sensitive (usage) costs.
For certain customers, the loop includes building cable up to and including the main building terminal in addition to the other traditional construction types (fiber optic & copper underground, buried and aerial cable). Included in the costs for the outside plant loop facilities are the cables, associated supporting structures (underground conduit, manholes, and poles), cable terminals, air drying equipment and other non-mechanical signal modifying and enhancing devices for both fiber optic and copper loops. The loop includes the circuit equipment terminals, repeaters, and channel plugs associated with pair gain devices.

The drop or service wire includes the cost of wire facilities between the customer's serving outside plant terminal and the customer's service location. A station protector or network interface is also included in the cost of the drop facility. Drop wires may be aerial or buried.

The non-traffic sensitive portion of the central office (NTS COE) costs include equipment for the main distributing frame (MDF) and MDF protectors, line cards,

office alarms, and power distribution frames. This equipment is sensitive to the number of lines served by the central office, but not to the amount of traffic (usage) going through the office. Therefore, the cost of equipment is associated with the incremental cost of exchange access lines, not the incremental usage costs of a particular switched service.

The basic exchange service customer receives a listing in the white pages directory as well as a listing in the directory assistance database. The cost associated with providing this listing is included in this study for all services where appropriate.

The Billing & Collection cost included in the basic exchange services cost study covers the recurring incremental billing and collection costs associated with the preparation, rendering, and collection of Customer Record Information System (CRIS) bills.

Costs for local exchange usage are included in the cost study.
Local exchange usage provides two-way telephone communications between end users within the same local calling area via the local public switched network. The communication path for this service extends from the serving wire center where the call originates to the serving wire center where the call terminates.

Usage includes costs for end office switching, tandem switching, interoffice facilities and terminations, measurement equipment, operator assistance and preparation of bills for local measured service.

See Assumptions Section for particulars regarding the inputs to this study.

C. STUDY METHODOLOGY

Recurring Basic Exchange costs by service are developed by first accumulating the various investments for separate cost components and combining them with other miscellaneous inputs to calculate an investment for each component. After investments are identified by component, the components are combined to yield investments by product or service type.

Each investment by account code and component, are entered into the Retail Cost Program Model to calculate costs for each service. The program applies the appropriate annual cost factors for the jurisdiction and services being studied.

D. STUDY ASSUMPTIONS

For this study, Loop, Drop, Port and Usage investments come from the HAI model compliance runs underlying the rates in the Arizona SGAT. DID Port investments come from the Qwest Integrated Cost Model (ICM) compliance run. All other investments inputs come from Qwest internal models.

8XX Database Access Service Costs

A. PURPOSE, SCOPE, AND APPLICATION

The purpose of this study is to estimate the long run incremental costs associated with 8XX Database Access Service. This study reflects the cost of the technology and methods of operation, which will be used to serve growth in the 8XX Database Access Service. The results of this study may be used for pricing and other management decision making. In general, these costs represent the price floor for the 8XX Database Access Service. Service and equipment charges or other nonrecurring costs are not included in this study.

B. DESCRIPTION OF SERVICE

800 Database Access Service allows Access Customers to provide 8XX service toll free, to originating end users. 800 Database Access Service gives full number portability to 8XX subscribers, since carrier identification is performed using ten digits of the 8XX number. 800 Database Access Service is an originating service that utilizes trunk side switched access and relies on ten-digit translation to identify and deliver traffic to the appropriate Access customers. Qwest communications will perform the carrier identification function based on the dialed digits to determine the customer location to which the call is to be routed. The routing of the 8XX call will be in accordance with the Service Management System (SMS/800) information residing in the QWEST Service Control Point (SCP). The service is provisioned to all access tandems, stand-alone operator switches equipped as SSPs in the LATA, and all SSP-equipped end offices. An Access customer whose end offices home on a QWEST access tandem/SSP may choose to route 8XX traffic to the tandem. Carrier identification will be performed and calls will be routed to the designated carrier 800 residing in the QWEST SCP. The 800 call will be routed to the Access Customer's trunk at the QWEST access tandem/SSP.

Vertical Features:

In addition to the basic carrier identification function, 800 DB Access Service subscribers may request vertical features through a Responsible Organization in accordance with the SMS/800 User Guide. Vertical features will be maintained within the QWEST SCP when technically feasible.

POTS Translation:

The POTS Translation vertical feature provides the option of having the ten-digit POTS number (i.e., NPA-NXX-XXXX) delivered instead of the 8XX dialed number (i.e., 1+8XX-XXXX) delivered to the service provider.

Call Handling and Destination Features:

Call Handling and Destination Features allow service subscribers variable routing options by specifying a single carrier, multiple carriers (Exchange and/or Interexchange Carriers), single termination or multiple terminations.

C. STUDY METHODOLOGY

The hardware and software equipment costs were identified using the QWEST SS7 Core Model. This model was developed to determine the economic costs of QWEST'S Common Channel Signaling (CCS)/SS7 network. These economic costs are used to estimate the costs of services that use the SS7 network. One of these services is the InterLATA and IntraLATA 8XX Service. The term "cost" used in the model refers to initial cash outlays for hardware and software. Because software may be expensed, the term investment is not used. The model outputs expressed in terms of costs represent only the initial cash outlays. These outputs are the basis upon which the capital-related and operating expenses associated with these initial cash outlays are computed.

The QWEST SS7 Core Model outputs are input to the Retail Cost Model.
Expense include (Billing Expenses) a One time billing expense to open 8XX Codes on a recurring basis- and also (Service Control Point SCP expenses) engineering program support, SCP software support, and a one time software on-site installation and support on a recurring basis.
Expenses are spread over the total levelized 8XX Data base calls.

D. STUDY ASSUMPTIONS

This cost study utilized forecasted interstate and intrastate 8XX traffic. The logic for using all 8XX traffic is that the CCS cost model develops a unit cost based on 8XX traffic for all jurisdictions that would be utilizing the CCS network. The CCS network is utilized as a regional network whereby some states access centralized network elements residing in other states. The deployment of the network elements was based on technical requirements, geographic location and disaster recovery, and not for specific state requirements.

DIRECTORY ASSISTANCE

COMPLETE A CALL

A. PURPOSE, SCOPE, AND APPLICATION

The purpose of this study is to estimate the 2004 long-run incremental costs that QWEST will incur for providing Directory Assistance Complete A Call. This study develops statewide average long run incremental costs and the results are displayed on a per call basis.

B. DESCRIPTION OF SERVICE

Directory Assistance Complete A Call offers automatic call completion on local and intralata Directory Assistance call.

C. STUDY METHODOLOGY

The cost components included in this study are switch investment, switching and transport, and billing expenses.

D. STUDY ASSUMPTIONS

1. Costs are calculated for forward looking digital offices only.

LOCAL DIRECTORY ASSISTANCE

A. PURPOSE, SCOPE, AND APPLICATION

The purpose of this study is to estimate the 2004 long-run incremental costs that QWEST will incur for providing Retail Local Directory Assistance. This study develops statewide average long run incremental costs and the results are displayed as Fully Allocated costs. Costs are stated on a per call basis.

B. DESCRIPTION OF SERVICE

Directory Assistance service provides telephone number and address information for the business, residence, or government listing the caller requests.

C. STUDY METHODOLOGY

The cost components included in this study are operator related expenses, equipment related expenses, dedicated facilities expenses, transport and switching expenses, and billing expenses.

D. STUDY ASSUMPTIONS

1. All costs displayed are a 2004 level.

2. Costs are calculated for forward looking digital offices only.

NATIONAL DIRECTORY ASSISTANCE

A. PURPOSE, SCOPE, AND APPLICATION

The purpose of this study is to estimate the 2004 long-run incremental costs that QWEST will incur for providing Retail National Directory Assistance. This study develops statewide average long run incremental costs and the results are displayed as Fully Allocated costs. Costs are stated on a per call basis.

B. DESCRIPTION OF SERVICE

National Directory Assistance is a service whereby a local QWEST caller can obtain telephone numbers for any state within the United States. QWEST customers would simply dial the QWEST National Directory Assistance number to request a listing they need, whether it's across town or across the nation.

C. STUDY METHODOLOGY

The cost components included in this study are operator related expenses, equipment related expenses, dedicated facilities expenses, transport and switching expenses, database access expense, listings imputation expenses, and billing expenses.

D. STUDY ASSUMPTIONS

1. All costs displayed are a 2004 level.

2. Costs are calculated for forward looking digital offices only.

INTRASTATE INTRALATA MESSAGE TELECOMMUNICATIONS SERVICE (MTS)

A. PURPOSE, SCOPE, AND APPLICATION

The purpose of this study is to estimate the 2004 long-run incremental costs that QWEST Communications will incur for each billed minute of use for Intrastate IntraLATA Message Telecommunications Service (MTS) within the State of Arizona.

This study develops statewide average long run incremental costs (LRIC) costs. Costs are stated on a billed minute basis.

Traffic sensitive usage costs are provided for interexchange transport, tandem switching, end office switching, measurement, intercept, toll assistance, and billing.

B. DESCRIPTION OF SERVICE

Message Telecommunications Service (MTS) is a long distance toll telephone service that allows telephone communications between users in two different local calling areas. It provides two-way transport of end-user message toll calls within a given LATA via the interexchange public switched network.

The communication path for this service extends from the serving wire center for the end user that originates the call to the serving wire center for the end user where the call is terminated.

This cost study includes the costs for the following components:

a. The interexchange transport transmission path between the originating and terminating end offices. It includes interoffice trunk facility and termination and signaling equipment as well as tandem switching equipment.

b. Traffic sensitive switching components in the originating and terminating end offices.

c. Basic Intercept service which includes limited mechanical announcements informing callers of new numbers, referral numbers and/or line status. This cost is included in the switching costs.

d. Billing and Collections that provide the billing mechanism for QWEST to charge end users for the use of our toll network. It also includes costs to the business office for MTS customer inquiries.

e. Operator Assistance that includes providing operator support for MTS calls. This includes miscellaneous operator support for calls such as dialing instructions and connections to directory assistance.

f. Measurement equipment components located within the switching machines and teleprocessing measurement costs.

C. STUDY METHODOLOGY

Two QWEST Communications models are used to calculate the long-run incremental investment of the QWEST network. The Switching Model calculates the investment associated with switching and measuring calls in end office and tandem switches and the Transport Model (TM) calculates the investment associated with transporting calls over the QWEST interoffice network. Both investment models calculate the incremental investment for network components that are not product or service specific.

Investment associated with Billing and Collections, Operator Assistance and Measurement Polling are calculated in separate studies.

Per call set-up and per conversation minute investment for end office switching, tandem switching and measurement from the Switched Usage Model and interoffice facility and terminations from the Transport Model are mapped to specific services using the Microsoft® Excel spreadsheets located in this study. The spreadsheets calculate the investment of specific services by determining the quantity of the network components required for specific services, adding in the appropriate Billing and Collection, Operator Assistance and Measurement Polling investment and formatting the investment into the rate structure of the services being studied.

Current year investments in the Switching Model and the Transport Model (TM) along with forward-looking trended 2002 factors were applied to the investments via the Retail Cost Program (RCP) to create 2003 costs for end office switching, measurement, tandem switching, and switched transport.

Costs are identified on a per minute of use (MOU) basis. The investment is actually calculated on a per call set-up and per minute basis within the investment models, but are converted to the MTS MOU format by spreading the call set-up investment across the average duration of an MTS call. Set-up investment and MOU investment are

added to create a total investment per MOU. These conversions are made in the Microsoft® Excel spreadsheets.

The costs identified in this study represent average per unit costs when demand for the services studied starts at zero. Total network demand is calculated in the Switching Model using office characteristics and busy hour data for each of the QWEST central offices in the study.

D. STUDY ASSUMPTIONS

a. Costs are based on a least cost scorched node scenario and represent the cost of fully replacing the network required to provision the service, beginning from the existing grid of network nodes used by QWEST today.

b. Costs do not reflect the emergence of widespread competition in the local exchange market.

c. All network investments are forward-looking:

   i. Switching and transport equipment and facilities are digital.
   ii. SONET is the forward looking technology in the interoffice network.

d. Standby capacity is a volume-sensitive cost. Non-volume sensitive spare switching capacity (e.g., modular spare) is a shared cost. Please refer to documentation for the Switching Cost Model for further explanation.

SWITCHED ACCESS SERVICE

A. PURPOSE, SCOPE, AND APPLICATION

The purpose of this study is to estimate the 2004 long-run incremental costs QWEST Communications (QWEST) will incur for each minute of use for Switched Access Service within the State of ARIZONA.

This study develops statewide average long run incremental costs (LRIC). All costs are stated on a per minute of use (MOU) basis and are for Local Switching, End Office Trunk Ports, Tandem Switching, Tandem Trunk Ports, Common Transport Multiplexing, and the tandem switched portion of Local Transport.

B. DESCRIPTION OF SERVICES

Switched Access Service provides the transmission path required by an Interexchange Carrier (IXC) to extend its telecommunications facilities to end users via QWEST's intraLATA switched network. This path extends from the Interexchange Carrier's Point of Presence (POP) to the end office serving the end user's premises. It provides an Interexchange Carrier with access to end users and provides end users access to the facilities of an Interexchange Carrier for the purpose of making or receiving calls. Switched Access Service provides the capability to both originate and terminate calls to end users.

This cost study addresses three cost components associated with Switched Access Service. Local Switching, Tandem Switching and Tandem Switched Local Transport are described as follows:

A. Local Switching

Local switching consists of:

1) Originating and/or terminating end office switching.

2) Basic Intercept service which includes limited mechanical announcements informing callers of new numbers, referral numbers and/or line status.

3) Carrier access billing which provides the billing mechanism for QWEST to charge Interexchange Carriers for use of the QWEST local network.

4) Toll assistance which includes providing operator support for Switched Access calls. This includes miscellaneous operator support for calls such as 0- No attempt, dialing instructions, and connections to directory assistance.

5) Measurement equipment components located within the switching machines and teleprocessing measurement costs associated with polling switching machines to obtain billing information.

6) The cost of local switching is calculated without the end office shared trunk port and well as the cost for the shared trunk port on per MOU and as a dedicated monthly cost at a DS0 level.

B. Tandem Switching

This includes the usage sensitive cost of switching an originating or terminating call through an Access Tandem switch.

A monthly cost for a dedicated tandem trunk port at a DS0 level is included.

C. Tandem Switched Local Transport

Tandem Switched Local Transport provides the transmission path from the wire center serving the Interexchange Carrier's Point of Presence through the Access Tandem Switch to the end office which serves the end user. This study calculates costs for the two elements of Tandem Switched Transport:

1) Non-Distance Sensitive

a. Common Transport Multiplexing. This element identifies the usage sensitive costs associated with multiplexing common interoffice facilities in end offices and tandem switches. These multiplexing costs are stated for each of the mileage bands.

b. Common Transport Terminations. This element identifies the usage sensitive costs associated with terminating interoffice facilities in end offices and tandem switches. These termination costs are stated for each of the mileage bands.

2) Distance Sensitive

The costs identified in this element are also usage sensitive and are associated with the outside plant facilities and intermediate
multiplexing which is required to connect central offices and tandem switches in the QWEST network. The costs are different by mileage bands as the costs vary by the distances between the offices.

C. STUDY METHODOLOGY

Two QWEST Communications (QWEST) models are used to calculate the long-run incremental investment of the QWEST network. The Switching Model calculates the investment associated with switching and measuring calls in end office and tandem switches and the Transport Model (TM) calculates the investment associated with transporting calls over the QWEST interoffice network. Both investment models calculate the incremental investment for essential network components which are not product or service specific.

Investment associated with Billing and Collections, Intercept, Operator Assistance and Measurement Polling are calculated in separate studies.

Per call set-up and per conversation minute investment for end office switching, tandem switching and measurement from the Switched Usage Model and interoffice facility and terminations from the Transport Model are mapped to specific services using the Microsoft® Excel spreadsheets. The spreadsheets calculate the investment of specific services by determining the quantity of the network components required for specific services, adding in the appropriate Billing and Collection, Intercept, Operator Assistance and Measurement Polling investment and formatting the investment into the rate structure of the services being studied.

Current year investments in the Switched Usage Model and the Transport Model (TM) along with forward-looking trended 2002 factors were applied to the investments via the Retail Cost Program (RCP) to create 2004 costs for end office switching, measurement and tandem switching

Costs are identified on a per minute of use (MOU) basis. The investment is actually calculated on a per call set-up and per conversation minute basis within the investment models, but are converted to a per MOU basis using the Microsoft® Excel spreadsheets to match the Switched Access tariff format. The spreadsheets in Tab 5 are used to make the conversion.

Billing and Collections, Operator Assistance, and Measurement Polling expenses are calculated in separate studies.

No product specific advertising expenses are included in this study.
The costs identified in this study represent average per unit costs when demand for the services studied starts at zero. Total network demand is calculated in the Switched Usage Model using office characteristics and busy hour data for each of the QWEST central offices in the study.

D. STUDY ASSUMPTIONS

a) Costs are based on a least cost scorched node scenario and represent the cost of fully replacing the network required to provision the service, beginning from the existing grid of network nodes used by QWEST today.

b) Costs do not reflect the emergence of widespread competition in the local exchange market.

c) All network investments are forward-looking.

d) Switching and transport equipment and facilities are digital.

e) SONET is the forward looking technology in the interoffice network.

f) Standby capacity is a volume-sensitive cost. Non-volume sensitive spare switching capacity (e.g., modular spare) is a shared cost. Please refer to documentation for the Switching Cost Model for further explanation.

g) The Switching Model output does not include the SS7 investments.

CUSTOMIZED CALL MANAGEMENT SERVICES

A. PURPOSE, SCOPE, AND APPLICATION

The purpose of this study is to estimate the long run incremental costs QWEST will incur to provide Customized Call management Services (CCMS)/CENTRON 1.

Costs are stated on a service element basis and are used as an input to the pricing of the Customized Call Management Services (CCMS)/CENTRON 1 service elements.

B. DESCRIPTION OF SERVICE

CCMS/CENTRON 1 is composed of standard and optional features. CENTRON 1 is available to individual line residence customers and CCMS is available to individual line business customers wishing to combine one or more exchange access lines into a group.

Standard Features:

Call Hold/*CONSULTLINE* A user of CCMS/CENTRON 1 service can place any established call on hold by dialing a control code. This frees the line to originate another call or use the call pickup feature. Call Hold is the service offering for resident customers; *CONSULTINE* is the service offering for business customers.

User Transfer The user of CCMS/CENTRON 1 service can transfer any established call to another line within or outside the package.

Conferencing The user of CCMS/CENTRON 1 service can hold an in-progress call and complete a second call while maintaining privacy from the first call. In addition, the user may choose to add on the previously held call into a three-way conference.

Optional Features:

Alternate Answering – (Busy Line) This feature automatically transfers incoming calls that encounter a busy condition to an alternate designated line.

Alternate Answering – (Call Forwarding-Don't Answer) This feature automatically transfers incoming calls that encounter a don't answer condition after a preselected number of rings (from 1 to 7) to an alternate designated line.

Alternate Answering – (Call Forwarding-Busy/Don't Answer) This feature automatically transfers incoming calls that encounter a (1) busy condition and/or a (2) don't answer condition after a preselected number of rings (from 1 to 7) to an alternate designated line.

Call Forwarding-Variable A function which allows incoming calls to be forwarded to another telephone number. The number the calls are forwarded to may be changed as required by the customer.

Call Pickup Group This feature enables a user of CCMS/CENTRON 1 service to answer a call which has been directed to another line in the package.

Call Waiting This feature provides a tone alert to a CCMS/CENTRON 1 service user who is on an existing call that another call is waiting.

Convenience Dialing This feature allows CCMS/CENTRON 1 user to abbreviate dialing patterns for frequently called numbers. By dialing an access code of one or two digits, a customer can dial up to six (6) or thirty (30) preprogrammed numbers. All lines in a package may share the same (30) number list, or the (30) number may be available to an individual line only. The (6) number list is available on an individual basis.

Programmable Call Forwarding Busy Line

Programmable Call Forwarding Don't Answer

Six-Way Conferencing (Business Only) This feature permits the CCMS customer to establish a conference call with up to six (6) conferees, including the originator. Conferees may be inside or outside the CCMS system.

CLASS Features: Investment support secured from separate CLASS study. Call Rejection, Continuous Redial, Last Call Return, Priority Call, and Selective Call Forwarding.

C. STUDY METHODOLOGY

The feature investments are obtained from the Qwest Switching Cost Model (SCM) for digital stored program controlled central offices.

The switch investments include feature hardware and applications software appropriate for each feature. The investments are converted to monthly costs using

monthly cost factors, e.g. land and building, which are applied through the use of the Windows Personal Cost Calculator (WINPC3) cost program.

The WINPC3 model develops Long Run Incremental Costs (LRIC) from investments and/or expenses associated with Qwest products and services. A detailed description of this program is provided in the Model Description tab.

The investments are converted to monthly costs using monthly cost factors, which are represented as investment based and expense based. Examples of investment based factors include Capital and Ad Valorem taxes. Capital costs consist of depreciation, income tax, and cost of money. Examples of expense based factors would include administration and business fee taxes.

D. STUDY ASSUMPTIONS

1. All costs displayed are represented on a per line basis.

2. All recurring costs are weighted between two switch types.

3. All network investments are forward looking.

DS0 PRIVATE LINE SERVICE
NAC AND CHANNEL PERFORMANCE

A. PURPOSE, SCOPE, AND APPLICATION

The purpose of this study is to estimate Qwest's 2004 long-run incremental costs for DS0 Private Line Service within the state of Arizona.

This study develops statewide average total long run incremental costs. Costs are specific to the state of Arizona and are stated on a per point of termination basis, unless specified otherwise. Cost results are based on Commission Prescribed Lives and 9.61 % Cost Of Money (COM).

DS0 Private Line Service costs are provided for NAC and Channel Performance.

B. DESCRIPTION OF SERVICE

DS0 Private Line Service provides the transmission facilities between the customer designated premises, to the serving wire center or a Company Hub where bridging, multiplexing or connection to other services functions are performed or to other customer designated premises. Voice Grade/DSO facilities are available for Network Access Channel, Channel Performance and for Interoffice Transport facilities.

This cost study includes the costs for the following components:

a. The Network Access Channel (NAC) rate category provides for the communications path between the Demarcation Point and the serving wire enter of that customer designated premises. One Network Access Channel charge applies per channel terminated at the Demarcation Point. The NAC costs are comprised of a 2-wire and a 4-wire facility, local subscriber loop and drop and a portion of the central office Main Distributing Frame (MDF) that is used to make loop connections.

b. The Channel Performance rate category provides the electronic equipment, which is added to the Network Access Channel to provide the desired level of transmission performance. It modifies the circuit with the basic performance necessary for the circuit function. If appropriate, it may also provide various signaling parameters to enhance the basic performance. Channel Performances are optional channel functions that may be added to provide characteristics not included with the standard capabilities of the basic Network Access Channel. One Channel

Performance charge will apply per channel terminated at the Demarcation Point on the property where the customer is served.

The following are definitions of the Channel Performance and Other Features and Functions services provided by Qwest.

Voice Grade Service Channel Performance

End-Link or Mid-Link Applications. This application is intended for customers requiring Dedicated Transport as part of an overall circuit extending beyond the LATA. Several channel performances are available to facilitate circuit compatibility and a mechanized Design Layout Report (DLR) is available to assist the customer with the overall circuit design. The network channel interface between the LEC facility and the remainder of the overall circuit is referred to as the Mid User Point Of Termination (POT). The network channel interface that is at the terminating end of the overall circuit is referred to as the End User POT. Following are the service categories that normally apply to the End-Link or Mid-Link Voice Grade Service application:

VG2-- Suitable for use as a voice two-point or multi-point dedicated circuit and switched special service circuit. The transmission interfaces are either two wire or four wire.

VG3-- Suitable for use as a two-point voice trunk type circuit. The transmission interfaces are either two wire or four wire.

VG6-- Suitable for voice grade analog data circuits, (applications may be limited). This service is provided on a two-point or multi-point basis. The transmission interfaces are provided on a four wire basis only.

VG7-- Suitable for two-point use for a switched or non-switched data circuit. The transmission inter-faces are either two wire or four wire.

VG10-- Suitable for a specialized simultaneous two way voice grade analog data circuit that extends LEC Digital Data Service into areas without digital data service facilities. This service is provided on a two-point or multi-point basis. The transmission interfaces are provided as either two wire or four Wire.

End-To-End Applications. This application is intended for customers requiring overall Dedicated Transport within the LATA. No DLR mechanized Design Layout Report is provided since the performance and maintenance will be the responsibility of the LEC. The network channel interface that is at the terminating end of the overall circuit is referred to as the End User POT. Following are the service categories that normally apply to the End-to-End application:

VG32-- Suitable for use as a two-point or multi-point line-type circuit. The basic channel is modified with Channel Performance providing no signaling, loop start, automatic, manual or code select signaling. Data capability may be added to specific combinations of loop start signaling circuits. The loop start signaling option provides the additional capabilities of extending the signaling ranges and of offering repeated ringing for PBX station ports.

VG33-- Suitable for use as a two-point trunk type circuit. The basic channel is modified with channel performance providing no signaling, E&M or ground start signaling. Data capability may be added to specific combinations of E&M or ground start signaling circuits.

VG36-- Suitable for use as a two-point or multi-point voice grade (analog) circuit. All channels are provided with basic data transmission parameters modified by the appropriate Channel Performance. Additional conditioning parameters may be added to the basic channel performance. These conditioning parameters allow the selection of attenuation distortion/envelope delay and inter modulation distortion as needed.

Voice Grade Basic (VGB)--This service is a two-point and two wire transmission service designed to provide a low cost communications path between two locations served from the same wire center. This service does not provide technical specifications or signaling and there is no guarantee of continuity.

End-Link or Mid-Link And End-To-End Applications. A custom voice service may be provided upon request to meet specific customer needs not provided by the standard AP Channel Performances. These custom voice services are treated as "VGC" as described below.

Local Area Data Service (LADS) is furnished by the Company subject to the availability of facilities suitable for base band transmission for digital data signals between two points within the same serving wire center area. Normal service is provided between two points that are not more than six route miles apart, as determined by the Company, using norm cable routing between the points to be served. Channel lengths in excess of three route miles per end from the serving wire center may be provided, however, a special construction charge will apply to delta and reload the cable to the original exchange specifications. The Company will not guarantee the noise and the insertion loss characteristics of circuits in excess of six route miles.

Low-Speed (Narrow Band) Analog Data Service Channel Performance

End-To-EndApplications. This application is intended for customers requiring overall dedicated Transport within the LATA. No DLR mechanized Design Layout Report is provided since the performance and maintenance will be the responsibility of the LEC. The network channel interface that is at the terminating end of the overall circuit is referred to as the End User POT.

Following are the service categories that normally apply to the End-to-End application:

LS31-- Provides for data transfer at speeds within the range of 0 to 150 baud. The channel is further defined by speed into the following functions:

- *0 to 30 baud* channels provide: (1) two point service used for key control circuits or remote status monitoring, furnished on a two wire only basis; (2) two-point or multi-point service intended for use in McCulloh Alarm type applications, furnished on a two wire only basis; and, (3) DC channel (metallic channel) current interfaces on a two wire basis. Available at the option of the LEC, on aerial intraoffice basis, only where facilities and operations permit (this two-point or multi-point service is intended for applications where DC continuity is required).

Low-Speed (Narrow Band) Analog Data Service Optional Features And Functions

☐*Central Office Bridging.* McCulloh Bridging allows the connection of up to twenty-six customer premises. This bridging is only available with McCulloh Alarm type service. Telegraph Bridging allows the connection of three or more customer designated premises. Direct Bridging allows the connection of three or more customer designated premises on the DC channel.

C. STUDY METHODOLOGY

Qwest Communications uses three cost models to calculate the long run incremental costs associated with its network, the Transport Model(TM), the Loop Module Model and Channel Transmission Equipment Calculator (CTEC) Model. These models calculate the incremental costs of essential network components. The Retail Cost Program calculates the incremental costs of network components based on investment input from these models.

HAI investments were used for the Network Access Channel (NAC).

Qwest uses the Channel Transmission Equipment Calculator (CTEC) to calculate the Long Run Incremental investment for analog Private Line service. The CTEC model contains several modules that calculate the Channel Performance and Optional Features and Functions investment for these two network services.

The Retail Cost Program was used to convert installed investments to monthly costs by applying appropriate investment and expense factors to the installed investment.

D. STUDY ASSUMPTIONS

1) Costs are based on a least cost scorched node scenario and represent the cost of fully replacing the network required to provision the service, beginning from the existing grid of network nodes used by Qwest today.

2) All network investments are forward-looking:

3) All costs displayed are a 2004 level.

4) Cost results are based on Commission Prescribed Lives and 9.61% COM.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF QWEST CORPORATION'S FILING OF RENEWED PRICE REGULATION PLAN	))	**DOCKET NO. T-01051B-03-0454**

STATE OF COLORADO)
) : ss AFFIDAVIT OF TERESA K. MILLION
COUNTY OF DENVER)

Teresa K. Million, of lawful age being first duly sworn, depose and states:

1. My name is Teresa K. Million. I am Staff Director – Public Policy for Qwest Corporation. My business address is 1801 California St., Denver, Colorado 80202.

2. Attached hereto and made a part hereof for all purposes is my testimony consisting of pages 1 through 26, and my exhibits numbered TKM-01 through TKM-11.

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

Teresa K Million
Teresa K. Million

SUBSCRIBED AND SWORN to before me this 19th day of May, 2004.

Tina M. Allen
Notary Public

My Commission Expires: July 12, 2006

DOCKET NOS. T-01051B-03-0454
T-00000D-00-0672

Q-6 Admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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

DIRECT TESTIMONY

OF

SCOTT A. MCINTYRE

QWEST CORPORATION

MAY 20, 2004

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EXECUTIVE SUMMARY

The purpose of my Direct Testimony is to discuss and support revisions to Qwest's Private Line, Switched Access, and Billing and Collection services.

Private line services are dedicated, direct connections between two or more points. Qwest has completed a review of each of the individual price elements in the Private Line Transport Tariff, taking into consideration the current costs for each element, the highly competitive nature of private line services and the price of competing services. The resulting price adjustments produce an increase in revenue of just under $748,000 annually.

Switched access service is provided by Qwest to interexchange carriers for the purpose of connecting these carriers to their end-user customers via the local switched network. I am proposing to revise the rates for the 800 Database Switched Access product, to bring it into conformity with rates that are currently in effect in the federal jurisdiction. The impact of this proposal is an annual revenue increase of approximately $46,000. Mr. Ziegler discusses the potential for additional Switched Access revisions in his testimony.

Billing and Collection service allows Qwest to bill end user customers for the long distance service provided by interexchange carriers ("IXCs"). This service is a holdover from divestiture of the Bell System in 1984, when IXCs were not able to bill customers directly. I am proposing that this service be deregulated in this proceeding.

IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND PLACE OF EMPLOYMENT.

A. My name is Scott A. McIntyre. I work for Qwest Services Corporation ("Qwest"). My title is Staff Director – Public Policy. My responsibilities include developing marketing and pricing strategies for Qwest and supporting these strategies in the regulatory arena. My business address is 1600 7th Avenue, Room 3214, Seattle, Washington 98191.

Q. PLEASE REVIEW YOUR EDUCATION, WORK EXPERIENCE AND PRESENT RESPONSIBILITIES.

A. I earned a Bachelor of Science degree in Electrical Engineering at the University of Washington in 1974. I have worked for Qwest (formerly U S WEST Communications, Inc. and before that, Pacific Northwest Bell) since 1970. In the past 34 years, I have held many positions that have given me a broad understanding of the telecommunications business. I have experience in the installation and repair of local residence and business telephone services. I also have experience in analyzing and planning new central office equipment and interoffice network facilities. I have performed cost analyses on many aspects of the business and analyzed departmental budgets in great detail. From 1987 to

1999, I managed private line voice and data products. This included the development, pricing and marketing for a wide range of products serving business customers across Qwest's fourteen-state region.

Since July 1999, I have been in my current position as a policy and pricing expert, representing Qwest on issues involving various services. I also represent Qwest on issues concerning competition and performance measures. This wide range of experience has provided me with an understanding of how services are provided, the pricing and marketing that support these services, and the impacts of regulation and competition.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS OR ANY OTHER COMMISSION?

A. Yes. I have testified in Arizona, and I have also testified in Washington, Colorado, New Mexico, Oregon, Wyoming, Nebraska, Iowa, Minnesota, Idaho, Utah and Pennsylvania.

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. I will explain Qwest's proposals for Private Line and Switched Access services. I will also explain Qwest's recommendation that the Commission deregulate Billing and Collection services in this proceeding.

PRIVATE LINE SERVICES

Q. WHAT PRIVATE LINE PRICE CHANGES ARE BEING PROPOSED IN THIS FILING?

A. The price for two-wire Network Access Channels ("NACs") for Analog services, including Low Speed Data Service, is being increased from $22.50 to $23.50. The price for four-wire NACs is being increased from $45.00 to $47.00. In addition, several Channel Performance rate elements are being changed. The Channel Performance rate elements and proposed price changes are as follows:

Service	Current Price	Proposed Price
Low Speed Data Service		
McCulloh	$7.50	$8.00
DC Channels	$4.00	$5.00
Voice Grade Service – No Signaling	Voice Grade 2 - $14.00 Voice Grade 3 - $9.50 Voice Grade 6 - $13.80 Voice Grade 7 - $13.25 Voice Grade 10 - $11.50 Voice Grade 32 - $9.75 Voice Grade 33 - $12.50 Voice Grade Basic - $10.50	$12.00

Voice Grade Service	Voice Grade 33 – Reverse Battery Signaling - $8.00	$9.00
Local Area Data Service ("LADS")	$10.00	$20.00
Foreign Central Office Service	$12.00	$15.00
Exchange Service Extensions	$10.75	$11.75
Telephone Answering Service	$10.75	$11.75

Q. IS QWEST PROPOSING ANY OTHER CHANGES TO THE PRIVATE LINE PRODUCT?

A. Yes. In addition to the changes proposed above, I am recommending that the monthly rate for McCulloh Bridging increase from $3.80 to $4.00.

Q. WHAT IS THE REVENUE IMPACT OF THESE PRICE CHANGES?

A. These changes create an increase in revenue of just under $748,000 annually.

Q. WHAT IS A NAC?

A. A NAC is the transmission path between the customer's premises or designated location and the Qwest central office serving that location (serving wire center). These connections are used for all two- or four-wire private line services. A NAC is required for each customer location connected to a private line network. A

two-point circuit has two NACs and a multi-point circuit can have more than two NACs.

Q. WHAT IS CHANNEL PERFORMANCE?

A. Channel performance is the rate element which covers the costs for electronic equipment that generates specific transmission performance characteristics of a given service. The charges vary by type of service (e.g., narrowband, voiceband/data, etc.). Within these categories, channel performance elements are used to provide for specific transmission attributes required by the customer's equipment. For example, within the voice grade category several different channel performances are available. Each of these channel performance parameters represents different transmission and interface characteristics necessary to meet technical parameters of various customer premises equipment used in a private line circuit.

Q. PLEASE DESCRIBE EACH OF THE PRIVATE LINE SERVICES IMPACTED BY YOUR PROPOSAL AND EXPLAIN HOW THEY ARE USED.

A. All of the Private Line services addressed in this filing provide physical network circuits that are dedicated to the customer's use on a 24 hour, 7 day-a-week basis.

Low Speed Data Service is primarily used for alarm or control circuits. These circuits cannot transmit data at any significant speed but are good for basic signal transmission. They can be used for throwing a switch at a remote site or sending a signal that an alarm relay has been activated. McCulloh circuits have many legs that bridge together many different locations to form one continuous circuit. DC Channels connect two locations for slow signal transmission.

Voice Grade Service consists of two or more circuit legs that transmit voice transmissions. There are a number of different uses for these circuits and they have a number of different configurations. Some work with Private Branch Exchanges ("PBX's); and some are used as low-to-medium speed computer networks. Some have ground start signaling and some have loop start signaling. They are all similar, however, in that they have the basic transmission characteristics as standard telephone call circuits with the bandwidth normally associated with voice telecommunications. This is why they are called "voice grade" services.

Local Area Data Service (LADS) provides a pair of copper wires between two locations. These circuits have no special conditioning and are provided, if available, with no transmission guarantees. They were originally expected to be used for basic signaling, but in some cases they may be capable of handling higher speed data. While these circuits are not designed for data service, they may be capable of carrying data if their length is relatively short and if they do

not happen to have any amplifiers in the circuit. Some Internet providers have used these circuits to transmit high speed data, but this is risky due to the random nature of the circuit makeup and the possibility of interference from other circuits in the same cable.

Audio Service provides specific analog frequency transmission. These circuits are designed to carry specific frequencies and are typically used by radio stations to different locations for broadcast purposes.

Foreign Exchange Service provides dial tone and a telephone number in an exchange other than the normal exchange for that number. Customers often use this service to avoid toll charges from one exchange to another or to give the appearance, for business purposes, of being located near their customers.

Foreign Central Office Service provides dial tone and a telephone number in a central office within the same exchange (as opposed to Foreign Exchange Service), but from a central office different from the normal serving office. Customers use this service if they move within the exchange but want to keep the same telephone number.

Exchange Service Extensions provide for extensions of the same telephone number (like a bedroom extension) in a different location. An example of this

would be a customer who would like their home phone to also ring and be answerable in their office.

Telephone Answering Service circuits provide access to individuals or firms offering a telephone answering service to consumers.

Q. WHY ARE PRICES FOR THESE PARTICULAR SERVICES BEING REVISED IN THIS PROPOSAL?

A. The demand for these services is declining, relative to other private line services, and they are outdated. Many new services have been introduced that provide the same or better functionality. These services are also costly for Qwest to maintain. In some cases they utilize outdated technology or equipment. The proposed price changes will gain consistency in the rates across all rate elements.

Q. IS QWEST PROPOSING TO GRANDFATHER ANY OF THESE SERVICES?

A. Yes. Qwest is grandfathering LADS and Telephone Answering Service with this filing. There is minimal market demand to retain the services as viable offerings.

Q. HOW ARE PRIVATE LINE SERVICES, INCLUDING THOSE IDENTIFIED ABOVE, REGULATED IN ARIZONA?

A. Private Line Services are classified as "competitive" and appear in Qwest's Arizona Competitive Private Line Transport Price Cap Tariff.

Q. IS QWEST PROPOSING TO INCREASE OTHER PRIVATE LINE SERVICE PRICES IN THIS PROCEEDING?

A. No. Just the services listed above will be impacted if this proposal is approved.

Q. WHY ARE OTHER PRIVATE LINE SERVICES NOT BEING INCREASED?

A. Private Line services are competitive and the higher speed services such as DS-1 (1.5 megabits per second) and DS-3 (45 Megabits per second) are highly competitive. Raising the price of such highly competitive services would cause lost sales that would offset any price increase or actually create a net revenue loss.

Q. HOW COMPETITIVE IS THE PRIVATE LINE MARKET?

A. It is highly competitive. In Arizona there are over a dozen companies with tariffs filed to offer private line services.

Q. DO THESE COMPETITORS OFFER SERVICES AT PRICES SIMILAR TO QWEST'S PRICES?

A. Several of these competitors don't publish rates in their tariffs, but rather indicate service is offered on an individual case basis (ICB), meaning that prices are customized to each customer.[1] This is appropriate due to the nature of the service. Private Line services are used in situations where large volumes of telecommunications traffic need to be carried between two or more fixed points. Because the Private Line network configuration is unique to each customer, highly customized pricing is necessary. For those carriers that do publish rates in their tariffs, it is apparent that services are offered at prices very comparable to the rates proposed to be charged by Qwest. For example, as stated previously, Qwest's proposed rate for two-wire NACs for Analog services is $23.50. The proposed price for four-wire NACs is $47.00. Xspedius' Arizona Tariff No. 2 indicates it is charging $26.00 per month for a Voice Grade two-wire Channel Termination and $36.00 per month for a four-wire Channel Termination.[2] Note that a Channel Termination is the combination of a NAC and Channel Performance. This means that Xspedius' rate is substantially below Qwest's proposal in this filing. Eschelon charges $25.74 per month for a two-wire Voice Grade Channel Termination and $51.48 for a four-wire Channel Termination. Eschelon, like Xspedius, combines the NAC and Channel Performance into one

[1] For example, see Cox Arizona Tariff No. 2, Section 4.4, MCImetro Arizona Tariff No. 2, Section 6.2.2, and AT&T Private Line Services Price List Tariff 9, Section 5.

rate element. MCI Metro also offers VG Channel Terminations with prices of $24.03 for two-wire circuits and $31.20 for four-wire circuits. In addition to these termination charges, interoffice mileage may also apply. The chart below compares some of the rates available. This demonstrates that Private Line options are available to Arizona consumers at competitive rates.

Company >	Qwest (proposed)	Xspedius	Eschelon	MCI Metro
VG 2W NAC	$23.50	NA	NA	NA
VG Chan Perf	$12.00	NA	NA	NA
Chan Term (2W)	$35.50 (Sum)	$26.00	$25.74	$24.03
VG 4W NAC	$47.00	NA	NA	NA
VG Chan Perf	$12.00	NA	NA	NA
Chan Term (4W)	$59.00 (Sum)	$36.00	$51.48	$31.20
Mileage 0-8 Miles				
Fixed Charge	$22.00	$12.56	$31.46	$13.95
Per Mile Charge	$1.25	$.80	$2.22	$.72

[2] Xspedius Arizona No. 2, Page 64, Effective August 23, 2002.

Q. WHY IS THE PRIVATE LINE MARKET SO COMPETITIVE?

A. There are many reasons, including those listed below:

- The Private Line market is the easiest telecommunications market to enter.
- There are a wide variety of technologies available to provide Private Lines.
- Competitors can offer service to selected customers.
- Private Lines can be provisioned very inexpensively to selected customers.
- The wide variety of customer requirements provide excellent "cream skimming" opportunities.

Q. WHAT DO YOU MEAN BY "CREAM SKIMMING" ?

A. Private lines have many different configurations and are provided over many different distances. By choosing which customers to approach with service offerings, competitors can target those customers that would be easy to serve. They can target clusters of customers or specific buildings. This allows for significant economies of scale, as opposed to Qwest's requirement, for example, to provide service to all customers. In these instances, custom prices can be offered tailored to the specific customer and specific situation.

Q. IS THERE ANYTHING WRONG WITH THIS CREAM SKIMMING APPROACH TO THE PRIVATE LINE MARKET?

A. No. This is a very reasonable approach to such a specialized market. It points out, however, how this market is easily targeted and this leads to profitable competition even upon initial entry into this market. Because private lines typically connect multiple business locations, connections to all customers is not required as it is in the public switched network.

Q. IS THE PRIVATE LINE MARKET, AS A WHOLE, INCREASING?

A. Yes, the overall private line market is growing. Many customers appreciate the value of dedicated circuits for their security and convenience.

Q. WHAT LEVEL OF GROWTH IS QWEST EXPERIENCING IN THE PRIVATE LINE MARKET IN ARIZONA?

A. When viewed in terms of billed revenues, Qwest's share of the Private Line market in Arizona has experienced steady erosion. For example, Qwest's billed revenue for all types of Private Line services declined over XX% (See SAM-1) between 2001 and 2003.[3] While not as dramatic, Qwest's billed revenue for

[3] Based on monthly recurring revenues.

highly competitive Private Line services, i.e., DS-1 and DS-3, also declined during that time period, by almost XX% (See SAM-1). The effect of competition in the Arizona Private Line market, as demonstrated by these statistics, precludes rate increases in services other than those identified above at this time.

SWITCHED ACCESS SERVICE

Q. IS QWEST PROPOSING CHANGES TO SWITCHED ACCESS RATES IN THIS DOCKET?

A. I am proposing minor changes to 800 Database Access Service ("800 DB") as described below. There may also be changes to Switched Access rates in this proceeding if the Commission rescinds the $5 million dollar revenue reduction in Switched Access which went into effect on April 1, 2004, as discussed in Mr. Ziegler's testimony. Other than that, I am not proposing any changes to the rates or structure of Switched Access service at this time.

Q. WHY ISN'T QWEST PROPOSING TO MAKE MORE DRAMATIC CHANGES TO SWITCHED ACCESS SERVICE IN THIS DOCKET?

A. Qwest is not proposing any changes for Switched Access at this time because of sweeping changes to the entire intercarrier compensation issue being

considered by the FCC and the industry. The positions of the major carriers, RBOCs, CLECs and other carriers, will probably be disclosed soon. The FCC has taken extensive comments and is also likely to make its position known in the near future. The result may well be a completely different structure for revenue collection that could change the states' role in regulating this revenue. With the expectation that the FCC may take dramatic action in the near future, it seems appropriate to minimize changes to Switched Access in this proceeding.

Q. HASN'T QWEST, IN THE RECENT PAST, SUPPORTED LOWERING INTRASTATE SWITCHED ACCESS RATES TO INTERSTATE LEVELS IN ANTICIPATION OF SUCH FCC ACTION?

A. Yes. However, now that FCC action is likely, it is advisable to wait and see what the FCC plan looks like. Introducing Switched Access reductions or restructures into this proceeding may create problems in implementation, especially if the FCC adopts a comprehensive plan with a phased-in approach.

Q. WHAT IF THE ARIZONA COMMISSION WISHES TO PROCEED WITH SWITCHED ACCESS REFORM EVEN THOUGH THE FCC MAY MOVE AHEAD WITH A COMPREHENSIVE RESTRUCTURE?

A. In that case, Qwest will ask the Commission to provide a plan on how to recover the revenue currently provided by Switched Access. If, for example, intrastate

Switched Access rates are reduced to interstate levels and the revenue recovery is shifted to residential rate payers, the impact will be a rate increase of about $1.00 per month per residential access line.

800 Database Access Service

Q. PLEASE EXPLAIN THE CHANGES YOU ARE PROPOSING FOR 800 DB.

A. 800 DB is an originating service utilizing Trunkside Switched Access Service which provides for the forwarding of end user-dialed 8XX+NXX+XXXX calls to a customer based on the dialed 8XX number. I am proposing to revise the rates for several Local End Office Switching rate elements associated with this service. First, I am recommending that the 800 Carrier Identification Charge ("CIC") per call rate be increased from $.003500 to $.004053. In addition, I am proposing that the POTS Translation Charge be decreased from $.003665 to $.0020915 per call. Finally, the rate per query for Call Handling and Destination Feature will be decreased from $.000694 to $.0006853.

Q. WHY IS QWEST PROPOSING THESE CHANGES TO 800 DB?

A. The rates for 800 DB are being adjusted to mirror Qwest rates effective in the federal jurisdiction.

Q. WHAT IS THE REVENUE IMPACT OF THESE CHANGES?

A. These changes will result in an annual revenue increase of almost $46,000.

DEREGULATION OF THIRD PARTY BILLING AND COLLECTION

Q. WHAT IS THE PURPOSE OF THIS PART OF YOUR TESTIMONY?

A. This part of my testimony is to demonstrate that the Arizona market for third party Billing and Collection ("B&C") Service is robustly competitive. Qwest requests the Commission allow the deregulation of its B&C Service.

Q. PLEASE REVIEW THE BASIS FOR QWEST'S REQUEST TO DEREGULATE BILLING AND COLLECTION SERVICES.

A. This request is made pursuant to A.R.S. § 40-281(e), which provides:

> When the commission determines after notice and hearing that any product or service of a telecommunications corporation is neither essential nor integral to the public service rendered by such corporation, it shall declare that such product or service is not subject to regulation by the commission.

In addition, Article 15, § 2 of the Arizona Constitution addresses the basis for deregulating telecommunications services in Arizona. The Constitution

establishes that the authority of the Commission to regulate a service depends on the answer to four questions: (1) whether the service constitutes "transmitting messages or furnishing public telegraph or telephone service" under Article 15, § 2 of the Arizona Constitution; (2) if so, whether the service is presently an essential and integral part of the "transmitting messages or furnishing public telegraph or telephone service;" (3) whether the service is clothed with a public interest, such as to make the rates, charges and methods of provision a matter of public concern, and; (4) whether the service is a common-carriage operation. All four questions must be answered in the affirmative for the Commission to have the authority to regulate a service.

The billing and collection service offered by Qwest does not constitute "transmitting messages or furnishing public telegraph or telephone service" under Article 15, § 2 of the Arizona Constitution. Rather than transmit messages or furnish telephone service, Qwest's billing and collection service simply provides a billing option. Thus, the service is totally independent of basic telephone service.

Even assuming that the billing and collection service could be construed as "transmitting messages or furnishing public telegraph or telephone service," it is not an "essential and integral" ingredient of basic telephone service. That is, basic telephone service can be and is provided to residential and business customers irrespective of the billing and collection service. Moreover, unlike

basic telephone service, only a small percentage of the public has any interest in, let alone any need for, billing and collection service.

Substantial competition exists in Arizona for the provision of Qwest's billing and collection service, as described below. Therefore, if a company does not offer billing and collection services of adequate reliability and quality or raises its prices, a customer simply can choose among various other suppliers of such services.

Qwest's billing and collection service is not a common carriage service. A common carriage service involves the carrying or transporting of messages or goods of others for hire. Billing and collection does not involve any "carriage" of messages, as demonstrated below. Any carrying or transporting of messages exists independent of billing and collection itself.

The Commission should discontinue the regulation of Qwest's billing and collection service in the State of Arizona because: (1) the service does not constitute "transmitting messages or furnishing public telegraph or telephone service;" (2) it is not an "essential and integral" component to basic telephone service provision; (3) there is a substantial amount of competition for this service, as well as an availability of alternative products, that ensure customer bargaining power; and (4) it is not a common-carriage service.

In general, regulation of telecommunications services has always been a surrogate for the competitive market place. As demonstrated in this testimony, the competitive market for B&C services has developed to a point where regulation is no longer necessary.

Q. WHAT IS THIRD PARTY BILLING AND COLLECTION ("B&C") SERVICE?

A. Under third party B&C agreements, Qwest bills end user customers for the long distance service provided by IXCs. This is a holdover from divestiture of the Bell System in 1984, when IXCs were not able to bill customers directly.

Q. CAN YOU PROVIDE SOME MORE HISTORY FOR THIS SERVICE?

A. Yes. As a result of divestiture in 1984, the Regional Bell Operating Companies ("RBOCs") were permitted to continue performing third-party B&C services for AT&T. However, it was also understood that the RBOCs were required to offer these services on the same terms and conditions to all long distance service providers. It was during this same period of time that similar terms were imposed by another settlement decree on the local telephone exchange companies controlled by GTE. Within a short time thereafter, two new IXCs, specifically, MCI and Sprint, entered the long distance market and contracted with the RBOCs and GTE for B&C services. For the first 4-5 years following divestiture, they were the only companies using third-party B&C services.

Q. HAVE THESE SERVICES ALWAYS BEEN REGULATED?

A. No. In the immediate aftermath of divestiture, the FCC brought B&C services under regulation, requiring compliance with approved rate schedules and prohibiting discrimination in the provision of such services. The FCC asserted authority to impose these requirements under Title II of the Communications Act. Title II governs the conduct of common carriers.

In January 1986, the FCC ordered the deregulation of B&C services.[4] The FCC held that billing and collection activities in connection with telephone service was not a "communication service" and that even if it were deemed a communication service, it was "doubtful" that it could qualify as a common carrier service. Hence, such services were not, as the FCC had previously thought, subject to regulation under Title II of the Act. The FCC did find that it could perpetuate its regulatory regime on the authority of its "ancillary jurisdiction" under Title I of the Communications Act. However, the FCC declined to do so. Instead, the FCC reasoned in 1986 that there was sufficient competition to allow market forces to respond to excessive rates or unreasonable billing. Accordingly, the FCC ruled

[4] CC Docket No. 85-88, 102 FCC 2d 1150.

that "no statutory purpose would be served by continuing to regulate third-party B&C service."[5]

Q. HOW HAS THIRD PARTY B&C DEVELOPED?

A. RBOC and GTE-provided B&C services flourished as the primary billing option for IXCs and Clearing Agents through the mid-1990s. It was roughly at this point when there was a major change in the industry. The largest IXCs, frustrated with the inability of the RBOCs to easily integrate their customized billing requirements into RBOC legacy billing architecture, coupled with the desire to create their own "one-bill" for all IXC-provided services, and compounded with the impending knowledge that the RBOCS would soon be entering the long distance market and competing against them, sought out other billing solutions. Most notable in this area was the development of IXC billing platforms, which could be used to direct bill IXC presubscribed ("PIC'd") and high volume end users. It was at this same time that the three or four largest Billing Aggregators in the business invested in the development of their own billing systems as well. By 1996, the largest IXCs had aggressively migrated the majority of their PIC'd business and residential end user billing in-house. Additionally, many of the industry's largest Clearing Agents, for the first time, offered multiple billing options to meet their clients' billing needs.

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[5] Id., ¶37.

Q. WHERE DOES QWEST'S THIRD PARTY B&C STAND NOW?

A. At its peak in the early 1990s, Qwest had third-party B&C agreements with over 50 different non-affiliated third-party service providers. B&C revenues flourished, reaching $300M annually in total interstate and intrastate revenues across Qwest's 14 in-region states. In 2004, Qwest has B&C contracts with 21 non-affiliated third-party service providers, with total interstate and intrastate revenue expected to be in the $52M range across all 14 states.

Q. HAVE OTHER STATES IN QWEST'S 14-STATE REGION DEREGULATED THIRD PARTY BILLING AND COLLECTIONS?

A. Yes At this time nine states have deregulated this service and four additional states have price listed it.

Q. WHAT ARE THE KEY REASONS THIS SERVICE SHOULD BE DEREGULATED IN ARIZONA?

- The FCC deregulated B&C services at the interstate level in the late 1980s;
- RBOC-provided third-party billing services are no longer considered an essential service to IXCs, Clearing Agents, OSPs, Resellers and ISPs.

- There is a wide range of billing alternatives available to these companies, including:
  1. the company's own direct billing capability, including e-billing;
  2. major credit card companies, such as American Express, VISA and MC;
  3. other industry-recognized billing agents, such as CSG and Convergys.

Q. ARE B&C SERVICES NECESSARY TO PROVIDE UNIVERSAL TELEPHONE SERVICE IN ARIZONA?

A. No, these competitive billing services are ancillary to basic telephone services that are necessary to insure universal service objectives in Arizona.

RECOMMENDATION

Q. WHAT DO YOU RECOMMEND TO THE COMMISSION?

A. I recommend that the Commission approve the changes I have proposed for Qwest's Private Line, Switched Access, and Billing and Collection services.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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

EXHIBIT

OF

SCOTT A. MCINTYRE

QWEST CORPORATION

MAY 20, 2004

INDEX OF EXHIBITS

DESCRIPTION	EXHIBIT
Confidential Information	SAM-1

PROPRIETARY INFORMATION

Page	Line Number	Proprietary Information

REDACTED

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF QWEST CORPORATION'S FILING OF RENEWED PRICE REGULATION PLAN	))	**DOCKET NO. T-0105B-03-0454**

STATE OF WASHINGTON)
: ss AFFIDAVIT OF SCOTT A. MCINTYRE
COUNTY OF KING)

Scott A. McIntyre, of lawful age being first duly sworn, deposes and states:

1. My name is Scott A. McIntyre. I am Staff Director – Public Policy of Qwest Corporation in Seattle, Washington.

2. Attached hereto and made a part hereof for all purposes is my testimony in the above referenced case.

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

Scott A. McIntyre

SUBSCRIBED AND SWORN to before me this 10TH day of

May, 2004.

Notary Public residing at
Seattle Washington.

My Commission Expires: 9 July 2005

RUBEN PONCE, JR.
COMMISSION EXPIRES
NOTARY
PUBLIC
7-9-05
STATE OF WASHINGTON

DOCKET NOS. T-01051B-03-0454
T-00000D-00-0672

Q-7 Admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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

TESTIMONY

OF

HARRY M. SHOOSHAN III

ON BEHALF OF

QWEST CORPORATION

MAY 20, 2004

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IDENTIFICATION OF WITNESS

Q1. PLEASE STATE YOUR NAME, EMPLOYER AND POSITION.

A1. My name is Harry M. Shooshan III. I am a principal and co-founder of Strategic Policy Research, Inc. ("SPR"), a public policy and market analysis consulting firm located at 7979 Old Georgetown Road, Suite 700, Bethesda, Maryland, 20814.

Q2. PLEASE STATE YOUR QUALIFICATIONS.

A2. Before co-founding Strategic Policy Research, Inc. ("SPR"), I served for eleven years on Capitol Hill. I was chief counsel and staff director of what is now the Subcommittee on Telecommunications and the Internet of the U.S. House of Representatives. As a consultant, I have specialized in communications public policy analysis, regulatory reform and the impact of new technology and competition.

I have testified before several Congressional committees, before the Federal Communications Commission ("FCC"), before the Canadian Radio-television and Telecommunications Commission ("CRTC") and over 20 state commissions. My testimony before state commissions has been on topics related to price regulation, the introduction of competition, the reclassification of services and implementation of the FCC's *Triennial Review Order* ("TRO"). I served as an advisor to the Iowa Utilities Board

where my work included the implementation of the Telecommunications Act of 1996. I also consulted with and testified on behalf of the Arizona Corporation Commission ("Commission") Staff ("Staff") in development of the existing price regulation plan for Qwest that is to be revised in this proceeding.

I received a B.A. from Harvard University in Government and a J.D. from Georgetown University Law Center. From 1978 to 1991, I was an adjunct professor of law at Georgetown University Law Center, teaching regulation and communications law. A copy of my curriculum vitae is appended to this testimony as Exhibit 1.

I. PURPOSE OF TESTIMONY AND POLICY FRAMEWORK

Q3. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A3. The purpose of my testimony in this proceeding is to provide a policy framework for the price regulation plan proposed by Qwest in this proceeding and to discuss the importance of the proposals in light of the current competitive conditions that exist in Qwest's service area in Arizona.

The current price regulation plan was an important move away from traditional rate-of-return ("RoR") regulation by this Commission. In my

opinion, it has yielded positive results for consumers by way of lower prices, product innovation and encouraging additional competition. While that plan was a step in the right direction, it needs to be revised to reflect existing competitive conditions and to respond to Qwest's concerns about the lower revenues that have resulted from the automatic reductions in prices and about its limited ability to respond rapidly and effectively to competition.

Q4. PLEASE SUMMARIZE THE PRICE REGULATION PLAN PROPOSED BY QWEST IN THIS PROCEEDING.

A4. The price regulation plan proposed by Qwest seeks a number of changes from the existing plan that was put in place in 2001. (See "Revised Price Cap Plan included with the Notice of Filing.) The main features are:

- Replacement of the automatic productivity and inflation adjustment mechanisms of Basic/Essential Basket 1 with an overall revenue cap;
- Introduction of a "competitive zone" test for moving services from Basic/Essential Basket 1;
- Elimination of the revenue cap on the competitive services basket;

- Greater pricing flexibility in Competitive Services Basket comparable to that enjoyed by competitors; and
- Implementation of specific changes in rates for certain services.

Qwest believes that adopting these changes to the current price regulation plan will provide it with a reasonable opportunity to compete more effectively in the very competitive market in Arizona. I will discuss each of these changes in this testimony.

II. QWEST'S PRICE REGULATION PLAN

Q5. YOU STATED ABOVE THAT YOU TESTIFIED ON BEHALF OF STAFF REGARDING THE FIRST PRICE CAP PLAN FOR QWEST IN ARIZONA. COULD YOU PLEASE DESCRIBE YOUR EXPERIENCE AND THE HIGHLIGHTS OF THE PLAN THAT THE COMMISSION ADOPTED?

A5. Yes. I did testify in the prior proceeding,[1] which began as a traditional rate case and ended with the Commission's adoption of a price cap plan. I initially presented a proposal for price regulation of Qwest on behalf of Staff as an alternative to traditional RoR regulation. Qwest subsequently offered a price regulation plan of its own and entered into negotiations with Staff to settle the case. I sponsored further testimony in that proceeding in

[1] *In the Matter of the Application of US West Communications, Inc., a Colorado Corporation, for a Hearing to Determine the Earnings of the Company, the Fair Value of the Company for Ratemaking Purposes, to Fix a Just and Reasonable Rate of Return Thereon and to Approve Rate Schedules Designed to Develop Such Return*, Docket No. T-1051B-99-105.

which I presented, explained and defended the agreed-upon settlement between Staff and Qwest. The Commission's move to price regulation in 2001 was a move away from traditional cost-plus regulation that had provided few incentives for Qwest to innovate or to achieve efficiencies. Now, however, it is time to re-evaluate how to structure price regulation for Qwest based on the experience gained from the past few years and on the realties of today's marketplace.

Q6. DO YOU SUPPORT THE CHANGES PROPOSED BY QWEST IN THIS PROCEEDING?

A6. Yes. The changes proposed by Qwest represent a natural progression or evolution of price regulation. They reflect the fact that increased competition, described in detail by Mr. Teitzel, combined with the automatic reductions in access and basic service prices, have put tremendous pressure on Qwest and necessitate changes in order to permit Qwest a reasonable opportunity to compete and be a viable company. The Commission and all parties have now had three years' experience with price regulation and must be prepared to evaluate the various elements of the plan in order to determine which ones have achieved their objectives and which require elimination or modification.

Q7. THE FILING BY QWEST IN THIS PROCEEDING INCLUDES FINANCIAL AND RATEMAKING DATA THAT ARE TYPICALLY FILED IN A TRADITIONAL RoR CASE. SHOULD THIS BE LOOKED UPON AS A RATE CASE?

A7. No, this is not a typical rate case and should not be construed as such. Qwest is filing much of these data in response to the Commission's decision that it must be filed in order for this proceeding to go forward. However, what Qwest is proposing here is a revised price regulation plan in the true sense: the focus of regulation is on the prices Qwest can charge, not on the precise relationship of prices to cost. As with the existing price regulation plan when it was first adopted, Qwest's expectation is that the combination of upfront rate adjustments and the increased pricing flexibility it would achieve under its proposal, coupled with the relief from further automatic price reductions, will permit it to recover its revenue requirement. Therefore, while the Commission may find the financial and ratemaking information of interest in gauging the overall financial condition in which Qwest finds itself today, it is my understanding that Qwest does not intend for those data to be considered as cost support in the traditional sense.

Q8. YOU STATED ABOVE THAT QWEST PROPOSES TO ELIMINATE THE PRODUCTIVITY/INFLATION INDEXING MECHANISM FOR BASKET 1 AND REPLACE IT WITH A REVENUE CAP ON THE BASKET AS A WHOLE. WHY IS THIS AN IMPORTANT CHANGE?

A8. The overall revenue cap is an important improvement over the productivity/inflation index that resulted in overall revenue decreases for the past 3 years. These automatic revenue reductions are clearly unsustainable over any long period of time. Additionally, the "hard cap" on certain services in Basket 1, while serving to protect consumers of these basic services during what amounted to a transition to price regulation, nonetheless has severely limited Qwest's ability to adjust its overall pricing to reflect market conditions. The revenue cap on Basket 1 allows Qwest to make revenue-neutral price changes; if one price increases, another must decrease in order to stay within the revenue cap.

Q9. DOES MOVING TO A REVENUE CAP MEAN THAT QWEST WILL NO LONGER HAVE THE INCENTIVE TO INCREASE PRODUCTIVITY?

A9. No. The revenue cap approach is based on an assumption that Qwest's rate of productivity is equal to the rate of inflation. As I will explain further, there is no need to add an inflation adjustment or productivity offset under

this assumption. Qwest will still have the incentive to be efficient and innovate.

Q10. YOU HAVE STATED THAT YOU THINK ELIMINATION OF A PRODUCTIVITY OFFSET IS APPROPRIATE. WILL YOU ELABORATE ON THIS POINT?

A10. Yes. First, some background is in order. Initial price regulation plans adopted in the United States and around the world were not much different than traditional RoR regulation. These early plans had numerous baskets and "bands" (*i.e.*, restrictions on specific services within baskets). Many early plans required sharing if earnings reached certain levels. Sharing was accomplished either directly, by pegging allowed returns to specified earnings levels, or indirectly by incorporating productivity offsets, frequently referred to as "X factors."[2] In some cases, the productivity offset was augmented by a "consumer dividend" (typically an additional point or half-point offset to inflation). The primary effect of all of these components was to "institutionalize" the regulatory lag by removing both the threat and the opportunity for a rate case for a fixed period of time in return for a series of "give-backs" that were specified in advance. This

[2] Conceptually, the X factor was a predetermined measure of productivity that was used to offset inflation as a means of putting a "ceiling" of sorts on the earnings of the company.

1 approach was an improvement over traditional RoR regulation because it
2 provided some regulatory stability and certainty several years at a time.
3 These initial plans were not, however, that far removed from RoR
4 regulation. Indeed, in most jurisdictions, regulators continued to track rate
5 of return. Over time, price regulation plans have evolved. In a number of
6 jurisdictions, X factors are no longer used.[3] There is a growing recognition
7 that competition can now serve as a constraint on both prices and
8 earnings, and as a means for distributing the gains from increased
9 productivity. Indeed, there is an even more fundamental effect of
10 competition that must be noted here. As I mentioned previously,
11 competition has substantially increased the risks faced by Qwest in the
12 marketplace. As a result, attempting to gauge the appropriate rate of
13 return—even indirectly or implicitly by means of a productivity offset—is
14 much more problematic today than it was historically. In this respect, the
15 proposed plan's elimination of a productivity offset is reasonable and
16 marks a step closer to "pure" price regulation and away from "back-door"
17 RoR regulation.

18 Taking this step now will give Qwest the incentives to continue to make
19 the investments in its network that are necessary to meet the demands of

[3] For example, Iowa, Minnesota, Colorado, Kentucky and Mississippi have no productivity offset in their basic basket and those states and a number of others have no productivity offset for non-basic baskets.

the "digital information age" (*e.g.*, fiber and packet-switching). This investment will benefit consumers who choose Qwest as their provider and competitors that choose to resell Qwest's services or to rely on Qwest's network. It will also spur competitors to make infrastructure investments of their own to compete with a modern, state-of-the-art, feature-rich Qwest network.

Q11. IS IT REASONABLE TO ASSUME THAT THE RATE OF INFLATION IS NOT LESS THAN QWEST'S RATE OF PRODUCTIVITY?

A11. Yes. When productivity/inflation price cap mechanisms were introduced in the U.S., incumbent local exchange companies ("ILECs") had been largely sheltered from competition and had limited incentives to operate efficiently or to develop innovative services. Price-cap plans allowed ILECs to increase their prices (in nominal terms) only to the extent that the rate of inflation exceeded an estimate of the firms' productivity. The productivity adjustment itself was based on the assumption that the ILECs, as they emerged from cost-plus pricing and were afforded efficiency incentives for the first time, would likely experience greater rates of productivity improvement than the economy as a whole. Certainly, it was reasonable for this Commission to embody a productivity offset in its initial price regulation plan. Today, given the inroads being made by competitors, Qwest faces the real risk in many geographic areas of excess capacity

and/or stranded plant—both of which *reduce* productivity. The revenue cap proposed by Qwest here requires Qwest to increase productivity more rapidly than the economy as a whole by the rate of inflation in order to maintain a level of profitability. In today's environment, that plan poses a sufficiently difficult challenge to Qwest.

Q12. HOW DOES THIS PROPOSAL COMPARE WITH OTHER PRICE REGULATION PLANS OF WHICH YOU ARE AWARE?

A12. Across the 50 states, a variety of indices and methods have been used for determining pricing flexibility for basic services. A decreasing number of states continue to rely on a productivity/inflation index, while others allow the ILEC to increase basic services revenue by the measure of inflation or by some specified growth rate without any offsetting productivity adjustment. Some states do not rely on any index for basic services and utilize a revenue cap such as Qwest is proposing here. Qwest must still assume the risk of keeping its costs in line with inflation.

Q13. HOW DO CONSUMERS BENEFIT IN THE ABSENCE OF A PRODUCTIVITY/INFLATION INDEXING MECHANISM?

A13. Consumers in general are protected by the overall revenue cap on Basket 1. As I noted previously, any price changes in Basket 1 services must be

revenue neutral. Price increases must be offset by price reductions. Consumers will also benefit to the extent that Qwest is better able to price its services to the market. The result will be that Qwest *and* its many competitors will be forced to compete harder.

Q14. WHAT IS THE "COMPETITIVE ZONE" TEST FOR RECLASSIFYING BASIC/ESSENTIAL SERVICES?

A14. Qwest proposes a competitive zone test as a mechanism to determine when retail services can be moved from Basket 1 to Basket 3 on a geographic basis. The competitive zone test requires that Qwest demonstrate that functional equivalents or substitutes for its services are readily available from at least one competitor. That competitor may be serving customers through its own facilities, using Qwest unbundled network elements ("UNEs"), or reselling Qwest services. The geographic zone of interest may be as large as a group of wire centers that make up a community or even smaller than a wire center, e.g., a new housing development. Upon approval of a petition making such a showing, all of Qwest's retail services in the defined zone will be moved to Basket 3 (Competitive/Flexibly Priced Services). Qwest is asking for competitive zone classification for Phoenix and Tucson as part of this proceeding.

Q15. WHY DO YOU BELIEVE THIS APPROACH IS PREFERABLE TO THE STATEWIDE SERVICE-BY-SERVICE APPROACH THAT HAS BEEN UTILIZED UP TO NOW?

A15. The new competitive zone test is preferable to a statewide, service-by-service approval for two reasons. First, a service-by-service approach to the classification of competitive services is not necessary or appropriate. This is warranted since Qwest's competitors typically offer—and customers increasingly purchase—packages of services rather than individual services. Second, the competitive zone approach takes into account the reality that competition is more intense in certain geographic areas and less so in others. R 14-2-1108 does not require that services be deregulated only on a statewide basis. Indeed, the Commission has invited parties to propose an approach to deregulating services in defined areas where Qwest faces competition.[4] Further, the Commission's competitive rules have been repeatedly used by CLECs to obtain blanket declarations that all of the services they provide are competitive. Mr. Teitzel also addresses these points in his testimony.

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[4] In Decision No. 63487, the Commission said: "In the future, the parties may be able to fashion a provision that allows Qwest to compete in areas where it truly faces established competition, but such provision must better describe the geographic areas and population served as well as promote specific and clear protections against anti-competitive behavior." See Decision No. 63487, March 30, 2001, at page 19, lines 24-27.

Q16. DO YOU BELIEVE IT IS REASONABLE TO RECLASSIFY QWEST'S RETAIL SERVICES IN A ZONE BASED ON THE PRESENCE OF ONLY ONE WIRELINE COMPETITOR?

A16. Yes, I do. This approach does not consider wireless competitors, of which there are usually between 2 and 6 licensees in each market, or emerging competing platforms such as Voice over Internet Protocol ("VoIP"). Mr. Teitzel identifies wireless and VoIP providers currently serving Arizona business and residence customers. The possibilities of competition from these technologies should not be underestimated. AT&T, which is rolling out a nationwide VoIP products, recently sponsored a consumer survey in which 74 percent of respondents said they were aware of VoIP communications capabilities. Of those aware consumers, 63 percent said it would change the way they communicate. Almost half of all respondents believed that phone service will move to the Internet within two years.[5]

While the standard proposed by Qwest is based on the presence of one wireline competitor, Mr. Teitzel has identified at least 9 wireline competitors in Phoenix and Tucson [Teitzel Direct at 10]. He describes each of these firm's Arizona operations in great detail as well. At this time, Qwest is only seeking reclassification of wire centers in the Phoenix and

[5] "AT&T Sponsored Survey Highlights Consumer Interest and Awareness in Voice Over The Internet Services (VoIP)," AT&T Press Release (March 2, 2004).

Tucson metropolitan areas. According to Mr. Teitzel, Qwest's current ability to enter into contracts meets its needs in other areas of the State.

Q17. DOES THE RELIEF QWEST IS SEEKING FOR COMPETITIVE ZONES DIFFER FROM THE PRICING FLEXIBILITY ENJOYED BY ITS COMPETITORS?

A17. No. Qwest is seeking only the same freedom in these competitive zones that its competitors regulated by this Commission enjoy. That is, Qwest will file price lists (specifying maximum rates) with the Commission as its competitors do, but will not have to obtain approval from the Commission for price changes. Qwest will also be able to offer geographic-specific prices as its competitors are currently able to do. The Commission will retain authority to investigate complaints. I note that Qwest's competitors enjoy this pricing freedom throughout the State, not just in certain competitive zones.

Q18. ARE YOU CONCERNED ABOUT THE POSSIBILITY OF COST SHIFTING BETWEEN AREAS WHERE QWEST'S RETAIL SERVICES REMAIN IN BASKET 1 AND ZONES WHERE QWEST HAS MET THE COMPETITIVE ZONE TEST FOR BASKET 3 REGULATION?

A18. No, I am not. If Qwest were subject to traditional RoR regulation, I would be concerned. However, Qwest is subject to price regulation, under which there is no incentive or opportunity for Qwest to employ any inappropriate cost shifts. Price regulation divorces specific prices and the associated revenues from costs, rendering the accounting costs irrelevant to determination of the prices Qwest charges for a particular offering. Additionally, Qwest has been accorded similar pricing flexibility in competitive zones in a number of its states (e.g., Nebraska, North Dakota, Oregon, South Dakota, Utah and Washington) with few or no disputes that I am aware of regarding the Company's accounting for costs and revenues between competitive zones and the rest of its service area in those states. This Commission can observe from the experience of other states that this is a reasonable approach that has been proven successful.

Q19. QWEST PROPOSES TO ELIMINATE THE REVENUE CAP ON THE COMPETITIVE SERVICES BASKET. IS THIS REASONABLE?

A19. Yes, this is a reasonable recommendation. Over the course of the current price regulation plan, competitive pressures have been effective at keeping these prices within the cap. We can expect that pressure from competitors to intensify as competition continues to progress in Arizona. Since the point of regulation is to act as a substitute for competition and

competition is pervasive, regulation of competitive services is a waste of resources to achieve the goals which competition has been proven to meet more effectively. Elimination of this cap simplifies the regulatory rules and conditions that Qwest must meet and conserves resources for both the Company and the Commission, as well as for other parties.

Q20. QWEST PROPOSES THAT ALL SERVICE PACKAGES AND ALL NEW SERVICES BE PLACED IN BASKET 3. WHAT ARE THE BENEFITS TO CONSUMERS OF THIS PROPOSAL?

A20. Consumer benefits from this proposal center on the ability of Qwest to provide a variety of packages and new innovative services in response to or in anticipation of its competitors' offerings. Consumers benefit from both Qwest and its competitors having the ability to price flexibly and offer quickly a variety of non-basic services and packages. Consumers' choices in variety and price are maximized by putting all competitors, including Qwest, on equal footing in the marketplace. I believe such a change is necessary if Qwest is to remain competitive. I note that other Qwest states have taken this approach. For example, in Iowa, new services are automatically considered "non-basic."

Q21. QWEST IS ALSO PROPOSING TO REMOVE CURRENT ZONE CHARGES AND TO SEEK OFFSETTING ARIZONA UNIVERSAL SERVICE FUNDS ("AUSF") FOR ITS HIGH-COST AREAS (ZONES 2 AND 3). SHOULD THE COMMISSION SUPPORT THIS CHANGE?

A21. Yes. Qwest's proposal to eliminate existing zone charges to consumers, adopting the Commission's UNE zone deaveraging scheme, and seek AUSF support to make up the difference between current and cost-based rates is beneficial to consumers in the higher costs areas as they will be relieved of covering the direct costs of providing service. Instead, those costs will be spread over all of those paying into the AUSF. Additionally, since AUSF support is portable, competitors will have greater incentive to offer alternative services to customers in these high-cost areas where competitors are currently deterred by the high costs. This use of AUSF support—targeted to the highest cost areas to encourage entry that would otherwise not occur—is an appropriate use of high-cost funds.

Q22. AMONG THE OTHER PRICE CHANGES THAT QWEST IS PROPOSING IS IN THE ELIMINATION OF THE FREE CALL ALLOWANCE WITH DIRECTORY ASSISTANCE ("DA") SERVICES. HOW SHOULD THE COMMISSION VIEW THIS PROPOSAL?

A22. The Commission should recognize that the limits on Qwest's pricing of its DA services have artificially constrained the pricing of Qwest's DA offerings and led to unnecessary complexity in the way Qwest offers DA services (as Mr. Teitzel points out). DA services are available to customers in Qwest's service area from a variety of sources, according to Mr. Teitzel [Teitzel Direct at 51-52]. Qwest's prices will continue to be constrained by competition. However, Qwest and its many competitors will determine the prices and features of their DA offerings based on demand in the marketplace, not by regulation.

III. SUMMARY AND CONCLUSION

Q23. PLEASE SUMMARIZE YOUR TESTIMONY.

A23. In this testimony, I have described the changes to the price regulation plan that Qwest proposes for going forward in Arizona. The Commission has made strides towards modernizing regulation of Qwest so as to reflect a competitive marketplace. However, it is necessary that price regulation evolve as circumstances (including Qwest's financial soundness) warrant. Having adopted an initial price regulation plan that was, in many respects, cautious and conservative, the Commission should be willing now to streamline price regulation along the lines proposed by Qwest. The Qwest proposal asks the Commission to strike a new balance—one that

reflects the realities of today's marketplace and is flexible enough to fit the future. For example, as I have discussed, the revenue cap for Basket 1 balances the interests of consumers and Qwest by protecting consumers from unreasonable price increases, while ending the unsustainable automatic annual reductions in revenue to Qwest. It is also important to take this opportunity to restructure and streamline the price regulation plan. For example, the cap on Basket 3 is unnecessary, given the competitive landscape in Arizona. Elimination of the cap will create greater parity between Qwest and its competitors. It is appropriate that service packages and new services be placed in Basket 3 as they are designed to compete with other carriers' offerings. Qwest believes the proposed price regulation plan, including the proposed initial price changes and the use of AUSF support in high-cost areas, will provide the Company with the opportunity to compete in a very competitive market with a wide variety of choices for consumers. The Commission should approve this plan.

Q24. DOES THAT CONCLUDE YOUR TESTIMONY?

A24. Yes.

STRATEGIC POLICY RESEARCH

Arizona Corporation Commission
Docket No. T-01051B-03-0454
Docket No. T-00000D-00-0672
Qwest Corporation
Exhibit HMS-1
May 20, 2004

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Received a B.A. *magna cum laude* from Harvard University in Government and a J.D. from Georgetown University Law Center.

Before co-founding Strategic Policy Research, Inc. ("SPR"), Mr. Shooshan served for eleven years on Capitol Hill. He was chief counsel and staff director of what is now the Subcommittee on Telecommunications and the Internet of the U.S. House of Representatives and was active in congressional efforts to reform the nation's communications laws.

Mr. Shooshan specializes in communications public policy analysis, regulatory reform and the impact of new technology and competition. He also advises on business strategies and market opportunities.

Mr. Shooshan is the author of numerous studies and articles dealing with various aspects of the video marketplace, including the transition to digital television and the impact of the Internet. He is one of the nation's leading authorities on telecommunications infrastructure and its relationship to economic development and to the global competitiveness of U.S. businesses.

Mr. Shooshan coordinates SPR's telecommunications and electronic mass media practice in Europe and has advised clients in the United Kingdom, Canada and the Caribbean.

Mr. Shooshan has testified before several congressional committees, before the Federal Communications Commission ("FCC") and numerous state commissions. He has also testified as an expert witness in litigation concerning broadcasting, cable and wireless cable, and in proceedings before the Copyright Arbitration Royalty Panel concerning satellite broadcasting.

From 1978 to 1991, he was an adjunct professor of law at Georgetown University Law Center, teaching regulation and communications law.

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EDUCATION

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EMPLOYMENT

STRATEGIC POLICY RESEARCH, INC.—Bethesda, Maryland
1992-Present *Principal.* Telecommunications and public policy consulting services for a variety of clients in the telecommunications industry.

NATIONAL ECONOMIC RESEARCH ASSOCIATES, INC.—Washington, D.C.
1989-1992 *Vice President.* Telecommunications and public policy consulting services for a variety of clients in the telecommunications industry.

SHOOSHAN & JACKSON INC—Washington, D.C.
1980-1989 *Principal.* Telecommunications and public policy consulting services for a variety of clients in the telecommunications industry.

SUBCOMMITTEE ON COMMUNICATIONS, INTERSTATE AND FOREIGN COMMERCE COMMITTEE, U.S. HOUSE OF REPRESENTATIVES—Washington, D.C.
1975-1980 *Chief Counsel/Staff Director.* Legislative, oversight and investigating activities relating to telecommunications.

SUBCOMMITTEE ON COMMUNICATIONS AND POWER, INTERSTATE AND FOREIGN COMMERCE COMMITTEE, U.S. HOUSE OF REPRESENTATIVES—Washington, D.C.
1974-1975 *Staff Director.* Legislative, oversight and investigating activities relating to telecommunications and energy.

U.S. HOUSE OF REPRESENTATIVES—Washington, D.C.
1969-1974 *Administrative Assistant to the Honorable Torbert H. Macdonald.* Legislative and political coordination and support.

PROFESSIONAL ACTIVITIES

Member, Federal Communications Bar Association.

TESTIMONIES

Rebuttal Testimony on behalf of SBC Indiana. Before the Indiana Utility Regulatory Commission. *In the Matter of the Indiana Utility Regulatory Commission's Investigations of Matters Related to the Federal Communications Commission's Report and Order on Remand and Further Notice of Proposed Rulemaking in CC Docket Nos. 01-338, 96-98, and 98-147.* Cause No. 42500. April 12, 2004.

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Testimony on behalf of Qwest Corporation. Before the Arizona Corporation Commission. *In the Matter of Qwest Corporation's Compliance with Section 252(e) of the Telecommunications Act of 1996.* Docket No. RT-00000F-02-0271. March 7, 2003.

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF QWEST CORPORATION'S FILING OF RENEWED PRICE REGULATION PLAN.	)	**DOCKET NO. T-01051B-03-0454**
IN THE MATTER OF THE INVESTIGATION OF THE COST OF TELECOMMUNICATIONS ACCESS.	)	**DOCKET NO. T-00000D-00-0672**
STATE OF NEW HAMPSHIRE COUNTY OF HILLSBOROUGH	) :	**AFFIDAVIT OF HARRY M. SHOOSHAN** **SS**

Harry M. Shooshan, of lawful age being first duly sworn, depose and states:

1. My name is Harry M. Shooshan. I am a principal in Strategic Policy Research, Inc. located in Bethesda, Maryland and am appearing on behalf of Qwest Corporation. I have caused to be filed written direct testimony in Docket No. T-01051B-03-0454 and T-00000D-00-0672.

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

Further affiant sayeth not.

Harry M. Shooshan

SUBSCRIBED AND SWORN to before me this 13th day of May, 2004.

DONALD M. BAYKO, Notary Public
My Commission Expires September 20, 2005

Notary Public

My Commission Expires: _____

DOCKET NOS. T-01051B-03-0454
T-00000D-00-0672

Q-8 Admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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

DIRECT TESTIMONY

OF

DAVID L. TEITZEL

QWEST CORPORATION

MAY 20, 2004

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EXECUTIVE SUMMARY

The telecommunications landscape in Arizona is changing rapidly, and the regulatory guidelines governing the industry must be adjusted to reflect these significant changes. According to the Arizona Corporation Commission (ACC) website, a total of 64 carriers are shown as being competitive local exchange companies in Arizona.[1] Clearly, the goal of the Telecommunications Act of 1996 to encourage competitive growth in the telecommunications market is being fulfilled in the state. Competitive impacts are being felt in all Qwest product lines from facilities-based and non-facilities based CLECs as well as intermodal forms of competition, such as wireless and Voice over Internet Protocol (VoIP) services. It is imperative that the implications of the dynamic competitive environment in Arizona be recognized in the manner in which Qwest's rates are established and in relaxing regulatory guidelines where competition is now thriving.

My testimony identifies specific wire centers in the Phoenix and Tucson areas in which significant CLEC-based competition currently exists. The presence of significant competition in these wire centers qualifies them, under Article 11, R-14-2-1108 of the Commission Rules, for "competitive" classification. Qwest proposes that these geographic areas be classified as "competitive zones," in which services provided to customers within

[1] www.cc.state.az.us

these areas are subject to relaxed regulation. Although I am initially proposing competitive zone classification for specific wire centers within the Phoenix and Tucson metropolitan areas, I am also defining a mechanism to designate additional geographic areas as competitive zones as competitors expand their offerings into other areas of the state. Qwest's competitive zone proposal will establish a level of regulatory oversight consistent with that of its competitors. Specific price ceilings will be established for services offered within competitive zones, below which Qwest will be free to adjust prices as the market dictates. In addition, Qwest will be able to promote services and offer packages to similarly-situated customers within the zone at prices that may vary from prices in effect in other zones or areas of the state.

Additionally, I propose that all new services introduced in Arizona be automatically classified as "competitive" upon their introduction. By definition, new services will be optional and discretionary when they are introduced, and the market will govern their acceptance. Automatic competitive classification for new Qwest services will place Qwest on competitive par with other telecommunications providers in Arizona.

Finally, I propose that Qwest be granted the same ability to promote its products and services as that afforded its competitors. Currently, Qwest is required to file documentation with the Commission outlining the details of any promotion with a value of $25.00 or more at least 30 days prior to the advent of the promotion. Qwest proposes that this requirement be modified to mirror the promotional capabilities of other competitive providers.

The rate of growth of competition in Arizona creates a need for Qwest to rebalance certain prices, refine the structure of its services and position them properly in the marketplace. My testimony outlines proposals which will appropriately rebalance rates, reduce traditional cross-service subsidies and establish a mechanism to allow carriers to fully recover the cost of providing service to local exchange customers in high cost areas. Specific pricing proposals are outlined in detail in Section II of my testimony.

IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is David L. Teitzel. I am employed by Qwest Corporation ("Qwest") as Staff Director-Public Policy. My business address is 1600 7th Avenue, Room 3214, Seattle, WA, 98191.

Q. BRIEFLY OUTLINE YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND.

A. I received a Bachelor of Science degree from Washington State University in 1974. Since then, I have been continuously employed by Qwest and its predecessor companies. I have held a number of management positions in various departments, including Regulatory Affairs, Network and Marketing. As a Marketing product manager, I was responsible for product management of Basic Exchange, Centrex and IntraLATA Long Distance services. I have also served as a Market Manager for Qwest Dex directories in the Puget Sound region. I was named to my current position in March 1998.

Q. HAVE YOU TESTIFIED IN ARIZONA PREVIOUSLY?

A. Yes. I testified in Qwest's 1999 Arizona Rate Case proceeding, the Arizona Section 271 docket, and filed written testimony in the pending Triennial Review proceeding. I have also testified as an expert witness in state regulatory dockets in Colorado, Idaho, Iowa, Minnesota, Montana, Nebraska, New Mexico, North Dakota, Oregon, South Dakota, Utah, Washington, and Wyoming.

Q. ON WHAT BASIS IS QWEST ADVANCING ITS PROPOSALS?

A. In 2001, the Arizona Corporation Commission ("Commission") adopted a Price Regulation Plan for Qwest. This plan was the result of a stipulation between Staff and Qwest which was subsequently modified by the Commission. The adoption of this price regulation plan was an important first step by the Commission to move away from traditional "utility-style" regulation. That plan provided for Qwest to request renewal "under the current terms and conditions" or to request renewal with revisions. Qwest filed to request renewal of the plan with revisions on July 1, 2003 and filed an amended renewed price regulation plan on September 26, 2003. In December 2003, Qwest filed a motion to clarify or terminate the Price Cap Plan. The Commission denied that motion and ordered Qwest to make the filing required by Commission Rule R14-2-103. This filing is in response to the Commission's order, and Qwest is now seeking the opportunity to adjust terms and prices for

certain services in a manner that reflects competitive realities and Qwest's need to be able to compete on par in Arizona.

I. COMPETITION

Q. IS QWEST CURRENTLY EXPERIENCING COMPETITION IN ARIZONA?

A. Yes, there is substantial competition today in Arizona and it continues to intensify. Arizona had the nation's second-highest population growth rate last year and the state is now the nation's 18th-largest.[2] As a result of the robust economy, Arizona is currently one of the most competitive telecommunications markets in the Qwest region. In fact, in February 2004, 35% of Qwest residential line losses within the 14-state Qwest region were in Arizona. The Phoenix and Tucson MSAs rank #1 and #3 in terms of competitive consumer line losses in the 14-state Qwest region. Qwest tracked XX residential access lines in the Phoenix MSA and XX residential access lines in the Tucson MSA as being lost to competition in February 2004 alone.[3] (See Confidential Exhibit DLT-1 for figures.) Forty-six of the top 50 wire centers in the Qwest region ranked by competitive loss fall within Arizona. Qwest faces strong

[2] *Arizona's growth rate second-highest in U.S.*, www.azcentral.com/arizonarepublic/business/articles/0217econnotes17.html, visited 2/25/04.

[3] Qwest routinely tracks the reason for access line disconnects. When Qwest is informed that an access line is being disconnected in favor of a competitive alternative, a "competitive loss" indicator is placed on the customer's account. Since all customers do not volunteer the reason for the line disconnect, these competitive loss quantities are understated.

competition from both resellers and established facilities-based competitors. In addition, Voice over Internet Protocol ("VoIP") services are now readily available to Arizona retail customers as an alternative to Qwest's local exchange services and an increasing number of customers are using wireless service in lieu of Qwest wireline service.

Q. WHAT CHANGES HAVE OCCURRED IN THE ARIZONA COMPETITIVE LANDSCAPE SINCE THE COMMISSION ADOPTED THE PRICE CAP PLAN IN 2001?

A. The competitive landscape in Arizona has changed dramatically in the three years since the Price Cap Plan was adopted. The number of interconnection agreements has almost doubled. In December, 2000, 65 interconnection agreements were in effect between Qwest and Arizona CLECs. As of February 2004, the Commission had approved 118 interconnection agreements, and another five were awaiting approval.[4] CLEC activity in the local market has skyrocketed, as the following Qwest wholesale provisioning statistics demonstrate:

Product	Dec-00	Dec-03	% Change
Stand-Alone Unbundled Loops	15,630	41,229	163.78%

[4] Number of interconnection agreements approved and pending includes wireline, resale, and wireless agreements.

UNE-P[5] Loops	7,015	175,703	2,404.68%
LIS[6] Trunks	120,242	188,744	56.9%
Wholesale Resold Lines	37,142	5,367	(85.55%)

These data show that CLECs are repositioning away from simple resale of Qwest's retail products toward a strong focus on Unbundled Network Element (UNE)-based competition and a significantly greater reliance on serving local customers via CLEC-owned switches and unbundled loops to deliver competitive local exchange services.

Qwest residential and business retail access line in-service base, viewed over this same time horizon, shows a net loss of approximately 577,000 lines:[7]

	Dec-00	Dec-03	% Change
Total Qwest Retail Access Lines:	2,950,483	2,373,577	(19.55)%

With regard to Qwest's residential access line base alone in Arizona, significant declines over this same period have been measured in both primary and additional access lines, as follows:

	Dec-00	Dec-03	% Change

[5] Unbundled Network Element Platform
[6] Local Interconnection Service
[7] These quantities are strictly the Qwest retail access line in-service totals at the end of December 2000 and December 2003 and reflect the impact of all inward and outward service order activity.

Qwest Primary Residential Lines:	1,674,509	1,394,694	(16.7)%
Qwest Additional Residential Lines:	342,353	228,777	(33.2)%

While various factors, including the general economic malaise, growth in Digital Subscriber Line service, wireline CLEC competition and substitution of wireless services for Qwest retail access lines[8] have contributed to these trends, it is very clear that customer demand for Qwest retail lines has diminished over this three year period. It is noteworthy that Qwest's retail access line base has declined significantly even while Arizona's population base and overall telecommunications market has continued to grow. The decline in Qwest's retail access line volumes, coupled with an escalation in corresponding wholesale volumes, indicates that competition for Qwest's services has significantly increased and that CLECs have strongly established themselves as viable local exchange competitors in the state.[9] It should also be noted that the wholesale service growth trends do not address competition for Qwest services represented by intermodal platforms such as wireless and Voice over Internet Protocol (VoIP) services, nor do the UNE loop or resale quantities reflect the strong growth in cable telephony-based competition in Arizona.

[8] The advent of local number portability in November 2003 enables any Qwest retail local exchange customer to port his or her local telephone number to a wireless carrier when the customer opts to use a wireless handset as a substitute for Qwest landline telephone service, likely increasing the trend of substitution of wireless service for traditional landline services.

[9] It is important to note that the decline in Qwest's access line volumes does not reflect competitive losses associated with lines provided by CLECs to new Arizona customers who never subscribe to Qwest's services when establishing a home or business in the state.

1

2 Competitors such as Cox, AT&T, and MCI are now providing service to both
3 residential and business customers in Phoenix and Tucson over their own facilities
4 or through the purchase of unbundled network elements from Qwest. Competitors
5 are bundling local and long distance services into single packaged offerings. A
6 count of white pages listings associated with Cox customers in Arizona shows that,
7 as of April 27, 2004, Cox customers had XX residential and XX business directory
8 listings (see Confidential Exhibit DLT-1 for figures) in the Qwest white pages listings
9 database, primarily in the greater Phoenix and Tucson areas. Since many lines,
10 particularly business lines associated with multi-line business customers, are not
11 listed, these directory listings counts likely understate the actual number of Cox
12 retail lines currently in service and white pages listings counts are a conservative
13 measure of the actual volume of Cox access lines. Cox is clearly one of Qwest's
14 most significant competitors in the Arizona local exchange market. According to
15 Cox, 200,000 Tucson and Green Valley households will be able to obtain Cable,
16 Internet, Local Phone Service and Long Distance Service combined on one bill.
17 Initially, AT&T and MCI were only serving business customers, and now both of
18 these companies are courting residential customers with local, calling features, long
19 distance, and Internet service bundles. Clearly, Qwest's competitors are enjoying

1 dramatic success in the Arizona market. Competition has advanced significantly in
2 the past three years.
3
4 **Q. WHICH OF QWEST'S MARKETS ARE MOST VULNERABLE?**
5
6 A. Qwest is experiencing the most robust competition in the Phoenix and Tucson
7 MSAs. It is not surprising that competitors have focused on the Phoenix market, as
8 over half of the state's population resides in the Phoenix MSA. The number of retail
9 lines Qwest has tracked as being disconnected for competitive reasons provides
10 one indicator of the impact competition is having in the Phoenix and Tucson
11 metropolitan areas. Since August 2002, Qwest has lost over XX residential lines in
12 Phoenix and almost XX residential lines in Tucson because the customer is shifting
13 service to a competitive alternative. (See Confidential Exhibit DLT-1 for figures.)
14
15 **Q. ARE THE LOSSES QWEST IS EXPERIENCING LIMITED TO RESIDENCE**
16 **CUSTOMERS?**
17
18 A. No. Qwest is also experiencing losses of business customers. In fact, CLECs
19 generally first targeted the business market and have now expanded to the
20 residential market. Qwest's business customer base is a prime competitive target,
21 as prices for these customers continue to carry relatively high levels of contribution.

As stated earlier, major competitors such as Cox, AT&T, and MCI are currently offering service to residence and business customers in Phoenix and Tucson.

Q. HOW ARE ALTERNATIVE TELECOMMUNICATIONS PROVIDERS APPROACHING COMPETITION IN ARIZONA?

A. Qwest is facing significant competitive pressure in Arizona from facilities-based providers who target densely concentrated, high revenue residence and business customers. Facilities-based competitors such as Cox are targeting large housing developments, offering packages of services, including cable telephony, features, high speed Internet, and video as an alternative to Qwest wireline service.

In addition to competitive providers utilizing their own switches and loop facilities to deliver local exchange services, Qwest is also facing significant competition from competitors who purchase local wholesale connections from Qwest to deliver service with an emphasis on selling bundles rather than only basic local service. Resale, wireless, and new technologies such as VoIP are other forms of competition now being used to provide consumers with alternatives to Qwest's local exchange service. In the testimony that follows, I focus on the competition currently present in the Phoenix and Tucson areas.

A. COMPETITIVE LANDSCAPE

In Phoenix and Tucson, Qwest's primary CLEC competitors include (but are not limited to) Cox, AT&T, Eschelon[10], MCI, McLeodUSA, SBC, Sprint, XO, Xspedius[11], and Z-Tel. Competitive alternatives to Qwest's wireline services are also available from wireless carriers and VoIP providers. Following is a brief description of the competitive offerings available to residence and business customers from these sources:[12]

Cox

In February 2004, Cox Communications announced it is now serving one million digital telephone subscribers nationwide: "Cox's successful seven-year history of providing primary line telephone service is key to its bundling strategy and has resulted in more than one million telephone customers. In Cox's most mature markets, one in three homes subscribe to Cox Digital Telephone."[13] In reporting fourth quarter and full year financial results for 2003, Cox stated:

[10] Based on publicly available information, Eschelon has limited its service area to the Phoenix market. If, through discovery issued in this proceeding, it is determined that Eschelon is also serving customers in Tucson, I will issue a supplement to this testimony or address the matter in Rebuttal testimony.
[11] Based on publicly available information, Xspedius has limited its service area to the Tucson market. If, through discovery issued in this proceeding, it is determined that Xspedius is also serving customers in Phoenix, I will issue a supplement to this testimony or address the matter in Rebuttal testimony.
[12] The following discussion is not intended to be a comprehensive view of competition in Arizona.

> We grew our Cox Digital Telephone customer base by 38 percent in 2003, with a record number of new phone subscribers added in the fourth quarter. Cox's telephone service is now available to 48 percent of our homes passed, and we will use VoIP technology and our IP backbone to further expand our footprint during 2004.[14]

According to the Business Journal of Phoenix, "Cox Digital Telephone has been available in Phoenix since 1998, making Cox the second-largest provider in Arizona. It's currently available to more than 700,000 Valley households."[15] The Business Journal also reports that Cox Communications "is a broadband communications company serving nearly 1.48 million residential and business service subscribers in Phoenix and Southern Arizona,"[16] illustrating the scale of Cox's potential telephony market.[17] A recent article in the Arizona Republic, entitled "Arizona is lucrative market for Cox," revealed that the number of Cox telephone subscribers has increased 57% since last year.[18] In June 2003, Cox announced the launch of Cox Digital Telephone in the Tucson - Green Valley area, making Cox's telephone service available to over 200,000 households in the greater Tucson area.[19] In a September 2003 article, the Tucson Citizen newspaper described the competitive telecommunications environment in that area of the state:

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[13] *Cox Communications Surpasses Five Million Digital Service Subscriptions*, February 12, 2004, www.cox.com, visited February 27, 2004. Since Cox began offering telephone service in Phoenix in 1998, it can reasonably be concluded that Phoenix falls within this category.
[14] *Cox Communications Announces Fourth Quarter and Full-Year Financial Results for 2003*, www.cox.com, visited February 27, 2004.
[15] The Business Journal of Phoenix, June 30, 2003.
[16] *Id.*
[17] While the exact number of Cox subscribers in Arizona is not publicly available, the Business Journal reported in July 2003 that Cox was currently serving 68,000 subscribers in Mesa. *Mesa threatens Cox with $142K fine*, http://phoenix.bizjournals.com, visited February 27, 2004.
[18] *Arizona is lucrative market for Cox*, Arizona Republic, March 17, 2004.

> Choices continue to multiply for Tucson telephone customers with the announcement yesterday (September 18, 2003) that AT&T plans to offer local service in Arizona. The residential phone market here has changed dramatically since 2001, when Qwest was the only company offering local service to residential customers. Since then, MCI has begun offering local and long distance service by leasing Qwest's lines. Cox Communications started offering local and long distance telephone service over its cable network.[20]

Cox offers a wide range of services to residential and business customers. In addition to stand-alone access lines, Cox offers residential customers a variety of popular calling features including Voice Mail, Call Forwarding, and 3-Way Calling, just to name a few. Installation of phone jacks and inside wiring is also available from Cox.[21] In addition, wire maintenance plans are available, as are line/feature packages such as the Cox Solution Package (consisting of one line and 15 calling features for $26.70 per month) and the Cox Connection-60 package. Priced at $29.95, this package includes the line, the same 15 features included in the Solution Package, 60 minutes of domestic long distance, and call management features such as Caller ID, Call Waiting, Selective Call Forwarding, and more.[22] Features are available on a stand-alone basis, without the requirement to purchase a package of services, if that's what the customer prefers.[23]

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[19] *Cox Expands in Arizona*, http://phoenix.bizjournals.com, visited February 27, 2004.
[20] *AT&T begins local service in Arizona*, Tucson Citizen, September 19, 2003.
[21] https://orders.cox.com/DigitalTelephone/feature_selection.asp, visited March 9, 2004. Inside wire and jacks may also be installed by the building owner, by an electrician, or by an independent contractor.
[22] www.cox.com, visited March 1, 2004.

Cox's Local Exchange services for business customers include lines, trunks, Centrex Service, ISDN-PRI, and Bundled Packages consisting of access lines, Custom Calling features, long distance, and High Speed Internet access.[24] Miscellaneous service offerings available from Cox include Toll Restriction, Temporary Suspension of Service – Customer Initiated, Number Referral Service, Cox also has a tariff on file for Switched Access and Dedicated Transport (Tariff No. 2) and InterLATA Service (Tariff No. 3).

Other services available from Cox include Message Telecommunication Service, Directory Assistance, Operator Assistance, Directory Listings, Emergency Services, Vanity Telephone Numbers, and Telecommunications Relay Service. Cox has a Competitive Response tariff on file with the Commission for residence and business customers, in addition to the Promotional tariff described below. The Residential Competitive Response Program allows Cox to waive the nonrecurring charge, up to two months of recurring rates, or both, on selected services determined by Cox. Amounts and types of the waivers may vary. In addition, qualifying residential customers may be eligible for waivers of intraLata and interLATA long distance charges. Waivers are not to exceed $100.00 per customer location.[25] The Business Competitive Response Program allow qualifying business customers to receive a maximum of either a waiver of the current nonrecurring charges, or up to

[23] www.cox.com/phoenix/telephone/pricing.asp, visited February 27, 2004.
[24] Arizona Tariff No. 1, Page 7, Effective February 2, 2001; Pages 111-112, Effective March 5, 2001.

two months of the current monthly rates, or both, on selected services as determined by Cox. In addition, business customers may receive waivers of intraLata and interLATA long distance charges.[26] Exhibit DLT-2 provides maps depicting the geographic coverage of Cox's footprint in the Phoenix and Tucson areas. The maps were developed by Qwest and are based on publicly available information regarding telephone service availability from the Cox web site and the areas shaded in red are areas in which Cox offers the "triple play" - cable television, cable modem and telephone service.

As developers respond to the state's housing boom with huge master planned communities in previously unserved areas such as Buckeye where 200,000 homes are planned, this choice in service providers is becoming increasingly apparent. Cox aggressively competes to become the preferred provider in these new developments with its bundles of digital cable, telephone and high speed Internet services. In 2003, Cox was named as the preferred provider for Verrado, an upscale community near the White Tank Mountains with 9,500 homes planned. Verrado's website highlights the services available from Cox:

> Verrado is a Cox Digital Community providing residents with the latest technology through Cox's state-of-the-art fiber-optic-based network. With Cox Digital Cable, Cox Digital Telephone and Cox High Speed Internet,

[25] Arizona Tariff No. 1, Pages 102 and 102.0.1, Effective June 8, 2001.
[26] Arizona Tariff No. 1, Pages 102.0.1 and 102.1, Effective June 8, 2001.

residents can enjoy access up to 250 channels, phone service and fast download speeds.[27]

Cox's pricing is very competitive with Qwest's local exchange rates. Cox offers residential customers a stand-alone access line for $13.00 per month, as well as a discounted additional line currently priced at $8.50 per month, and also offers numerous bundles consisting of local access combined with various feature packages as well as long distance options, as illustrated by the material obtained from Cox's Internet website included in Exhibit DLT-3. Residential customers who order telephone service in combination with Cox's Digital Cable or High Speed Internet Service pay only $11.75 per month per access line. Last year, Cox introduced two new residential long distance calling plans targeted to the Latino market in the state. The first plan offers Cox customers 60 minutes of free long distance calls to Mexico each month when they subscribe to Cox Digital Telephone with at least one added feature, such as Caller ID or Call Waiting, and Cox Digital Cable with TeleLatina, the Spanish-language program package. The second plan includes 120 minutes of free long distance calls to Mexico each month when customers subscribe to Cox Digital Cable with TeleLatina and Cox Digital Telephone with a feature package such as Active Lifestyle, which includes Call Waiting, Call Forwarding, Three Way Calling, Speed Calling and Busy Line Redial.[28] Exhibit DLT-

[27] www.verrado.com, visited March 1, 2003.
[28] http://phoenix.bizjournals.com/phoenix/stories/2003/09/08/daily29.html?t=printable, visited February 27, 2004.

4 provides a comparison of a sampling of Cox services to services offered by Qwest.

Late last year, Cox announced it is experiencing record growth in revenue and customer locations in the business market through its commercial broadband division.[29] "Cox is in a unique position in the commercial services arena," said Bill Stemper, vice president of Cox Business Services in Atlanta. "All of our pieces --- from the network we own and manage, to our architecture with built-in reliability to the business solutions and expertise we offer to small- and medium-sized business owners and enterprise alike --- contribute to the sense of trust that our customers have with us."[30] According to the Cox press release:

> A closer look at Cox's customers reveals its breadth of reach – encompassing enterprises, small and medium businesses as well as government properties and teleworkers/home offices. Many school systems and air force bases, hospitals, enterprise and airports, law firms and teleworkers trust Cox for the delivery of circuit-switched telephone and long distance services, high-speed Internet access, web hosting, VPN and data transport services. Approximately 40 percent of Cox's commercial services customers choose to bundle their voice and data services, according to company research. [31]

Cox's website highlights the business offerings available to Tucson customers:

[29] A Cox customer location is a single business location with one or more active Cox data, voice or transport services on one or more accounts. Video-only business customers are not included in these figures.
[30] www.coxbusiness.com/PR/03-1027.html, visited March 1, 2004.

> NEW FOR TUCSON BUSINESSES: DIGITAL VOICE PRODUCTS SO RELIABLE, THEY'LL LEAVE YOU SPEECHLESS
> Introducing a new way to help your business run more efficiently – digital phone service from Cox Business Services. Unlike other providers, we manage and maintain our own fiber-optic network, which allows us to offer all the services you need including voice and Internet, all at competitive prices. You can keep your current phone numbers and move them to our network with no activation fee. Plus, we provide responsive, 24/7 customer service and network monitoring, which is comforting when you're running a business that relies on clear, consistent phone service. We have a variety of digital telephone and Internet options to fit any business. Sign up for one year of both services and you'll get FREE installation and activation on all Cox digital telephone lines, 200 FREE long distance minutes per month for a year, and for a limited time, your choice of THREE FREE features.[32]

Exhibit DLT-3 contains an advertisement that appeared in the July 30, 2003 edition of the Arizona Republic, in which Cox promises businesses they can save up to $1,000 by bundling Cox Digital Telephone and high speed data services, in addition to receiving free installation. Business local lines are available for $30.00 per line per month; however, as indicated above, Cox regularly offers incentives for customers who purchase bundles of services. As material in Exhibit DLT-3 demonstrates, customers selecting the bundle described above will not only receive free installation, long distance minutes, and features, they will also receive a discounted monthly rate of $28.00.[33]

Cox's tariff contains generic promotional language:

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[31] *Id.*
[32] http://coxbusiness.com/hellotucson/, visited March 1, 2004.
[33] www.coxbusiness.com, visited March 1, 2004.

> The Company, from time to time, may make promotional offerings of its services which may include waiving or reducing the applicable charges for the promoted service. The promotional offerings may be limited as to the duration, the date and times of the offerings and the locations where the offerings are made.[34]

Cox regularly waives the service activation charge for residential customers as well. At the time this testimony was being prepared, residential customers in Phoenix could take advantage of a special Cox offer and receive free activation, plus a free first month of Call Waiting, Caller ID or Call Waiting ID.[35] Tucson customers could receive free installation and three months free Call Waiting and Caller ID.[36] According to Cox's tariff on file with the Commission, the current line connection charge is $24.95 for Residential customers and $50.00 for Business customers.[37] Residence customers may also have the option of "FastConnect" which is an optional line connection service offered in situations where the customer need not be at home to complete the service installation. It is $9.95. In addition, Cox residence customers may qualify for a complete waiver of nonrecurring charges with the Premium Service Connect. This option is offered to customers that subscribe to an access line, the Solutions feature package, and an optional long distance call plan with an associated monthly recurring charge.[38]

[34] Cox Arizona Telcom Tariff No. 1, Page No. 102, Effective June 8, 2001.
[35] www.cox.com, visited February 27, 2004.
[36] www.cox.com/Tucson/Telephone, visited March 1, 2004.

Cox regularly positions its services as being superior to Qwest's in its advertisements. For example, on its website, Cox proclaims: "Cox Digital Telephone Gives You Significant Savings Over Qwest," "Save Every Month Over Qwest," and "Enjoy the Same Popular Features For Less." The website includes a chart comparing the price of Cox's lines and features to those offered by Qwest and calculates the "percent savings" for consumers who sign up with Cox. A sample is included in Exhibit DLT-3. A large, full color advertisement distributed to Phoenix consumers in February 2004 (a copy is included in Exhibit DLT-3) contains this same price comparison chart with verbiage advising the consumer: "If you have Qwest phone service, you're paying more than you have to. ... Pay less than you're currently paying Qwest." A direct mail piece sent to a Scottsdale consumer, also included in Exhibit DLT-3, explains that with Cox Digital Telephone service, customers may enjoy their favorite features for less than they're paying Qwest. Neighborhoods are blitzed with Cox door hangers and direct mail advertisements on a regular basis, as Cox makes it known that its services are direct substitutes for Qwest's services.

Q. HAS THE ARIZONA CORPORATION COMMISSION STAFF OFFERED AN OPINION AS TO WHETHER COX IS OFFERING SUBSTITUTABLE SERVICES TO QWEST'S?

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[37] Cox Arizona Telcom Tariff No. 1, Page No. 60, Effective December 15, 2002.
[38] *Id.*

A. Yes. At page 25 of his Direct Testimony in Docket No. T-00000A-03-0369, the TRO proceeding, Matthew Rowell, Chief Economist for the Utilities Division of the ACC testified as follows:

> **Q. Does Staff believe that Cox should be included in the Trigger analysis?**
>
> A. Yes. Based on the factors laid out in the TRO, Cox should be included in the Trigger analysis. Footnote 1549 of the TRO states that when evaluating whether intermodal competitors should be included in the Trigger analysis, "states should consider to what extent services are provided over these intermodal alternatives are comparable in cost, quality and maturity to incumbent LEC services." **Clearly, Cox's offerings are comparable in cost, quality and maturity to Qwest's.** (emphasis added) Thus, Cox should be included in the Trigger analysis.[39]

There can be no doubt that Cox is a very significant competitor to Qwest in Phoenix, Tucson, and surrounding communities.

AT&T

AT&T offers a wide range of services to all classes of customers. The company's website indicates it has solutions designed to meet all personal communication needs (at home and on the go), as well as the needs of small, medium, large and

[39] Direct Testimony of Matthew J. Rowell, Docket No. T-00000A-03-0369, January 30, 2004.

1 global businesses, and government agencies. It also offers wholesale and wireless
2 services.[40] (See Exhibit DLT-5 for web page.)
3
4 On February 4, 2004, the company announced a $200 million global brand and
5 advertising campaign aimed at residential, business, and government customers.
6 According to the press release announcing the campaign, AT&T has invested
7 billions of dollars in its network infrastructure and portfolios to deliver bundled
8 services and applications to its 35 million residential customers and networking
9 services and solutions to its nearly 4 million business customers.[41] The new ads are
10 designed to "illustrate how AT&T is delivering sophisticated networking solutions to
11 meet business customers' needs" and "position AT&T as a major provider of
12 (residential) bundled services, moving far beyond traditional voice long distance
13 service to include local, Internet, broadband, wireless and international calling."[42]
14 "AT&T offers one-stop shopping for local, long distance, wireless and the Internet –
15 including our recently announced Voice over IP service," commented Kevin Crull,
16 senior vice president of marketing and sales for AT&T Consumer. "Our spots will
17 demonstrate compelling reasons to choose AT&T and differentiate us from the
18 crowd with benefits that are most important to customers. We have a brand that's

[40] www.att.com, visited February 26, 2004.
[41] AT&T News Release, *AT&T Launches Global Brand and Advertising Campaign*, February 4, 2004, www.att.com, visited February 26, 2004.
[42] *Id.*

1 continuing to evolve but one that consumers know and trust."[43] Examples of AT&T's
2 advertisements are included in Exhibit DLT-5.
3
4 In Arizona, AT&T is actively promoting its "All in One® Advantage" plan for small
5 businesses (see Exhibit DLT-5 for advertisement that appeared in the February 26,
6 2004 edition of the Arizona Republic). This plan provides unlimited in-state direct
7 dialed calling, unlimited state-to-state direct dialed calling, and unlimited local calling
8 plus Call Waiting, Call Forward Variable, 3-Way Calling, Call Forward Busy, and
9 Speed Dial 8 for $56.95 per line per month. I have confirmed, through AT&T's
10 website (www.att.com), that the plan is available in Phoenix and Tucson. A variation
11 on the "All in One" plan (AT&T All in One Plus) provides unlimited local calling for
12 $31.80 per month, with low per minute long distance rates. Free installation is
13 currently available with both of these plans and, in addition, the All in One Plus plan
14 comes with 360 long distance minutes on a promotional basis.[44] Last year, AT&T
15 named Phoenix as one of six markets where it is specifically targeting entrepreneurs
16 and small businesses, promoting the "All in One" plan. "We've always put a priority
17 on small business," according to Judi Hand, the Phoenix-based head of small and
18 mid-markets business for the company in an article in The Business Journal of
19 Phoenix. "Recently, we've been expanding our product portfolio, but some small
20 businesses are not even aware that they have a choice when it comes to local

[43] *Id.*
[44] http://businesssales.att.com, visited February 26, 2004.

telephone service. We've made an investment in getting the word out that the product line is available." Hand is quoted as stating that AT&T provides local services to businesses in more than 70 percent of Arizona.[45]

In addition, AT&T offers "AT&T Business Network ("ABN")" which provides an "end to end experience from a trusted single provider, AT&T." According to the company's website, ABN offers the full breadth of networking services including IP, Local, High Speed Packet, Access and Voice – full featured, local-to-national-to global.[46] This service allows companies that are directly connected to AT&T's facilities to gain special economies, including the lowest per-minute usage rates, volume discounts, and surge discounts.[47]

AT&T's merger with TCG in 1998 provided it with access to TCG's fiber facilities in Phoenix and surrounding communities, facilitating its entrance into the local exchange market. TCG, which primarily marketed integrated packages of telecommunications services to business and government customers, continues to have a tariff on file with the Commission, offering a full range of dedicated access and local exchange services. Business customers are able to purchase service out of either company's tariff, selecting from a full menu of business products, including

[45] *AT&T calling on small business*, The Business Journal of Phoenix, June 27, 2003.
[46] www.business.att.com, visited February 26, 2004.
[47] www.buiness.att.com/products/productdetails, visited February 26, 2004. Regarding "surge discounts," AT&T states: "If your network usage skyrockets for some reason - during your busiest month or due to a special project - a special

analog access lines, trunks, features, wire maintenance, directory listings, operator service charges (including Directory Assistance), ISDN, DS-1 Digital Facilities, Private Line Local Channels[48], Private Line services, MTS services, WATS services, Digital Link Access Service, and Billing Name and Address Service.[49]

AT&T also offers several rate plans for residential customers. Consumers can select from "Local Only" plans or from a variety of packages comprised of different combinations of features and/or long distance services. Examples of residential plans include:

i. Call Plan Unlimited - $19.95 per month provides unlimited local calling

ii. Call Plan Unlimited Plus - $14.95 per month provides unlimited local service when the customer selects AT&T as its primary interexchange carrier

iii. Call Plan Unlimited with Two Feature Package Enhanced - $21.95 per month

iv. Call Plan Unlimited with Three Feature Package Enhanced - $23.95 per month

v. AT&T One Rate USA Plan - $43.95 per month (includes local line, Four features, unlimited direct dial long distance and local toll)[50]

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additional discount will apply to virtually all your network spending. It will help take the edge off your extra expenses. (Consider it a "thank you" for the extra business, too.)"

[48] Includes ACCUNET T1.5 Local Channel Services, Digital Data Local Channel Services, AT&T Regional Frame Relay Service, Sonet Services, and others. AZ 11 Tariff.

[49] Arizona Local Exchange Services Tariff, AZ 11 – Private Line Local Channels, AZ 9 – Private Line Services, AZ Telecommunications Services Tariff, and AZ-Access Service and Network Interconnection Services.

[50] AT&T Communications of the Mountain States, Residential Local Exchange Services Tariff, Section 5, Effective July 18, 2003; www.local.att.com, visited February 26, 2004 and March 9, 2004.

In addition, AT&T makes calling features such as Call Forwarding, Call Waiting, Caller ID, Custom Ringing, and Three Way Calling available to Arizona residential customers. Directory Listings, including Additional listings, Non-Listed listings and Non-Published listings are also available, as are several variations of Voice Messaging service.[51] Toll Restriction, Call Blocking options, Directory Assistance, and Operator Services are also available.[52] In addition, Residence customers may subscribe to AT&T's Maintenance Plans. For example, the AT&T Complete Maintenance[sm] Plan provides complete maintenance coverage of telephone equipment and inside wiring for $5.95 per month. The Inside Wire Maintenance Plan is an optional warranty program that provides labor and material costs for repairs to inside wire and jacks for $3.95 per line per month. The AT&T Telephone Protection Plan provides for the repair or replacement of damaged or broken equipment. It is available for $3.95 per month.[53] AT&T's Residential Local Exchange Services Tariff contains non-recurring charges for initial premises visits, labor charges, Network Interface Devices, and jacks.[54] Exhibit DLT-5 includes material from AT&T's website describing in more detail several services the company makes available to Arizona consumers.

[51] www.usa.att.com/localhelp/az/call_features.html, visited March 9, 2004.
[52] Residential Local Exchange Services Tariff, Section 5.
[53] www.usa.att.com/localhelp/az/maint_plans.html, visited March 9, 2004.
[54] Price List, Section 5, Pages 1 and 4, Effective July 18, 2003.

Section 3 of AT&T's Residential Local Exchange Services Tariff specifies the company offers residential service in 72 specific wire centers within Qwest's service territory in Arizona, including wire centers in Phoenix and Tucson. The company's website confirms that these services are available in Phoenix and Tucson. Exhibit DLT-4 provides a comparison of a selection of AT&T services to services offered by Qwest.

Section 4.1 of AT&T's Residential Local Exchange Services Tariff contains language which allows the company to conduct promotions in Arizona. The tariff states:

> From time to time, the Company will introduce promotional offerings. The Company may offer services at a reduced rate, or offer incentives including gift certificates and coupons for promotional, market research or rate experimentation purposes.[55]

With the flexibility afforded by this tariff, AT&T has conducted numerous promotions in Arizona since it introduced its residential local service offering in July, 2003. For example, a promotion that ended February 1, 2004 provided for waiving the service charge associated with installation of new residential AT&T Local Service.[56] Another promotion, running from August 1, 2003 through February 1, 2004, provided AT&T with the ability to bestow various items of merchandise, Phone

[55] Price List, Section 4, Page 1, Effective July 18, 2003.

Cards, and/or certificates not to exceed $50.00 in value to customers who ordered AT&T Residential Local Service.[57] These are just a few samples of the aggressive marketing efforts AT&T is conducting as it competes with Qwest in the residential local exchange market.

Exhibit DLT-5 contains samples of television and newspaper advertising that AT&T has run in Phoenix and Tucson markets, promoting its unlimited local and long distance offering for residential customers. The ads proclaim "AT&T Local Service is Here" and "You can choose your local phone company." The "Caveman" ad ran four times in the Arizona Republic – Gazette between October 6 and 14, 2003; the television advertisement appeared 32 times between October 6 and November 2, 2003 on KSAZ; and the "Baby Condor" print ad appeared four times in the Tucson Arizona Daily between October 20 and October 27, 2003. There can be no doubt that AT&T is aggressively competing for customers in the Phoenix and Tucson markets.

Eschelon

Eschelon is a facilities-based provider who touts itself as "an integrated communications provider of voice, data, and Internet services, business telephone systems and equipment for businesses" and "one of the fastest growing telecom

[56] Price List, Section 4, Page 11, Effective July 18, 2003.

1 companies in the US." [58] The company serves 12 markets in seven states.[59]
2 According to a recent profile in www.upsizemag.com, Eschelon is one of only 10
3 CLECs in the country to generate positive free cash-flow. "We've been in business
4 for seven years, never shut down a market, never had a major lay-off, and serve
5 thousands of business customers," President and CEO Richard Smith is quoted as
6 saying. "For all those reasons, we're a company that's here for the long run."[60]
7 Eschelon targets the small- and medium-sized business market with a
8 comprehensive list of telecommunications and Internet products, including local
9 lines, long distance, business telephone systems, DSL, dedicated T-1 access,
10 network solutions, and web hosting.[61] Smith also indicated the company's product
11 line has gone through dramatic changes in recent years:
12
13 Just two years ago, the typical business would need five or six phone
14 lines, a couple of fax lines and a long distance product. Today, the
15 average customer is ordering packages with Internet access, voice and
16 data lines, and features, such as Caller ID, conference calling, and voice
17 mail, all delivered over a 24-channel pipe called a T-system.[62]
18
19 In February 2003, Eschelon introduced its Precision Integrated Access Service, an
20 offering that delivers voice and data services over a single T-1 circuit, geared toward
21 "businesses that have at least six voice telephone lines and want the speed and

[57] Price List, Section 4, Page 9, Effective July 18, 2003.
[58] www.eschelon.com, visited March 1, 2004.
[59] *Id.*
[60] www.upsizemag.com, November 2003.
[61] *Id.*

1 reliability of an affordable T-1 connection to the Internet."[63] The Precision telephone
2 lines allow customers to choose from over 20 features such as Call Waiting, Caller
3 ID, and Call Forwarding without an additional monthly charge. "The Precision
4 product enables small-medium sized businesses to manage their telecom services
5 efficiently and cost-effectively with the ease of working with a single provider," said
6 Bob Pickens, Eschelon's Executive Vice President of Marketing.[64] In December,
7 2003, Eschelon announced that it is provisioning in excess of 200,000 access lines
8 to the 38,000 business customers it serves in Minnesota, Arizona, Utah,
9 Washington, Oregon, Colorado, and Nevada.[65]
10
11 Eschelon opened its Phoenix office in April, 2000.[66] In November, 2000, Eschelon
12 completed the build-out of its switching facilities and collocations in 14 Phoenix
13 central offices.[67] The company's website, as well as its Arizona tariff, demonstrate
14 the wide variety of product offerings available to Phoenix area business customers.
15 Services identified in Eschelon's tariff include Eschelon Advantage Line Service, On
16 Network Premium Business Line Service (Premium Business Line, Premium
17 Seasonal Line, Premium Measured Service, Remote Call Forwarding), Precision
18 Integrated Access Service, Advantage, Premium and Precision Line Features,
19 Market Expansion Line, On-Network Local Voice T1 and Voice T1/PRI, On-Network

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[62] *Id.*
[63] www.eschelon.com, visited March 1, 2004.
[64] *Id.*
[65] *Id.*

First Eschelon T1 and First Eschelon T1/PRI Services, Directory Listings, Directory Assistance, Term and Volume Discounts, Long Distance Services, and Operator Services.[68] Eschelon's tariff also describes the company's Competitive Response and Affinity programs.[69] Exhibit DLT-6 provides additional detail on several of these services. Exhibit DLT-4 provides a comparison of a sampling of Eschelon services to services offered by Qwest.

Eschelon's tariff also contains verbiage allowing Eschelon to engage in special promotions. The promotional flexibility afforded Eschelon is similar to that described above for Cox. Specifically, Eschelon's tariff specifies:

> Company may, from time to time, engage in special promotions of new or existing Service offerings of limited duration designed to attract new Customers or to increase existing Customer awareness of a particular offering. The promotional offerings are subject to the availability of the Services and may be limited to a specific geographical area, to a subset of a specific market group or to customers who sign up for such Service on or after a particular date. Prior approval for promotional offerings will be obtained from the appropriate regulatory authority when required.[70]

Unlike Qwest, Eschelon is not required to obtain approval from the Commission for promotions exceeding $25.00 in value.

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[66] www.eschelon.com/about/historyAZ.asp. Visited March 1, 2004.
[67] *Id.*
[68] Arizona Tariff No. 3
[69] *Id.*
[70] Arizona Tariff No. 3, Sheet No. 37, Issued May 12, 2003.

McLeodUSA

McLeodUSA's fiber optic network spans 25 states, providing local, long distance, wireless, data and Internet service to rural and metropolitan areas. The company owns, operates, and maintains a full range of facilities on a national basis, including 44 voice switches.[71] In February, 2004, McLeodUSA reported year-end 2003 results, including the following customer platform statistics:[72]

2003	2002
65% - UNE-L[73]	52% - UNE-L
5% - Resale	15% - Resale
30% - UNE-M/P	33% - UNE-M/P

McLeodUSA also reported a reduction in revenue from the previous year, "primarily driven by the FCC mandated reduction in access billing rates and a lower customer base, of which approximately 28,000 customers valued at $9.5 million of revenue resulted from the Company's intentional drive to eliminate non-profitable customers."[74] It's apparent that McLeodUSA is not subject to Carrier of Last Resort requirements such as those imposed upon Qwest and is able to selectively choose the customers it serves.

[71] www.mcleodusa.com, visited March 1, 2004.
[72] *McLeodUSA Reports Fourth Quarter and Total Year 2003 Results*, February 18, 2004.
[73] These lines are provisioned through McLeod switches.
[74] *McLeodUSA Reports Fourth Quarter and Total Year 2003 Results*, February 18, 2004.

On January 21, 2004, McLeodUSA announced plans to deploy the next generation of Preferred Advantage services utilizing Internet Protocol (IP) technology. The new Voice-over-IP ("VoIP") platform will be launched early in the second quarter across the McLeodUSA network to initially offer McLeodUSA business customers an enhanced set of flexible features for their local, long distance and Internet services via McLeodUSA's highly successful Integrated Access product. McLeodUSA will also utilize VoIP to lower cost and enhance other Preferred Advantage services for both residential and business customers in the near future.[75]

McLeodUSA has been named the primary local telecommunications provider for 538 Walgreens stores with nearly 5,000 business lines in its 25-state footprint[76], including Arizona. K-Mart has also chosen McLeodUSA to provide local telephone services to 176 locations, including 2 distribution centers, in 14 Midwestern and Western states.[77]. Section 5 of McLeodUSA's Arizona Tariff No. 3 lists the cities and wire centers where McLeod is offering service, either over its own switch or through the use of network elements. The Tariff demonstrates McLeod is offering residential service in Phoenix and surrounding communities, including Agua Fria, Anthem, Chandler, Deer Valley, Glendale, Mesa, Scottsdale, and Tempe. Business services are available to a much wider geographic area, extending well beyond the

[75] *McLeodUSA Reports Fourth Quarter and Total Year 2003 Results*, February 18, 2004.

boundaries of Phoenix to include such communities as Camp Verde, Flagstaff, Gila Bend, Globe, Marana, Nogales, Pine, Sierra Vista, Tucson, and many others. McLeodUSA offers residence and business customers stand-alone as well as bundled offerings. The rate for a stand-alone residential access line is $19.95 per month. The rate for a stand-alone business access line is $34.95 per month.[78] In April, 2003, McLeodUSA announced that its Preferred Advantage[sm] portfolio of bundled packages was available to Arizona residential customers:

> Residential customers can sign up for attractive local and long distance services for their home and choose from a variety of packages which include the most popular features such as Caller ID and Call Forwarding. They can also select long distance calling plans with fixed buckets of minutes that allow for calls anywhere, anytime and to any domestic destination all for one flat monthly rate. Internet access may also be added at a discounted rate of only $14.95/month to the package of either local or long distance services. As an introductory offer, customers may be eligible to receive their first month of Internet service free. Additionally, optional services such as voicemail and calling cards are available.[79]

The "Value Preferred Package" for residence customers, consisting of local line switched service, Call Waiting, Three Way Calling, Call Forward Variable, Caller ID, Anonymous Call Rejection, Call Waiting ID, 900 Blocking, and a primary directly listing, is available for $30.95 per month. The "Premium Preferred Package," including residence local line switched service, Call Waiting, Three Way Calling, Call

[76] *McLeodUSA Selected as Primary Local Telecommunications Services Provider by Walgreens*, April 28, 2003;
[77] *McLeodUSA Selected as Primary Local Telecommunications Services Provider by Kmart*, August 11, 2003.
[78] Tariff Arizona No. 3, Sheet No. 100, Effective February 19, 2004, Sheet No. 108, Effective February 19, 2004.
[79] *McLeodUSA Expands Residential Communications Services Into Eight Additional States*, April 2, 2003.

Forward Variable Caller ID, Anonymous Call Rejection, Call Waiting ID, 900 Blocking, Last Call Return, Continuous Redial, Call Screening, Speed Call 8, and a primary directory listing, is priced at $32.95 per month.[80]

In July 2003, McLeodUSA launched its Preferred Advantage[sm] integrated access service platform geared toward small and medium-sized business customers with 6 – 20 voice lines. The product allows businesses to combine local, long distance and Internet services over a dedicated, digital facility.[81] The "Simple Preferred Package" for Small Businesses consists of a local switched line and three features for $41.95 per month.[82] Additional packages are available priced incrementally higher, based on the number of features included in the package. In addition to the above-referenced services, McLeodUSA offers Intercept Services, Local T1 Service, Dynamic T-1 Service, Dynamic PRI, PRI, Directory Service, Calling Card, Directory Assistance, Operator Services, Conference Calling Service, Long Distance and 800 Services, Market Expansion Line, and Private Switch Automatic Location Identification. Furthermore, McLeodUSA offers trouble isolation and wire care plans to its customers. The Trouble Isolation charge is $85.00 for residence customers and $95.00 for business customers. The Business Wire Care plan is $4.00 per month and the Residential Wire Care plan is $4.75 per month.

[80] Tariff Arizona No. 3, Sheet No. 108, Effective February 19, 2004.
[81] *McLeodUSA Launches Preferred Advantage[sm] Integrated Access Service Platform*, July 22, 2003.

Promotional offerings and term and volume discounts are also available.[83] McLeodUSA's tariff detailing its flexibility to promote reads as follows:

> McLeodUSA may from time to time engage in special promotions of limited duration. These promotions may be in the form of waiver or reduced recurring and nonrecurring fees, lowered usage charges, or other actions designed to attract new Customers or to increase existing Customer awareness of a particular service. All promotions will be offered on a non-discriminatory basis to eligible Customers.[84]

In addition, McLeodUSA has a tariff on file with the Commission detailing its intrastate access service offerings.[85] Details on several McLeodUSA offerings are provided on Exhibit DLT-7. Exhibit DLT-4 provides a comparison of several McLeodUSA services to services offered by Qwest.

MCI (f/k/a WorldCom)

MCI gained access to fiber facilities through its 1998 merger with WorldCom, including the Brooks Fiber assets WorldCom acquired in 1997. In April 2003, WorldCom began marketing itself under its new name, MCI. MCI's website states that the company has invested billions of dollars building its own local phone facilities in more than 100 metropolitan markets nationwide.[86] It has 20 million business and consumer customers, provides services to more than 75 U. S.

[82] Tariff Arizona No. 3, Sheet No. 100, Effective February 19, 2004.
[83] Tariff Arizona No. 3.
[84] Tariff Arizona No. 3, Sheet No. 60, Effective January 30, 2004.
[85] Arizona Access Tariff No. 1.

government agencies, and services a range of business customers from small businesses to the largest global enterprises.[87] MCI provides integrated local and long distance service to more than three million customers.[88]

MCI is addressing the Consumer marketplace through its integrated local and long distance offer, The Neighborhood.[sm] According to MCI's website, "the offering is profitable, growing, and taps into the $40 billion-a-year residential local service market.[89] The Neighborhood is available to residential customers in Arizona who presently have service on lines with Qwest or another carrier who provisions service either via resale or UNEs.[90] This clearly encompasses the Phoenix and Tucson markets. Neighborhood Complete, including unlimited local, local toll, and long distance calling with five features is available for $49.99 per month. Neighborhood Advantage 200, consisting of unlimited local calls and 200 minutes of long distance, is available for $37.99 per month.

MCI plans to address the business market with its "MCI Advantage" VoIP offering.[91] "Through MCI Advantage, we will continue to penetrate the revenue and profit-rich small and medium-sized business market," MCI states on its website. MCI Advantage provides local, long distance, and Internet access on a single connection

[86] http://global.mci.com/about/publicpolicy/localcompetition/promise, visited February 26, 2004.
[87] http://global.mci.com/about/company. Visited February 26, 2004.
[88] *Wireline Communications: MCI Back in Action*, Fulcrum Global Partners, November 5, 2003.
[89] http://global.mci.com/news/infodesk/forward/bizplan/, visited February 26, 2004.
[90] MCImetro Access Transmission Services, Inc. Arizona Tariff No. 1, Page 91.8, Effective April 16, 2002.

to MCI's IP network. "MCI Advantage replaces your existing analog local business lines, long distance service, and Internet connectivity into a single enhanced service that is flexible and expands as your business needs change," MCI further explains on its website.[92] MCI Advantage is available in over 90 major metropolitan areas where MCI owns local service facilities.[93] Evidence that the service is available in Phoenix is provided in the form of a customer testimonial by CSK Auto, one of the largest specialty retailers of automotive parts and accessories in the United States, headquartered in Phoenix:

> Although CSK Auto had tabled a migration to VoIP, they moved forward with an MCI Advantage solution after they learned more about the packaging, billing flexibility, and outstanding support infrastructure of MCI Advantage. Because the offering combined all the needed elements, they found the efficiencies they were looking for – and there was no need to replace existing phones. Ms. Montgomery (Director of Network Services for CSK) explains, "when I looked at MCI Advantage, I saw a one-stop shop. One predictable monthly price for local, domestic long distance, and IP, with consolidated billing, makes it easier for me to budget my telecom costs." She went on to say, "MCI Advantage's nationwide fixed pricing enables CSK Auto to make better business decisions because we are better able to control and project our costs."[94]

MCI suggests MCI Advantage may reduce operating expenses by leveraging a customer's investment in its existing MCI data network for its local and long distance calling. "You may see additional savings through reduced access charges, reduced

[91] http://global.mci.com/news/infodesk/forward/bizplan, visited February 26, 2004.
[92] http://business.mci.com/small_business/business_solutions.jsp, visited February 26, 2004.
[93] http://business.mci.com/small_business/local_long_distance/mci_advantage_faq.jsp, visited February 26, 2004.
[94] Case Study, www.mci.com, visited February 26, 2004.

move/add/change costs, simplified network and trouble management, unlimited intra-company voice calling and inexpensive off-net calling rates, " according to the company's website.[95] The company offers a 30-day Satisfaction Guarantee, providing a full 30 days after initial service turn-up to try out the service. If the customer is not satisfied, they will be provided credits and assistance in switching to another carrier.[96]

Business customers in Phoenix and Tucson may choose from a number of business solutions offered by MCImetro, MCI WorldCom Communications, and MCI WorldCom Network Services. MCImetro Access Transmission Services's tariffs include: Tariff # 1 – Local Exchange, Tariff # 3 – End-User Local Exchange Communications Services,[97] Tariff # 4 – General Exchange Carrier Services,[98] and Tariff # 5 – Private Line and Special Access Telecommunications Services. MCI WorldCom Communications' tariffs include: ACC #1 – Intrastate Telecommunications Services[99], ACC #2 – Intrastate Telecommunications Services,[100] and ACC #4 – Operator Services. MCI WorldCom Network Services has Tariff CC #1 – Intrastate Telecommunications Services on file with the

[95] http://business.mci.com/small_business/local_long_distance/mci_advantage_faq.jsp, visited February 26, 2004.
[96] *Id.*
[97] Resold Local Exchange Services for business. Includes Lines, Trunks, Features, DID, Listings, Operator Services, Directory Assistance, and Local Calling Services.
[98] Contains services previously offered under Brooks Fiber's tariff. All services are grandfathered to existing customers.
[99] MTS, Toll Free, and associated services.
[100] Dedicated Leased Line Service, Metered Use Service

Commission.[101] MCImetro's Arizona Tariff No. 1 specifies that Local Exchange service is available in 25 Phoenix area and six Tucson area exchanges.[102] A flat rated business "local line" is priced at $32.78 per month. Trunks, in various configurations, are also available. Other services offered in Tariff No. 1 include: Directory Assistance, Operator Assistance, Directory Listings, ISDN, digital trunks, FX Service, residential service (including directory assistance, directory listings, blocking features, pay per use features, and optional features), small business plans (including operator services, directory assistance, directory listings, blocking features, pay per use features, and optional features), and other miscellaneous local/toll plans.

MCI's website highlights the "MCI Business Complete" offerings. Business Complete Unlimited provides for unlimited long distance, local toll, and local calls, popular features at no extra charge, and hunting/rollover for all lines for $59.99 per month. MCI Business Complete Advantage, which includes the same components as the Unlimited plan, absent unlimited long distance, is available for $34.99 per month. This plan provides for a low rate on all long distance calls. More detail on MCI's offerings to residence and business customers in Phoenix and Tucson is provided in Exhibit DLT-8. Exhibit DLT-4 provides a comparison of several MCI services to services offered by Qwest.

[101] Private Line Services, including Digital Data Service, DS-0, DS-1, Fractional T-1Service, Message Telecommunications Services

MCI's promotional tariff affords it great flexibility in marketing competitive offerings. It reads:

> The Company, from time to time, may make promotional offerings of its services which may include waiving or reducing the applicable charges for the promoted service. The promotional offerings may be limited as to the duration, the date and times of the offerings and the locations where the offerings are made.[103]

Within the past year, MCI has conducted at least 60 different promotions for broad categories of customers, covering such products as residential local services, business local services, long distance services, T-1's, and PRI Service. MCI has waived monthly service charges and installation charges, provided discounts off total invoiced charges, and provided free features for three months, just to name a few examples. Through its promotional tariff, MCI has the ability to freely promote its product and service offerings without first seeking Commission authority.

Exhibit DLT-8 also contains samples of print and television advertisements MCI sponsored in 2003, promoting its residence and business products. The company heavily advertises its "The Neighborhood" service on national cable television, including ESPN and CNN. MCI's advertisements focus on the freedom of choice consumers have in selecting an alternative local service provider and the advantages of its network for business customers.

[102] MCImetro Access Transmission Services LLC, Arizona Tariff No. 1, Page No. 62, Effective August 22, 2003.

SBC

SBC companies currently serve 57 million access lines nationwide. In addition, SBC companies own 60 percent of Cingular Wireless, which serves 22 million wireless customers.[104]

SBC's Arizona tariff indicates the company will provide service in the following communities[105]:

Agua Fria	Eloy	Paradise Valley
Buckeye	Florence	Phoenix Metro
Casa Grande	Fort McDowell	Superstition
Cave Creek	Green Valley	Tubac
Circle City	Higley	Tucson
Coolidge	Marana	Vail
Coronado	Maricopa	Wickenburg
Deer Valley	New River	

[103] MCImetro Access Transmission Services LLC, Arizona Tariff No. 1, Page No. 92, Effective June 23, 1997.
[104] www.sbc.com, visited March 3, 2004.
[105] SBC Tariff No. 1, Page 47, Effective November 10, 2001.

SBC's website contains a map, included in Exhibit DLT-9, which illustrates its service territory. The webpage indicates SBC Telecom provides local services in top metropolitan areas, including Phoenix and Tucson. According to the website, the Phoenix service area includes: Buckeye, Cascabel, Eloy, Gila Bend, Oracle, Pisinemo, Casa Grande, Chandler, Florence, Harquahala Valley, Phoenix, San Carlos, Sun City, Tempe, and Wickenburg. The Tucson service area includes Ajo, Catalina, Green Valley, Lukeville, Oro Valley, Queens Well, Santa Rosa, Sasabe, Sells, Topawa, and Ventana.

"SBC Phone Solution for Business" provides the customer with an access line and 13 features for $42.00 per month.[106] "Basic Business Line" service, SBC's stand-alone access line, is available to businesses purchasing five or more lines at a single location or to customers who have purchased another SBC local service offering. It is priced at $29.00 per line per month.[107] SBC also offers optional features for businesses.[108]

"SBC Phone Solution for Residence" provides the customer with an access line and 15 features. It is available for $30.00 per month.[109] Optional features are also available.[110]

[106] SBC Tariff No. 1, Page 49, Effective May 18, 2001 and Page 59.1, Effective September 3, 2003.
[107] SBC Tariff No. 1, Page 50.1, Effective May 18, 2001 and Page 59.1, Effective September 3, 2003.
[108] SBC Tariff No. 1, Section 4.
[109] SBC Tariff No. 1, Pages 52 and 59.2, Effective May 18, 2001.
[110] *Id.*

In addition to the above services, SBC offers Directory Listings, Operator Services, Directory Assistance, and Packet Data Services.[111] SBC also offers intrastate access services in Arizona.[112] Additional information on SBC's services is provided on Exhibit DLT-9. Exhibit DLT-4 provides a comparison of a sampling of SBC services to similar services offered by Qwest.

Sprint

Sprint provides local services in 39 states and the District of Columbia and operates the largest 100-percent digital, nationwide PCS wireless network in the United States.[113] In August, 2003, Sprint introduced its portfolio of local, long-distance, and nationwide wireless bundles, Sprint Complete Sense[sm]. In a company press release, Sprint indicated the new bundle "will be offered to approximately 80 percent of U.S. households in selected markets in 36 states and the District of Columbia. This complements the other bundled offers already available to approximately five percent of the country through the Local Telephone Division of Sprint."[114]

"Sprint's portfolio of assets provides the ability to package the most valuable services requested by our customers. The Sprint Complete Sense product line is

[111] SBC Tariff No. 1, Sections 5, 6, and 11.
[112] SBC Tariff No. 2.
[113] www.sprint.com, visited March 3, 2004.

unique in that it offers customers several service packages – including an unlimited wireless option," said Len Lauer, president of the PCS Division of Sprint.

Initially offered to consumers, Sprint quickly followed up with a "Complete Sense" offer for businesses. In a September, 2003 press release, Mr. Lauer explained the company's plans to serve business customers: "Small businesses need to make the most of all their telecommunications services, whether they are local, long-distance or wireless. Sprint's combination of wireline and wireless services helps businesses be productive in the office and on the go. Sprint has an integrated communications portfolio-ranging from local to long-distance, wireline to wireless, voice to data – for businesses of all sizes."[115]

Sprint's Arizona tariff indicates residential Local Exchange Service is available in Qwest wire centers identified as UNE Zone 1. Exhibit DLT-10 contains a list of wire centers by Loop Rate Group from the Arizona Statement of Generally Available Terms and Conditions for Interconnection, Unbundled Network Elements, Ancillary Services, and Resale of Telecommunication Services Provided by Qwest Corporation in the State of Arizona ("SGAT") (Fourteenth Revision). This exhibit demonstrates that Phoenix, Tucson, and surrounding areas are included in UNE Rate Group 1.

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[114] *Sprint Moves Forward with Portfolio of Local, Long-distance and Nationwide Wireless Bundles; FCC UNE-P Order Encourages Expansion of Successful Sprint Trials*, August 27, 2003.

Sprint's Complete Sense[sm] ("SCS") portfolio for Arizona residential customers includes the following:[116]

	SCS Unlimited With PCS	**SCS Unlimited II**	**SCS 250**	**SCS 50**
Local	Unlimited	Unlimited	Unlimited	Unlimited
Local Toll/Long Distance	Unlimited	Unlimited	250 minutes	50 minutes
Wireless	Unlimited	5% discount	5% discount	N/A
Voicemail	Included	Included	$5.99/Mo.	$5.99/Mo.
Features	Includes 4 Custom Calling Features	Includes 4 Custom Calling Features	Includes 4 Custom Calling Features	Includes 4 Custom Calling Features
Monthly Price	$179.99	$49.99	$44.99	$34.99

Sprint Complete Sense[sm] residence customers can add discounted international rates for an additional $3.00 per month and additional lines are available to Sprint Complete Sense Plus customers for $19.99 per month.[117] The Service Connection Charge for Sprint Complete Sense[sm] is waived for those customers who retain their existing telephone number when switching their service to Sprint.[118] "Sprint Basic" service, which includes unlimited local calling is available for $34.99 per line per

[115] *Sprint Expands Local Service to Small Businesses Across the Country*. September 9, 2003.
[116] www.sprint.com, visited March 3, 2004, Sprint Local Exchange Tariff No. 4, Pages 55-63.2.3.
[117] Local Exchange Tariff No. 4, Page 62, Effective August 1, 2003.
[118] Local Exchange Tariff No. 4, Pages 57, 58, 63.1, 63.2, 63.2.1, 63.2.3.

month.[119] Sprint's tariff indicates its business Local Exchange Service is available in Qwest wire centers identified as UNE Zones 1 and 2. As shown on Exhibit DLT-10, UNE Zones 1 and 2 encompass over 72 wire centers, ranging from Phoenix and Tucson to areas such as Sedona, Sierra Vista, Yuma, and Flagstaff.

Arizona business customers may select from the following Sprint Complete Sense[sm] offerings:

	Premium	**Unlimited**	**Basic**
Local	Unlimited	Unlimited	Unlimited
Local Toll/Long Distance	Unlimited	Unlimited	Discounted
Voicemail box	One Included	$6.95 each	$6.95 each
Features	Includes 6 Custom Calling Features	Includes Call Forward-Variable, Hunting	Includes Call Forward-Variable, Hunting
Monthly Price	$89.95	$74.95	$39.95
Wireless	Unlimited calling or discount off a service plan	Unlimited calling or discount off a service plan	Unlimited calling or discount off a service plan

[119] Local Exchange Tariff No. 4, Page 54, Effective August 1, 2003.

Plans with discounted international calling are also available. "Sprint Local Business,[sm] which includes unlimited local calling, is available for $59.95 per line per month.[120]

In addition to the above-referenced services, Sprint offers Call Return and Repeat Dialing on a per-call basis. Other optional features, such as Caller ID with Name and Number, Three Way Calling, Call Waiting with Caller ID, and Speed Dial 8, may be purchased by business customers who subscribe to Sprint Complete Sense for Business[sm] bundles. In addition, Sprint offers Directory Assistance, Listing Services, Toll Restriction Services, Caller ID Blocking, Message Telecommunications Service, including numerous calling plans, WATS and 800 services, Private Line service, and Access service.

Sprint's presence in the large business market is evidenced by a press release issued in June of last year. TriWest Healthcare Alliance, a Phoenix-based managed-care support contractor that serves America's military in a 16-state region, reportedly selected Sprint to implement a data network and to deliver voice services to a call center located in Phoenix that handles about one million minutes of conversation per month. The multi-year agreement calls for Sprint to install a frame

[120] Local Exchange Tariff No. 4, Page 63.5, Effective August 1, 2003.

relay network and to provide a range of voice services.[121] Information on several Sprint services is included in Exhibit DLT-10. Exhibit DLT-4 provides a comparison of several Sprint services to similar services offered by Qwest.

Sprint has a generic promotion tariff on file with the Commission, similar to that of several other CLECs. It simply states:

> The Company may, from time to time, engage in special promotional service offerings designed to attract new Customers or to increase existing Customers' awareness of a particular Tariff offering. These offerings may be limited to certain dates, times and/or locations.

With this authority, Sprint is not required to file for approval of specific promotions or provide any advanced notice of its intent to run a promotion. Sprint is also able to target promotions to specific geographic areas.

XO

XO is a full-service provider of business communications services. Its product portfolio includes Voice services (including Local Services, Long Distance, Calling Card, Conferencing Services, Hosted IVR, and Advanced Directory), Internet access (including DSL, Dedicated Internet Access, Dial Access, and Security Solutions), Private Data Networking (including VPN, Private Line, Ethernet Services, and

[121] *TriWest Healthcare Alliance Selects Sprint to Help Deliver Access to Healthcare Services for Military Personnel in 16 States*, June 30, 2003.

MultiTransport Networking Service), Hosting services (including Web Sites), and Integrated services (including XOptions™ and Integrated Access).

On February 13, 2004, XO was selected as the winning bidder for the assets of Allegiance Telecom. The press release announcing the purchase emphasized the competitive advantages to XO:

> With the addition of Allegiance's network assets and customer base, XO will become the premier national facilities-based competitor to the regional Bell operating companies. The acquired assets are expected to add more than 100,000 customers to XO and XO has projected that its total revenues will be more than $1.6 billion. The combined company's network will have more nationwide connections to regional Bell operating companies' networks than any other CLEC, and double the points of presence ("POPs") within the 36 markets where both XO and Allegiance operate. XO believes that this extensive network will help XO improve delivery of service to customers, reduce network costs, improve operating results and better compete head to head with other companies in the nationwide local telecommunications services market.[122]

XO's markets include Phoenix and Tucson, as demonstrated on the network map included in Exhibit DLT-11. XO's family of Local Service products includes Basic Business Lines, Business Trunks, Centrex, Voice Messaging, ISDN PRI, Directory Listings, Directory Assistance and Operator Services, Private Switch/Automatic Location Identification, Remote Call Forwarding, Virtual Foreign Exchange, Local Volume Discounts, and TeleBlock®, a feature that automatically screens and blocks

[122] *Court approves Purchase of Allegiance Telecom Assets by XO Communications*, visited February 27, 2004.

outbound calls to comply with federal Do-Not-Call regulations.[123] XO's Local Volume Discount plans come in two forms, discounts based on actual monthly telecom spending and discounts applied to annual volume commitments, and the company promises discounts between 10% and 25% of its "already competitive Local Services base rates."[124] Other services offered by XO are identified above. In addition, XO's tariff includes hourly charges for repairing a customer-owned equipment problem and performing customer requested premises work.[125] Information on several XO products and services is included in Exhibit DLT-11. Exhibit DLT-4 provides a comparison of XO services to similar services offered by Qwest being treated in this filing.

XO's promotional tariff contains verbiage similar to many other CLECs' tariffs:

> The Company, from time to time, may make promotional offerings of its services which may include waiving or reducing the applicable charges for the promoted service. The promotional offerings may be limited as to the duration, the date and time of the offerings and the locations where the offerings are made.[126]

With this flexibility, XO may design and implement strategic offerings to be implemented whenever and wherever market forces dictate, unencumbered by regulatory limitations.

[123] www.xo.com/products/smallgrowing/voice/local/, visited March 5, 2004, ACC #1, Section 3.
[124] www.xo.com/products/smallgrowing/voice/local/volumediscounts/index.html, visited March 5, 2004.
[125] Local Telephone Exchange Services, ACC Tariff No. 1, Page 104, Effective March 3, 2001.

Xspedius

In August, 2002, Xspedius acquired virtually all of the assets of e.spire Communications. e.spire was an integrated communications company providing local and long distance services, dedicated Internet access, and advanced data solutions. ACSI, an e.spire subsidiary now known as Xspedius Fiber Group, provides network infrastructure in the United States. With the acquisition of e.spire, Xspedius now has an operating footprint in 52 markets spanning 24 states, plus the District of Columbia. Xspedius has an Internet point of presence ("POP"), ATM node, Lucent 5ESS switch, and a metrofiber network in Tucson. Exhibit DLT-12 contains a map depicting Xspedius' network configuration. The company has one office in Arizona, in Tucson.[127]

According to its website, Xspedius offers three local calling service options to businesses: (1) "Complete T" is a flat-rated, all-in-one service which provides 24 lines/trunks delivered over DS1 or PRI facility, which includes many enhanced local calling features for one low monthly fee. (2) "Complete Lines, Trunks, or Partial PRI" are unbundled offerings which allow the customer to select the number of lines and calling features that best meets a business's needs. (3) "Complete Xpress™" is

[126] Local Telephone Exchange Services, ACC Tariff No. 1, Page 88, Effective March 7, 2001
[127] www.xspedius.com, visited March 4, 2004.

a fully featured line or trunk not offered over a T1.[128] Digital Trunks and Enhanced DID Trunk Service are also available. In addition, Xspedius offers its "Complete Dynamic" plan for businesses with from four to 70 lines. This plan allows the business to select from business exchange lines, analog or digital PBX trunks, or ISDN PRI service.[129] Information describing these and other Xspedius offerings obtained from Xspedius' website and tariffs is included in Exhibit DLT-12.

Xspedius' Arizona tariff indicates the company offers service in 17 Tucson wire centers.[130] Xspedius' menu of service offerings available to business customers is very similar to that available from Qwest. Service offerings described in the tariff include: Basic Exchange Line Service, PBX Trunk Service, Digital PBX Trunk Service, DID Trunk Service, Hunting, CLASS features, Business Custom Services (same as Qwest's Custom Calling Services), ISDN/PRI, Payphone, Listing Services, IntraLATA Toll Services, and Operator Services. In addition, Xspedius' tariff identifies several "Optional Exchange Services," including e.spire Local Service Plus, e.spire Local Service, e.spire Local ISDN, Local Advantage Service, EZ LD Service, and others. Fixed term discounts apply to several services.[131] Directory Assistance is also available from Xspedius.[132] In addition, Xspedius has access service tariffs and private line tariffs on file with the Commission. Exhibit DLT-4

[128] *Id.*
[129] *Id.*
[130] Arizona Tariff No. 1, Page 53, Effective August 23, 2002.
[131] Arizona Tariff No. 1.
[132] Arizona Tariff No. 2, Page 47, Effective August 23, 2002.

provides a comparison of several Xspedius services to similar services offered by Qwest.

Xspedius also has the ability to offer services on a promotional basis. Its tariff reads:

> The Company may establish temporary promotional programs wherein it may waive or reduce non-recurring or recurring charges, to introduce present or potential Customers to a service not previously received by the Customers.[133]

This tariff gives Xspedius broad flexibility in responding to the competitive marketplace.

Z-Tel

Z-Tel is a Florida-based competitive local telephone company currently offering local telephone service in 46 states, including Arizona.[134] Z-Tel's flagship residential service, Z-LineHOME™, bundles local and long distance telephone service with popular calling features and proprietary features such as Find Me, a multiple-number call forwarding feature.[135] Z-Tel's portfolio for residential customers include: Z-LinePVA™ (Personal Voice Assistant, featuring "virtual" address book, voice emails, and voice dialing), Z-LineLONG DISTANCE™, Z-LineLONG DISTANCE

[133] Arizona Tariff No. 1, Page 95, Effective August 23, 2002.

500™, Z-Line 800, Z-LineHOME™ Unlimited, and Z-LineHOME™ Select.[136] Z-Tel's "Member to Member" service allows Z-Tel customers to call other Z-Tel customers without incurring per call usage charges or depleting the bundled minutes call allowance.[137]

Z-Tel differentiates residential service pricing by UNE Zones. For example, the price of the Z-LineHome Unlimited residential plan in UNE Zones 1 and 2 is $59.99 per month for the primary line, while the price for the same service in UNE Zone 3 is $79.99 per month. Z-LineHome Unlimited includes unlimited toll calling, local line and unlimited local calling, Primary Line Custom Calling Features Package (including Call Forwarding Variable, Caller ID with Name, Call Waiting with Caller ID with Name, Call Trace, Three-Way Calling and Speed Calling), and Member to Member Service. Secondary Line Custom Calling Features Package may be added for $4.95 per month.[138] These plans are described in more detail in the material provided in Exhibit DLT-13.

Z-Tel's website indicates it offers "reliable and innovative, integrated communications solutions" to businesses of all sizes, "whether you are a small

[134] https://purchase.z-tel.com/portal/ztel/troubleshoot/i/servicefaq.jsp, visited March 5, 2004.
[135] https://purchase.z-tel.com/portal/ztel/learn/i/about.jsp, visited March 5, 2004.
[136] https://www.getpva.com/eloa/getTN.do, visited March 5, 2004.
[137] Arizona Tariff No. 2, Section 10, Page 1.2, Effective November 5, 2003.
[138] Arizona Tariff No. 2, Section 10, Page 1.3, Effective December 1, 2003 and Page 1.3.1, Effective October 15, 2003.

business with five employees or a major enterprise with hundreds of locations throughout the U.S."[139] Z-Tel promises business customers that they can save an average of 20% over their current local service provider.[140] A Z-Tel Local Business Line (includes Hunting) in Arizona is priced at $29.00 per month.[141] Customers may add Calling Features such as Call Forwarding, Caller ID, Call Waiting, Three-Way Calling, Speed Calling, and Distinctive Ring, for an additional monthly charge per feature.[142] Bundled business offerings are also available. For example, Business Simplicity Service, which includes unlimited local and long distance calling through the Company's Personal Voice Assistant ("PVA") is available for $9.99 per month for the primary line and $39.99 per month for additional lines. The primary line includes the following features: Caller ID, Call Waiting, Three-Way Calling, Speed Dial, and Call Forwarding, as well as one voice mailbox.[143] Custom Calling feature packages, Toll Free Service, and Travel Card Service may be added to the bundle.

Z-Tel's Toll service is described in Arizona Tariff No. 1. Other services Z-Tel offers to Arizona consumers include: Remote Call Forwarding Service, Technician Dispatch (or Trouble Isolation), Inside Wire Maintenance, optional Calling features, Directory Assistance, Operator Services, Directory Listing Services, Intercept Referral Service, Toll Restriction Service, and Access services. Exhibit DLT-4

[139] https://purchase.z-tel.com/portal/ztel/learn/i/zlinebusiness.jsp, visited March 5, 2004.
[140] *Id.*
[141] www.z-tel.com, visited March 5, 2004, Arizona Tariff No. 2, Section 10, Page 1.10, Effective January 22, 2004..

compares Z-Tel's business and residential services to those Qwest's services being treated in this filing. Z-Tel's Arizona Tariff No. 2 indicates the company is providing service in 47 exchanges in the state, extending well beyond Phoenix and Tucson and surrounding areas.

Z-Tel's promotional authority may be found in Arizona Tariff No. 2:

> The Company may, from time to time, offer services in this Tariff at special promotional rates and/or terms. Such promotional arrangements shall be filed with the Commission when so required. All rates and terms contained in this Tariff shall continue to apply unless specifically addressed in the promotional agreements.[144]

This tariff gives Z-Tel great latitude in marketing its services in Arizona.

Wireless Carriers

Q. IS WIRELESS SERVICE NOW A GENERALLY-ACCEPTED MEANS OF PLACING AND RECEIVING TELEPHONE CALLS?

A. Yes. Wireless phones are now widely accepted by business and residential consumers for voice telephony. In addition, wireless providers are now augmenting their services with data applications such as dial-up wireless Internet access, text

[142] Arizona Tariff No. 2, Section 10, Page 1.10, Effective January 22, 2004.
[143] Arizona Tariff No. 2, Section 10, Page 1.4, Effective January 7, 2004.

messaging and image transmission to bring additional functionality to their services and to attract new customers.

Q. WHAT RECENT EVENT HAS STRENGTHENED WIRELESS SERVICE AS A VIABLE ALTERNATIVE TO TRADITIONAL WIRELINE TELEPHONE SERVICE?

A. On November 24, 2003, in response to an FCC mandate, wireless number portability was implemented in the top 100 MSAs in the country, which include the Phoenix-Mesa and Tucson MSAs. Wireless number portability will not only enable wireless subscribers to retain a preexisting wireless telephone number when changing service providers, it will also enable customers to retain their preexisting wireline telephone numbers when they elect to disconnect their wireline service entirely and rely on wireless service as their primary telecommunications service. This event will remove a barrier that may have prevented wireline customers from "cutting the cord" and substituting wireless service for traditional telephone service provided by Qwest.

Q. CAN YOU REPORT THE NUMBER OF WIRELESS SUBSCRIBERS IN THE STATE OF ARIZONA?

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[144] Arizona Tariff No. 2, Section 9, Page 1, Effective November 20, 2000.

A. Yes. According to the FCC's *Trends in Telephone Service* report, released May 6, 2004, there were 2,643,952 wireless subscribers in Arizona as of June 2003, a 10% increase from June 2002.[145] To put this in perspective, Qwest had 2,554,856 retail access lines in service in Arizona as of June 2003. In other words, the number of wireless subscribers in Arizona well exceeds the number of Qwest retail lines in the state.

Q. DO WIRELESS CARRIERS NOW PROVIDE SERVICE THROUGHOUT QWEST'S SERVICE TERRITORY IN ARIZONA?

A. Yes. While each wireless carrier does not typically provide direct service throughout the state (although customers are able to use "roaming" functions to use their wireless handsets even if they are not in their wireless carrier's primary service area), wireless carriers in the aggregate provide complete coverage of Qwest's wireline service territory.

Q. CAN RESIDENCES AND SMALLER BUSINESSES USE WIRELESS SERVICE AS A DIRECT SUBSTITUTE FOR QWEST WIRELINE SERVICE?

[145] *Trends in Telephone Service*, Table 11.2, May 6, 2004.

A. Yes. Wireless service is a clear alternative to Qwest wireline service for residential customers and smaller businesses, especially those that have employees that spend time both in and out of the office. For example, "on the go" businesses such as landscapers and real estate agents are prime examples of the types of small businesses that rely heavily on wireless service. Some wireless providers have expanded their wireless product offerings to include wireless Internet connectivity, "push to talk" functionality, and text messaging, features popular with residential and small business customers.

Q. WHICH WIRELESS PROVIDERS NOW OFFER SERVICE IN ARIZONA?

A. Numerous wireless providers now offer service in the state, and wireless service is available throughout Qwest's service territory. Wireless providers in Arizona include ALLTEL, AT&T Wireless, Verizon Wireless, Cricket Communications, Nextel Communications, Sprint, and T-Mobile.

Q. WHAT IS THE GEOGRAPHIC COVERAGE OF THE WIRELESS CARRIERS THAT OFFER SERVICE IN ARIZONA?

A. Exhibit DLT-14 contains wireless coverage maps for each of the carriers listed above. These maps were obtained directly from the Internet web sites of the

respective carriers on April 8, 2004.[146] While the scale and map formats tend to vary from carrier to carrier, these maps show that all of the above-referenced carriers offer service in the Tucson and Phoenix MSAs.

Q. ARE THE PLANS OFFERED BY THE WIRELESS CARRIERS PRICE-COMPETITIVE WITH QWEST'S LOCAL EXCHANGE SERVICE RATES?

A. Although wireless service is packaged differently than wireline service (i.e., wireless service typically includes a range of features, free long distance calling with the "home" coverage area of the provider, is often priced on a "block of time" basis, etc), wireless service is competitively priced for many customers. Wireless companies offer a variety of plans—local plans, regional plans, and national plans—with varying amounts of minutes included. Generally, wireless packages that include long distance and features start as low as $19.99 per month.

As a point of comparison, consider that in Arizona, Qwest's flat-rated local exchange residence line is priced at $19.68 ($13.18 basic rate plus $6.50 mandatory Subscriber Line Charge), excluding any charges for features or long distance. The comparable Qwest business rate is $36.90. T-Mobile offers customers in Phoenix and Tucson a $19.99 per month plan, which includes 60 "whenever" minutes, 500

[146] Wireless provider coverage maps tend to change frequently as the carriers add cell sites to expand coverage.

weekend minutes, no long distance or roaming charges, Enhanced Voice Mail, Built-In Paging, Call Waiting, Caller ID, Conference Calling, and Call Hold.[147]

AT&T now offers a wireless calling package of 600 "anytime" minutes and unlimited weekend minutes for $39.99 per month. This plan includes nationwide long distance, Voice Mail, Caller ID, Call Waiting, Three-Way Calling, and Call Forwarding.[148] Cricket offers a package of unlimited local and long distance calling, Caller ID, Call Waiting, Voice Mail, text messaging, and 3 Directory Assistance calls for $54.99 per month ($49.99 per month with automatic bill pay).[149] Nextel offers a "National Instant Connect 500" plan that includes 500 anytime minutes and unlimited night and weekend minutes for $49.99, which includes "free" nationwide long distance, 3-Way Calling, Call Hold, and Call Waiting.[150] This Nextel plan also includes unlimited "Direct Connect" minutes. "Direct Connect" is Nextel's coast – to – coast walkie-talkie service.

Sprint recently introduced a similar service, PCS ReadyLink, which allows quick, two-way walkie-talkie style communications over its nationwide PCS network.[151] In addition, Sprint offers several wireless calling plans, such as the $35.00 per month

[147] www.t-mobile.com, visited November 21, 2003.
[148] www.attwireless.com, visited November 21, 2003.
[149] www.cricketcommunications.com, visited March 29, 2004.
[150] www.nextel.com, visited November 21, 2003.
[151] www.sprint.com, visited November 21, 2003.

PCS Free & Clear – Nationwide plan which includes 300 "anytime" minutes, unlimited night and weekend minutes, nationwide long distance, no roaming charges, Voice Mail, Caller ID, Call Waiting, numeric paging, and Three-Way Calling.[152]

Alternatively, consumers may choose from a wide array of national and local wireless plans from Verizon Wireless, including the America's Choice 400 plan. This plan, priced at $39.99 per month, includes 400 "anytime" minutes, 1000 anytime mobile to mobile minutes, unlimited nights and weekends, 3-Way Calling, Call Forwarding, Call Waiting, Caller ID, No Answer/Busy Transfer, Text Messaging, and Voice Mail Plus.[153]

These examples are only a very small sampling of the wireless plans and services that are available to Arizona consumers. For the small business and residence customers that find value in the service attributes offered by the wireless carriers, a few of which are shown in the above examples, wireless service is clearly an attractive alternative to Qwest's wireline service.

Voice over Internet Protocol (VoIP)

[152] *Id.*

Q. IS VoIP SERVICE NOW AVAILABLE TO CONSUMERS IN ARIZONA?

A. Yes. In fact, I am aware of at least four vendors now offering VoIP telephony applications to consumers in Arizona. AT&T has announced that it offers a "suite" of VoIP products for business customers and recently announced plans to make VoIP services available to consumers nationwide in the first quarter of 2004.[154] Five Star Telecom is also a provider of VoIP products and services, offering service under the "earthphone" trade name. In addition, Vonage and Packet8 offer telephony services utilizing VoIP technology. Level 3 recently announced that Packet 8 is purchasing wholesale VoIP services from it and that it is rolling out two new residential VoIP services to wholesale customers such as cable operators, ISPs, enhanced service providers and IXCs to meet the demand for VoIP services in the residential market.[155] Exhibit DLT-15 contains excerpts from the web sites of each of these providers offering highlights of their respective VoIP services.

Q. DOES VoIP SERVICE FUNCTION IN A MANNER SIMILAR TO STANDARD CIRCUIT SWITCHED TELEPHONY?

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[153] www.verizonwireless.com, visited November 21, 2003.

[154] AT&T Jumps Headlong into VoIP Market, http://news.yahoo.com, visited December 15, 2003. AT&T Unveils Major Voice over Intenet Initiative: Will Expand Business and Launch Consumer Offers in 2004, http://www.att.com/news/item/0,1847,12627,00.html, visited April 28, 2004.

A. In general, yes. For example, the VoIP customer utilizes a standard telephone set to originate and receive telephone calls, and the dialing patterns are identical to standard wireline telephone service. The customer's telephone set is simply plugged into an interface device that enables the telephone call to be processed over a broadband connection via the Internet. Currently, VoIP providers do not pay Switched Access charges for this type of traffic, enabling VoIP providers to offer free or very low long distance rates. For example, Vonage offers free long distance within the continental United States and Canada.

Q. ARE THE VoIP OFFERINGS AVAILABLE IN ARIZONA PRICED COMPETITIVELY WITH QWEST'S LOCAL EXCHANGE SERVICE?

A. Yes. However, similar to the wireless/wireline pricing comparisons, direct comparisons between VoIP service and Qwest wireline services are not easily made. Vonage offers a "Residential Premium Unlimited Plan" priced at $34.99 per month that includes unlimited local and long distance calling within the U.S. and Canada, free Call Waiting, Voice Mail, Call Forwarding, Repeat Dialing, Call Transfer, and Caller ID. Alternatively, residential customers may subscribe to Vonage's "Unlimited Local/Regional Calling Plan" and receive unlimited local and regional service plus 500 nationwide and Canada long distance minutes, as well as

[155] *Level 3 Announces Wholesale VoIP Customer Agreement with 8x8,*

all of the features included in the Premium Unlimited Plan for $24.99 per month. Vonage's "Small Business Unlimited" plan, priced at $49.99 per month, provides unlimited local and long distance calling within the U.S., as well as a free fax line, free Call Waiting, Voice Mail, Call Forwarding, Call Transfer, and Caller ID. The "Small Business Basic Plan" provides all the same free features as the "Small Business Unlimited Plan," with 1,500 local and long distance minutes for $39.99 per month.

In addition, Vonage allows its customers to select the area code they would like assigned to them.[156] For example, a Vonage customer doing significant business volumes with Los Angeles customers may elect a Los Angeles area code. By so doing, all calls from Los Angeles customers to the Vonage customer are toll-free. Consumers subscribing to Vonage's service may also elect to keep their current phone number.

Another example of a VoIP service provider is Packet8. This VoIP provider offers its "Freedom Unlimited" residential plan for $19.95 per month. This plan provides several features and unlimited calling to anyone in the 50 states and Canada and Packet8 subscribers worldwide. Packet8's "Basic" Business plan, priced at $59.95, also includes a range of calling features, as well as 4,000 minutes of local and long

http://biz.yahoo.com/prnews/040330/latu006_1.html, visited March 30, 2004; *Level 3 Announces Residential VoIP Phone Services*, http://biz.yahoo.com/prnews/040329/lam075_1.html, visited March 29, 2004.

distance calling within the U.S. and Canada. Similar to the Vonage offering, Packet8 allows the customer to select the geographic "rate center," which allows incoming calls from customers in that geographic area to call the Packet8 customer toll-free.[157] Calls between Packet8 customers anywhere in the world are always free.

As stated previously, Qwest's stand-alone basic exchange rate, excluding features and long distance, is $19.68 for residence and $36.90 for business. For Qwest's residential and business customers with access to a broadband Internet connection and who use calling features and make long distance calls, these services represent a viable and price-competitive alternative to traditional local exchange service.

Q. DOES THE ARIZONA CORPORATION COMMMISSION REGULATE PROVIDERS OF VoIP SERVICES?

A. My understanding is that the Arizona Corporation Commission does not regulate pure VoIP telephony providers such as Vonage and Packet8. These providers take care to package and promote their services as being strictly on-premises hardware

[156] Available area codes in Arizona include 480, 602, and 623. Source: www.vonage.com, visited December 1, 2003.
[157] Available rate centers in Arizona include Phoenix and Tucson. Source: www.packet8.net, visited November 21, 2003.

and software solutions and rely on preexisting broadband transport obtained separately by the customer for origination and termination of telephone calls.

Q. IS VoIP REGULATED AT THE FEDERAL LEVEL?

A. The FCC recently released a Notice of Proposed Rulemaking to examine the appropriate legal and regulatory framework for IP-related services, including VoIP.[158] Earlier this year, the FCC found that a certain type of VoIP service offered by pulver.com is an unregulated information service subject to the FCC's jurisdiction.[159] FCC Chairman Michael Powell spoke to this issue at a recent FCC forum on VoIP:

> As one who believes unflinchingly in maintaining an Internet free from government regulation, I believe that IP-based services such as VoIP should evolve in a regulation-free zone. No regulator, either federal or state, should tread into this area without an absolutely compelling justification for doing so. Innovation and capital investment depend on this premise. The entrepreneurs seated before us depend upon this premise. In my view, we should come to this forum with a sense of regulatory humility – mindful that it is entrepreneurs, not governments, who came up with the idea of making high-quality, inexpensive phone calls over the Internet.[160]

[158] Notice of Proposed Rulemaking, WC Docket No. 04-36, FCC 04-28 (released March 10, 2004).

[159] *Petition for Declaratory Ruling that pulver.com's Free World Dialup is Neither Telecommunications Nor a Telecommunications Service*, WC Docket No. 03-45, Memorandum Opinion and Order, FCC 04-27 (released February 19, 2004).

[160] Opening Remarks of FCC Chairman Michael K. Powell, FCC Forum on Voice over Internet Protocol (VoIP), December 1, 2003, Washington D.C.

It is clear that Chairman Powell recognizes that in today's competitive marketplace, VoIP serves as an increasingly viable choice for consumers which should remain free from traditional forms of regulation.

Q. CAN YOU QUANTIFY THE NUMBER OF ARIZONA CONSUMERS NOW UTILIZING VoIP SERVICES IN LIEU OF QWEST LOCAL EXCHANGE SERVICES?

A. Since the VoIP providers are not regulated and are not required by any agency to report the size and composition of their customer bases, Qwest has no means of assessing the number of customers served by VoIP providers.

Like wireless services, VoIP service is now a competitive option consumers may select to serve their telecommunications needs, and additional VoIP options will soon become prevalent. While Qwest's empirical evidence in this proceeding is primarily focused on traditional wireline CLEC-based competition, the evidence set out in Qwest's direct testimony excludes information not directly available to Qwest of the number of lines served by CLEC-owned loop facilities, wireless services and VoIP services. However, the growing presence of VoIP services, as well as wireless services, is a further indication that the competitive paradigm is changing and that additional local retail service options for Arizona consumers are now available.

B. REGULATORY FLEXIBILITY

Q. HAS THE COMMISSION ESTABLISHED A MECHANISM TO BE USED IN RESPONDING TO COMPETITION IN ARIZONA?

A. Yes. Section R14-2-1108 of the Commission Rules specifies the procedures to be followed if a telecommunications company or the Commission believes a service should be classified as competitive. Petitioning parties are required to submit documentation in support of their contention that the service should be classified as competitive, including the number of alternative providers of the service, identification of the alternative providers, information on the ability of alternative providers to furnish substitutable services at competitive rates, terms, and conditions, and other indicators of market power. If the Commission finds that a service *is* competitive, the rules provide for streamlined regulation of that service.

Q. ARE QWEST'S COMPETITORS COMPETING ON A SERVICE BY SERVICE BASIS IN ARZIONA?

A. No. As I indicated earlier in my testimony, competitors are approaching customers with packaged offerings, integrating voice, data, internet, wireless, and in some instances, cable TV services. To be successful and retain customers, Qwest must

be able to respond in kind. Qwest cannot compete with only a handful of "competitive" products when our competitors have the flexibility to address a customer's entire telecommunications portfolio without the regulatory constraints unique to Qwest.

Furthermore, competition may occur throughout the state, as in the case of long distance, or it may be focused on discrete geographic areas within the state. Local service competitors, for example, are primarily targeting areas within Tucson and Phoenix where they can maximize their investment by reaching a high volume of customers in a concentrated area. With the exception of the few services which have already been classified as competitive, Qwest is obligated to charge state-wide rates for its products and services. State-wide rates are developed based on costs for the entire state, including high-cost rural areas. As the incumbent local exchange carrier, Qwest doesn't have the ability to "pick and choose" its customers and service area. To successfully compete, Qwest must have the ability to manage and price its services in a flexible manner in areas where competition exists. Qwest needs the flexibility to compete on par with its competitors.

Another concern with the process around competitive classification is the amount of time it takes to achieve competitive status for a product within the current regulatory process. Qwest recognizes and appreciates the Commission's efforts to reduce the

interval for review and approval of requests for competitive classification. However, the competitive environment in Arizona is evolving more quickly than competitive classification requests have passed through the regulatory process. For example, it took five months for National Directory Assistance and eleven months for Centrex to be classified as competitive services. ATM service was declared competitive approximately 17 months after Qwest filed its request for competitive classification. Qwest filed a petition to deregulate its Voice Messaging Service (VMS) on October 1, 1998. The docket is still pending. In fact, Qwest received a letter from Staff dated June 24, 2002, in which Staff, noting the extended timeframe since Qwest first filed its petition, queried Qwest's intent to pursue the petition. Qwest responded in the affirmative, and requested that an agreed-upon procedural schedule be developed. As of the date this testimony is being prepared, no further action has been taken. Meanwhile, competitors continue to make inroads into the market. I have attached Qwest's original Petition to deregulate VMS, along with an updated list of competitive alternatives for the product, to this testimony as Exhibit DLT-16 and am requesting that the Commission approve Qwest's VMS deregulation petition in this proceeding.

The existing service-specific approach to pricing flexibility, while helpful in the past, is inconsistent with today's competitive environment. A reasonable solution is to establish competitive zones which will provide Qwest pricing flexibility in specific

markets to enable it to compete on a more equal basis with competitors operating within those same limited geographic areas. I also recommend that the Commission classify new services as "competitive" upon introduction and allow Qwest to promote its products and services with as much flexibility as its competitors enjoy. I address each of these recommendations in more detail below.

1. COMPETITIVE ZONES

Q. PLEASE DESCRIBE YOUR PROPOSAL TO DESIGNATE CERTAIN GEOGRAPHIC AREAS AS COMPETITIVE ZONES.

A. Qwest is proposing that the Commission, in recognition of the increasingly competitive telecommunications environment, classify specific wire centers, and geographic subsets within wire centers when appropriate, as "competitive zones." While the wire center is a reasonable geographic boundary for a competitive zone since competitive activity, such as growth in UNE loops and loss in Qwest access lines can be clearly quantified on a wire center basis, Qwest is aware that certain competitors are focusing on geographic areas much smaller than wire centers. For example, CLECs often target housing developments and business parks with unique offers. Qwest believes that it should be allowed flexibility to respond to such

1 targeted competitive offers in kind.[161] A competitive zone exists in any wire center
2 or geographic area in which customers receive communications services from at
3 least one other provider that provisions service through the use of unbundled
4 network elements, resale, or a provider's own facilities, including cable telephony.[162]
5 Qwest may implement price changes and other miscellaneous changes for services
6 offered within a competitive zone immediately upon notice to the Commission by
7 filing a revised price list reflecting the change and the effective date of the change.
8 Prices for these services are not subject to approval or investigation by the
9 Commission so long as they comply with applicable Commission rules. The
10 existence of a competitive zone shall be deemed good cause, such that the price
11 and terms of service offered for a competitive zone service may differ from the price
12 and terms of that service outside the competitive zone. With this flexibility, Qwest
13 will be able to effectively respond to customer and market demands in the areas
14 subject to competition.
15
16 **Q. IS THE FLEXIBILITY YOU ARE PROPOSING TO HAVE IN THE COMPETITIVE**
17 **ZONES ANY DIFFERENT THAN THE FLEXIBILITY ENJOYED BY YOUR**
18 **COMPETITORS OPERATING IN THOSE SAME AREAS?**
19

[161] Generally, Qwest proposes to define competitive zones at the full wire center level. However, if establishment of a competitive zone at a more granular geographic level will allow Qwest to compete on par with competitors serving that area, Qwest seeks the regulatory flexibility to price, package or promote its services in kind.

A. No. CLECs are selecting specific wire centers and geographic areas within the state in which to offer service and are approaching service introduction on a gradual, phased-in basis in Qwest's service territory. As indicated in the Competitive Landscape section above, in tariffs filed with the Commission, several CLECs have identified specific wire centers in which they will provide service. For example, Sprint's tariff indicates its business Local Exchange Service is available in Qwest wire centers identified as UNE Zones 1 and 2. Section 5 of McLeodUSA's Arizona Tariff No. 3 lists the cities and wire centers where McLeod is offering service, either over its own switch or through the use of network elements. Cox initially rolled out cable telephony service to consumers in the Chandler area, eventually extended its facilities to the greater Phoenix area a few years later, and just recently began offering service in Tucson. A recent article in the Arizona Republic noted that Cox phone service is available in 75 percent of the Valley, and "that number increases every few weeks."[163] Qwest's competitors enjoy the flexibility of being able to serve select markets and design offerings to meet specific customer demands within those areas.

Q. WHAT SERVICES WILL BE IMPACTED BY APPROVAL OF COMPETITIVE ZONES?

[162] In addition, VoIP and wireless services are available as alternatives to Qwest wireline services for many customers in Arizona.

A. Once an area is designated as a competitive zone, all services offered by Qwest will be afforded pricing flexibility. Some services have already been deemed "competitive" on a state-wide basis by this Commission (i.e., Private Line, MTS, WATS, ATM, Centrex, and Local and National Directory Assistance ("DA"). They will continue to have state-wide flexibility and will also be eligible for any further flexibility afforded by the competitive zone concept.

Q. WHAT CONTROLS REMAIN ON QWEST WITHIN A COMPETITIVE ZONE?

A. Qwest remains under the jurisdiction of the Arizona Corporation Commission. Prices and terms/conditions for services offered within competitive zones will be subject to the Commission's rules governing competitive telecommunications services and to the complaint process, whereby the remedy for any customer or agency believing prices or terms to be unjustified is to file a written complaint with the Commission.

Q. IF A GEOGRAPHIC AREA IS CLASSIFIED BY THE ACC AS A COMPETITIVE ZONE, BUT ALL COMPETITORS SUBSEQUENTLY EXIT THAT MARKET, WHAT RECOURSE IS AVAILABLE TO THE ACC?

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[163] *Arizona is lucrative market for Cox*, Arizona Republic, March 17, 2004.

A. While I am not an attorney, my understanding is that the ACC has the legal authority, should competitive conditions change in a particular center such that pricing flexibility is no longer warranted there, to reclassify the geographic area as non-competitive. This authority is found in R14-2-1108.H. In this instance, the regulation governing that the competitive zone would revert to the prevailing regulation for all other areas not classified as competitive zones in the state.

Q. WHAT SPECIFIC AREAS ARE YOU PROPOSING BECOME COMPETITIVE ZONES?

A. I am recommending that those wire centers currently experiencing competition per the criteria described earlier in my testimony be classified as competitive zones. Where evidence exists that Qwest's competitors are pricing, packaging or promoting service uniquely in areas below the wire center level, Qwest seeks the authority to respond in kind. Specifically, I am recommending that the following wire centers be designated as competitive zones:

Competitive Zones – Phoenix MSA

Beardsley	Buckeye	Chandler Main	Chandler South
Chandler West	Coolidge	Circle City	Casa Grande
Cave Creek	Deer Valley	Dudleyville	Eloy
Florence	Foothills	Ft. McDowell	Rio Verde

Coldwater	Gila Bend	Glendale	Higley
Queen Creek	Kearny	Litchfield Park	Gilbert
Mesa	Mammoth	Maricopa	New River
Oracle	Bethany West	Cactus	Phoenix East
Phoenix Main	Phoenix North	Phoenix Northeast	Phoenix Northwest
Phoenix South	Phoenix Southeast	Phoenix West	Greenway
Laveen	Mid Rivers	Maryvale	Pecos
Peoria	Sunnyslope	Pinnacle Peak	Scottsdale Main
Shea	Thunderbird	San Manuel	Superior
Superstition East	Superstition Main	Superstition West	Stanfield
Tempe	McClintock	Tolleson	Wickenburg
White Tanks	Whitlow	Wintersburg	

Competitive Zones – Tucson MSA

Coronado	Green Valley	Marana	Catalina
Cortaro	Craycroft	Flowing Wells	Tucson East
Tucson Main	Tucson North	Tucson South	Tucson Southeast
Tucson Southwest	Tucson West	Mt. Lemon	Rincon
Tanque Verde	Vail North	Vail South	

Exhibit DLT-17 presents an overview of competition in each of the proposed competitive zones, through the use of such indicators as the number of Qwest access lines, the number of CLECs purchasing wholesale services, and the number of Qwest retail access lines disconnected due to competition. This exhibit demonstrates that in each of the proposed competitive zones, at least one competitor provisions service through the use of Qwest wholesale services including

unbundled network elements, resale, unbundled loops, and Local Interconnection Service ("LIS") trunks used to provide service over a provider's own facilities, such as in the case of cable telephony.

Q. DON'T YOU ALSO HAVE A NEED TO RESPOND IN A COMPETITIVE MANNER OUTSIDE OF THE PHOENIX AND TUCSON AREAS?

A. At the present, local competition is generally not as significant in other areas of the state; therefore, existing contracting capability affords Qwest the flexibility it needs to respond with unique, customer-specific pricing proposals in these other areas, at least with respect to larger business customers. However, as competition develops in other areas of the state, establishment of additional competitive zones will be appropriate. In fact, the availability of Arizona Universal Service fund support to any Eligible Telecommunications Carrier (ETC), as discussed in Section II of my testimony, will likely encourage competitive service providers to enter areas that are typically more costly to serve than the metropolitan areas of the state.

Q. DOES QWEST HAVE COMPETITIVE ZONE PRICING FLEXIBILITY IN OTHER STATES WHERE IT IS EXPERIENCING COMPETITION?

A. Yes. Qwest now has competitive zone or similar pricing flexibility in several states, including Nebraska, North Dakota, Oregon, Utah, South Dakota, and Washington. The fact that Qwest is experiencing even greater levels of competition in the Phoenix and Tucson areas than it is facing in these states shows that competitive zone pricing flexibility is now clearly appropriate in Arizona.

2. NEW SERVICE INTRODUCTIONS

Q. ARE YOU RECOMMENDING REGULATORY RELIEF FOR NEW SERVICES AT THE TIME OF INTRODUCTION?

A. Yes. Currently, Qwest must generally follow a two-step process to have new services classified as "competitive."[164] Initially, the service is classified as fully regulated or non-competitive. A subsequent filing must then be made to have services classified as "competitive." As described elsewhere in this testimony, this process can be lengthy and resource-intensive. I am proposing that a streamlined process be adopted whereby all new services will automatically be classified as "competitive" upon introduction. Maximum rates will be established at that time.

Q. WHY IS QWEST MAKING THIS RECOMMENDATION?

A. Qwest is making this recommendation in response to competitive market realities in Arizona. When competitors roll out new products and services to Arizona consumers, the services described in the tariffs they file are automatically classified as competitive. Competitors are not required to incur the time and expense of having their services reclassified. Qwest is requesting that same flexibility. As new services are likely to be optional and discretionary, and competitive providers are prevalent, it is appropriate for the Commission to approve this recommendation.

Q. HAVE OTHER STATES RECOGNIZED THAT NEW SERVICES SHOULD BE CLASSIFIED AS COMPETITIVE?

A. Yes, many states in the Qwest region allow for this type of flexibility. For example, the Price Regulation Plan Qwest operates under in Iowa categorizes all new services as "Nonbasic Communications Services." Nonbasic Communications Services tariffs are filed with the Board and become effective within 15 days unless suspended or rejected by the Board. In Minnesota, when Qwest first offers a service, a tariff or price list is filed with the Commission with the proposed classification for the service. New services classified as price-regulated may be offered to customers ten days after notice to the Commission. New services

[164] In certain limited instances, such as services having no direct relationship to local exchange services, new services

classified as flexibly priced or non-price regulated may be offered to customers one day after filing. If no interested party or the Commission objects to Qwest's proposed classification within thirty days from the date of filing, the proposed classification is approved.[165] Legislation in Utah provides that an incumbent telephone company may offer any new service by means of a price list which will become effective five days after it is filed with the commission.[166] Idaho, Colorado, and Wyoming also allow regulatory flexibility for most new services.

Q. WILL APPROVING THIS RECOMMENDATION IN ARIZONA BE IN THE PUBLIC INTEREST?

A. Most definitely. It will mean that Arizona consumers will be able to benefit from new developments and new technologies in a much more rapid manner. It will also mean that Qwest will be able to compete more equitably with other providers, which in turn will result in tangible consumer benefits such as more choices, better customer service, attractive pricing, and more innovation.

3. PROMOTIONS

may be classified as "competitive" upon introduction under current Commission rules.
[165] Minnesota Stat. § 237.761, subd. 7.
[166] UCA §54-8b-2.3.

Q. AT THE BEGINNING OF YOUR TESTIMONY, YOU INDICATED QWEST IS PROPOSING ADDITIONAL FLEXIBILITY RELATIVE TO PROMOTIONS. PLEASE EXPLAIN.

A. Under existing tariff provisions, Qwest has more limitations than its competitors in its ability to promote its products. Promotions valued at more than $25.00 per customer must be filed with the Commission Staff thirty days prior to implementation. In addition, at the conclusion of each promotion, the Company is required to file results with the Commission Staff. There is a great deal of disparity between the way CLECs are able to promote services in Arizona and the way Qwest is allowed to compete. For example, as stated previously, most CLECs' tariffs contain generic promotional language. CLECs are not required to file details of their promotional offerings in their tariffs, they are not required to notify the Commission of start and stop dates for promotions, and they are not required to file promotion results or demonstrate that each promotion is covering costs. In other words, CLECs have ultimate flexibility in tailoring offerings to respond to market demands through their promotional tariffs.

Qwest's competitors are not required to file promotion results, and are not required to file 30 days in advance for *any* promotion-regardless of the value to the customer. I am proposing that Qwest be granted the same ability to promote its products as its competitors enjoy. The tariffs accompanying this filing contain revised promotional

language, which mirrors the promotional flexibility Qwest's competitors currently enjoy as described previously in this testimony. Copies of several CLECs' promotional tariffs are attached as Exhibit DLT-18

Q. WHAT CONCLUSION CAN BE DRAWN ABOUT THIS PROPOSAL?

A. Qwest is simply asking for comparable regulatory treatment as that already available to its competitors. Promotions are generally designed to increase customers' awareness of offerings or to attract new customers. The thirty day notice requirement currently imposed on Qwest gives competitors an opportunity to develop a marketing response before Qwest has had an opportunity to implement its promotion. Acceptance of my proposal is in the best interest of Arizona consumers, who will be able to realize benefits of unfettered competition.

II. PRICING PROPOSALS

Q. YOU INDICATED EARLIER IN YOUR TESTIMONY THAT ANOTHER ASPECT OF THIS FILING IS THE NEED TO REPRICE CERTAIN SERVICES. WHY IS THIS REPRICING NECESSARY?

A. It is necessary for Qwest's services to more closely reflect the actual cost of providing these services and that certain services be restructured to reflect marketplace realities. If traditional price/cost distortions remain in place, competitive losses for its high margin services will be unnecessarily high and impacts on customers who do not have alternatives will be magnified. Repositioning services to more appropriately recover the actual cost of providing the service and to improve competitive positioning will require adjustment to the pricing structures of certain services.

Q. PLEASE SUMMARIZE THE CHANGES YOU ARE PROPOSING IN THIS FILING.

A. The services and proposed changes are:

1. Residence Basic Exchange Service
   a. Zone Increments – Eliminate
   b. Establish a disbursement from the Arizona Universal Service Fund (AUSF) to recover residential local exchange TSLRIC costs in UNE Zone 2 and 3 wire centers.
2. Business Basic Exchange Service
   a. Zone Increments - Eliminate
   b. Establish a disbursement from the Arizona Universal Service Fund (AUSF) to recover business local exchange TSLRIC costs in UNE Zone 3 wire centers.
3. Directory Assistance – Eliminate Free Call Allowance

4. Service Packages

a. Real Deal - Eliminate

b. Custom Solutions - Eliminate

c. FAX Package - Eliminate

d. Home Office - Eliminate

e. SmartSet, SmartSet Plus - Eliminate

f. Call Manager Connection - Eliminate

g. Teen/Roommate - Eliminate

h. Customized Call Management Service/Centron 1

- Residence: Reclassify as obsolete, increase standard feature package and reprice features to be same as ala carte.

- Business: Reclassify as obsolete, increase standard feature package and reprice features to be same as ala carte.

i. Centron 6 and 30 - Increase standard feature package and reprice features to be same as ala carte.

These changes will generate incremental revenue of approximately $6,524,000 annually, excluding the AUSF funding requirement identified in Ms. Million's testimony. The revenue impacts associated with each of these changes are itemized in the Schedule H summary document filed in this proceeding.

Mr. McIntyre will explain the proposed changes for Private Line and other finished wholesale services in his testimony.

Q. WHAT SPECIFIC CHANGES ARE YOU PROPOSING, AND WHAT IS THE RATIONALE FOR THESE CHANGES?

A. The specific price changes I address for retail services, and the rationale for these changes, are discussed below.

A. RESIDENCE BASIC EXCHANGE SERVICE

Q. ARE YOU PROPOSING CHANGES TO THE LOCAL SERVICE ZONE INCREMENTS IN THIS PROCEEDING?

A. Yes. I am proposing to eliminate the Exchange Zone Increment 1 and 2 rates, currently priced at $1.00 and $3.00 respectively. These charges are currently based on a mapping process which is administratively cumbersome and is confusing to the customer. This change will streamline Qwest's local exchange pricing structure.

Q. HAVE LOCAL SERVICE ZONE INCREMENTS BEEN A MEANS FOR QWEST TO RECOVER COSTS FOR SERVING AREAS THAT ARE, ON AVERAGE, MORE COSTLY TO SERVE THAN OTHER AREAS OF THE STATE?

A. Yes. The Zone 2 increments have been assessed to customers that are in the highest cost areas of Qwest's service territory, while the Zone 1 increments are applicable to areas that have local exchange costs that are slightly higher than average.

Q. WILL THE ELIMINATION OF ZONE INCREMENT CHARGES APPLY TO ALL SERVICES FOR WHICH THESE CHARGES ARE CURRENTLY ASSESSED?

A. Yes. This change will apply to all residential and business services for which zone increment charges are currently assessed.

Q. WHAT ARE THE PRICE CHANGES YOU ARE PROPOSING FOR RESIDENCE BASIC EXCHANGE SERVICE?

A. I am not proposing to change prices to residential basic exchange services but to establish a competitively-neutral process to allow Qwest to recover its cost of

providing this service in high cost areas. This proposal is in conjunction with the proposal to eliminate zone increment charges in Arizona.

Q. DO YOU PROPOSE THAT QWEST SHOULD BE PERMITTED TO OBTAIN SUPPORT FROM THE ARIZONA UNIVERSAL SERVICE FUND TO RECOVER ITS COSTS OF PROVIDING SERVICE IN HIGH COST AREAS?

A. Yes. I propose that Qwest be allowed to draw from the Arizona Universal Service Fund ("AUSF") to defray the extraordinary costs of providing residential service in wire centers currently classified as cost zones 2 and 3.[167] If allowed, local exchange recurring rates in these zones will remain at the same level as rates for the same services in cost zone 1, but Qwest would fully recover the cost of providing residential local exchange service in all areas of its service territory in Arizona. In addition, this proposal, if accepted by the Commission, will encourage competition in these high cost wire centers and promote competitive choices for these consumers.

[167] Prior ACC decisions have illuminated the purpose of the AUSF and show that the objective of the fund is in alignment with Qwest's request in this proceeding. In Decision 59623, released April 24, 1996, the Commission stated: "Pursuant to A.A.C. R14-2-1113 of the Competitive Telecommunications Rules, the Commission should establish an intrastate universal service fund which shall assure the continued availability of basic telephone service at reasonable rates," and "The AUSF is the funding mechanism through which surcharges are collected from consumers of telecommunications services and support is paid to eligible providers of basic local telephone exchange service in areas where the cost of providing the service exceeds the rate authorized to be charged." In Decision 65472, released December 19, 2002, the ACC stated: "Pursuant to Decision No. 56639, dated September 22, 1989, the AUSF was established to maintain statewide average rates and the availability of basic telephone service to the greatest extent reasonably possible."

Q. REGARDING QWEST'S PROPOSAL FOR ARIZONA UNIVERSAL SERVICE FUND SUPPORT FOR RESIDENTIAL SERVICES, HOW SHOULD THE LEVEL OF SUPPORT BE CALCULATED?

A. The specific details as to the calculation of the level of required AUSF fund support required are addressed in Ms. Million's testimony. In general, the level of fund support should be calculated by determining the difference between Commission-approved residential local exchange rates plus End User Common Line Charge (EUCL) and current costs for residential local exchange service in UNE Cost Zones 2 and 3. Arizona Administrative Code 14-2-1202(A) states:

> The amount of AUSF support to which a provider of local basic exchange telephone service is eligible for a given AUSF support area shall be based upon the difference between the benchmark rates for basic local exchange telephone service provided by the carrier, and the appropriate cost to provide basic local exchange telephone service as determined by the Commission, net of any universal service support from federal sources.

Commission rule 14-2-1201(7) defines "benchmark rates" as local exchange rates approved by the Commission for the local service provider, "plus the Customer Access Line Charge" approved by the Federal Communications Commission."[168] To determine the level of AUSF support, benchmark rates should be the statewide

[168] The Customer Access Line Charge is now termed the "End User Common Line" (EUCL) charge under the FCC's current rules.

residential local exchange rates currently in effect, plus the current EUCL charge. The Qwest local exchange tariff would continue to reflect current rates, while the AUSF offset would ensure that residential customers in Zone 2 and 3 wire centers pay precisely the same for local service as residential customers in Zone 1 wire centers and allow Qwest to recover its costs in providing local service in these high cost wire centers.

Rule 14-2-1204(B)(1)(a) specifies that 50% of the AUSF funding need is to be collected from providers of local telecommunications service providers operating in Arizona, including Qwest, CLECs and Independents as well as wireless carriers. The remainder is to be collected from intrastate toll service providers in Arizona. Ms. Million provides an estimate of the required funding and related AUSF surcharge level, but the actual level AUSF surcharge level must be calculated based on data provided by all telecommunications service providers in Arizona to the AUSF fund administrator.

Q. IF A COMPETITIVE PROVIDER WINS A RESIDENTIAL CUSTOMER FROM QWEST IN ZONE 2 OR 3, IS THE PROVIDER ELIGIBLE TO OBTAIN ARIZONA UNIVERSAL SERVICE FUND SUPPORT?

A. My understanding is that a provider[169] can qualify for AUSF support if the provider is classified by the ACC as an "eligible telecommunications carrier" ("ETC"). To qualify as an ETC, the provider must demonstrate that it is able to provide the following services within the Zone 2 or 3 geographic area:

- Access to 1-party residential service with a voice grade line.
- Access to touch tone capabilities.
- Access to an interexchange carrier.
- Access to emergency services, including but not limited to emergency 911.
- Access to directory assistance service.
- Access to operator service.
- Access to a white page or similar directory listing.
- Access to telephone relay for the hearing and speech impaired.[170]

In other words, the provider must demonstrate that it is able to provide service attributes similar to the attributes of Qwest's local exchange residential service in the defined area to qualify for AUSF support. Since AUSF support is portable to qualifying CLECs, this support should encourage additional local exchange competition in Arizona wire centers that are typically more costly to serve than other areas of the state.

[169] Any provider that satisfies the requirements of Commission rule R14-2-1201(6) and is classified as an ETC can qualify for AUSF funding, regardless of the technology (e.g., wireline or wireless technology) used to deliver service to the end user.

Q. WHY IS IT APPROPRIATE THAT QWEST BE ALLOWED TO DRAW FUNDS FROM THE AUSF TO SUPPORT ITS RESIDENTIAL LOCAL EXCHANGE SERVICES PROVIDED TO CUSTOMERS LOCATED IN UNE COST ZONES 2 AND 3?

A. Since residential line local exchange rates in UNE Cost Zone 2 and 3 wire centers are below cost, these rates are currently receiving an implicit subsidy, which is not sustainable in a competitive marketplace. Supporting residential rates in these wire centers with AUSF funds will make this subsidy explicit, will protect customers in these areas from dramatic rate increases and ensure continued affordable service in high cost areas, and is competitively neutral.

B. BUSINESS BASIC EXCHANGE SERVICE

Q. WHAT CHANGES DO YOU PROPOSE FOR BUSINESS BASIC EXCHANGE SERVICES IN THIS PROCEEDING?

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[170] R14-2-1201(6).

A. I propose to eliminate the Zone Increment charges of $1 and $3 as discussed in the residential basic exchange service section of my testimony. This will provide consistency in Qwest's residential and business pricing structures in Arizona.

Q. ARE CERTAIN BUSINESS RATES IN HIGH COST WIRE CENTERS CURRENTLY BELOW THE RELEVANT COST OF PROVIDING THE SERVICE?

A. Yes. As discussed in the testimony of Ms. Million, business local exchange recurring rates in UNE Zone 3 wire centers are below cost. In these high cost wire centers, I propose that Qwest be allowed to draw from the AUSF to provide support for local exchange business rates, as discussed in the preceding section of my testimony with respect to residential local exchange service. Ms. Million addresses in her testimony specifics of required AUSF support for business local exchange services. While I do not propose further price changes to business basic exchange services, I will propose several changes to service packages associated with business basic exchange services that are discussed later in my testimony.

Q. CAN YOU ESTIMATE THE APROXIMATE PER-LINE AUSF SURCHARGE NECESSARY TO PROVIDE ADEQUATE FUNDING TO SUPPORT LOCAL EXCHANGE RESIDENTIAL AND BUSINESS RATES IN THE HIGH COST WIRE CENTERS IN QWEST'S ARIZONA SERVICE TERRITORY?

A. Yes. While the actual AUSF funding calculation will be done by the ACC administrator based on proprietary data provided to them by telecommunications providers serving Arizona, it is possible to roughly estimate the per line surcharge, as well as the per wireless interconnection trunk surcharge, necessary to adequately support Qwest local exchange residential and business rates in high cost wire centers. As stated earlier in my testimony, Rule 14-2-1204(b)(1)(a) specifies that 50% of the AUSF funding need is to be collected from providers of local service operating in Arizona, including Qwest, CLECs, wireless carriers and Independents. The remaining 50% is to be collected from intrastate toll service providers in Arizona. If the AUSF funding need discussed in Ms. Million's testimony of approximately $5.33M per month is divided in half, the amount to be collected from local service wireline and wireless providers would be $2.67M. A calculation must then be made as to how to spread this funding need across wireline access lines and wireless interconnection trunks as directed by Commission rules. According to the FCC's Local Telephone Competition report released on December 22, 2003, there were a total of 2,700,186 ILEC lines and 519,128 CLEC lines in service (combined wireline total of 3,219,314), plus 2,643,952 wireless subscribers in Arizona as of June 2003, totaling 5,863,266. The wireline quantities are 55% of the total, while wireless subscribers represent 45% of the total. Regarding assessment of the AUSF surcharge on wireless carriers, Rule 14-2-1204(B)(1)(a) specifies:

> The number of interconnecting trunks obtained from the local access provider shall be utilized in conjunction with a Conversion Factor to

determine AUSF support from such wireless provider by means of a surcharge on such interconnecting trunks.

Since the Conversion Factor is developed by the fund administrator through use of proprietary data provided by all wireless service providers in Arizona, Qwest does not have access to this factor, nor is Qwest able to know the total number of wireless interconnection trunks in service between wireless carriers and all wireline carriers in the state. However, if it is assumed that approximately one wireless interconnection trunk exists for each ten wireless subscribers in service, the total number of wireless interconnection trunks can be estimated. As stated above, the FCC reports a total of 2,643,952 wireless subscribers in Arizona. At a 10:1 subscriber/trunk ratio, the number of interconnection trunks required to service the subscriber base would be 264,395. If it is further assumed that the AUSF funding need is spread proportionately to the subscriber base of the various service providers, the allocation to wireless providers would be $1.21M ($2.67M X 45%), while the AUSF funding allocation to be recovered from wireline carriers would be $1.47M ($2.67M X 55%).

Using these numbers as a basis, the AUSF surcharge for wireline local service carriers can be estimated to be approximately $0.46 per line ($1,210,000 / 3,219,314 = $0.46). The AUSF allocation to wireless carriers, on a per interconnection trunk basis, would be $4.58 ($1,470,000 / 264,395) based on the assumptions discussed above. Again, these are sample calculations of the

estimated AUSF funding need and are offered only as a high level frame of reference. The actual level of the AUSF surcharge must be calculated based on the actual data provided by all telecommunication service providers in Arizona to the AUSF fund administrator.

C. DIRECTORY ASSISTANCE

Q. PLEASE DESCRIBE THE DIRECTORY ASSISTANCE FAMILY OF PRODUCTS CURRENTLY AVAILABLE TO ARIZONA CONSUMERS.

A. Qwest's portfolio of Directory Assistance offerings consists of traditional Directory Assistance, National Directory Assistance, Complete-A-Call, and Business Complete-A-Call. Customers dial 411[171] to access any of these services. With traditional Directory Assistance, callers can obtain up to two intraLATA telephone numbers per call. The charge is $1.15 per call for calls to either Qwest Local or Qwest National Directory Assistance. Customers are currently allowed one call to Local Directory Assistance per month at no charge. Two telephone numbers can be requested per call; however, there is not a monthly call allowance associated with

[171] The customer may dial 411, 1-411, or 555-1212 to reach Qwest Local or National Directory Assistance.

1 National Directory Assistance. Calls to Qwest Directory Assistance will be
2 completed to the desired number at the customer's option at no additional charge.[172]
3
4 **Q. WHAT DO YOU PROPOSE TO CHANGE IN THIS FILING?**
5
6 A. I propose to eliminate the current call allowance associated with local directory
7 assistance to achieve consistency with the national directory assistance product.
8 The Directory Assistance product line will remain unchanged in all other respects.
9 In addition, I note that Directory Assistance is currently provided at no charge to
10 Qwest's hearing and/or speech impaired customers. This policy will not change in
11 my proposal.
12
13 **Q. WHY ARE YOU RECOMMENDING THIS CHANGE?**
14
15 A. I recommend this change to alleviate customer confusion resulting from multiple
16 Directory Assistance products and to streamline Qwest's Directory Assistance
17 product line. Today, customers dialing 411 may be charged varying rates,
18 depending on the telephone number requested. They are charged $1.15 per call for
19 numbers requested within their own LATA and receive one free call per month
20 (traditional Directory Assistance). Alternatively, if they dial 411 and request a

[172] If the call is a long distance call, the standard direct dialed long distance rates for the Interexchange Carrier to which

telephone number outside of their LATA, they are charged $1.15 per call and do not receive any free calls per month (National Directory Assistance). It is Qwest's experience that customers typically do not understand distinction between LATAs and the relationship between LATA boundaries and rate structures. The change I am proposing will simplify the service for our customers, will improve efficiency of administration of Directory Assistance for Qwest and will enhance the competitive positioning of Qwest's Directory Assistance product line.

Q. ARE ALTERNATIVES TO QWEST'S DIRECTORY ASSISTANCE AVAILABLE TO ARIZONA CONSUMERS?

A. Yes. There is a wide variety of alternative providers to Qwest's Directory Assistance service. These providers are present in all segments of the market in Arizona. As the Commission found when approving Qwest's request for competitive classification of its Directory Assistance Service in 1999, alternatives are available from dial-around providers, interexchange carriers, CLECs, credit card/calling card companies, payphone providers, wireless providers, and Internet services.[173] The effect of alternative sources for directory information can clearly be seen in Qwest's Directory Assistance call volumes. In 1999, a total of 48,555,352 calls (billed and

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the customer is presubscribed will apply. These charges would be the same as if the customers had directly dialed the call in lieu of allowing the Call Completion feature to automatically complete the call.

[173] Docket No. T-01051B-99-0362, Order, December 14, 1999.

non-billed) were placed to Qwest Directory Assistance. In 2003, that volume had decreased by over 50% to 22,661,843.

Q. HAS OVERALL USE OF THE INTERNET AND WIRELESS SERVICES ESCALATED SINCE 1999 WHEN THE COMMISSION ISSUED ITS ORDER FINDING DA TO BE COMPETITIVE?

A. Yes. According to the FCC, in December of 1999, there were 1,125,321 wireless telephone subscribers in Arizona. By June 2003, that number had more than doubled to 2,643,952.[174] On a national basis, more than *800 billion* wireless minutes were used in 2003. With the advent of wireless number portability in November 2003 discussed previously, wireless service becomes an increasingly attractive option for consumers. The ability to access directory assistance is a feature advertised by wireless providers, including those offering service in Arizona. For example, Verizon Wireless's website indicates its service includes "411 Connect" which provides operator-assisted help in locating numbers, addresses, and "information for anything from restaurants and movies to the nearest florist." [175] Wireless directory assistance is available to consumers using the "411" dialing pattern used when accessing wireline directory assistance services. As customers

[174] *Trends in Telephone Service*, Industry Analysis and Technology Division, Wireline Competition Bureau, May 2004, Table 11.2.
[175] www.verizonwireless.com, visited April 28, 2004.

increasingly rely on wireless service as a means of communicating, wireless directory assistance serves as an even more viable alternative to wireline directory assistance.

Just as market demand for wireless technology has exploded since Qwest's Directory Assistance was classified as competitive, use of the Internet has also dramatically increased. Pew Research Center in Washington D.C. estimates that, on a national basis, close to two-thirds of Americans now go online to access the Internet. Pew found that the number of American adults going online grew by 47% between its March 2000 and August 2003 surveys.[176] Research conducted by Claritas in May and June 2003 showed that 60.47% of Arizonans were accessing the internet either at home or at work via dial-up, DSL or cable modem internet access.[177] That number has surely increased in 2004 as the internet usage has expanded.

According to The Kelsey Group, a leading provider of research, strategic analysis and events focused on Yellow Pages, electronic directories and local media, the yellow pages industry is experiencing a migration from print-based consumer searches to online searches. According to the June 2003 Kelsey Group report titled "Searching for Profits: Yellow Pages and the Challenge of Pay-per-Click," The

[176] Pew Internet & American Life, www.pewinternet.org, visited April 29, 2004.

Kelsey Group projects the number of online yellow pages searches to grow 25% annually and to account for more than 30% of total yellow pages searches by 2006.[178]

Consumer groups, including AARP and the Telecommunications Research and Action Center have advised members to utilize web sites such as www.555.1212.com and www.whitepages.com to find telephone numbers and save money. Similarly, ABTolls, an Internet website designed to help consumers by serving as a central source for information on telecommunications carriers and rate plans, features a section on web-based directory assistance. After encouraging consumers to "avoid all of the charges associated with calling directory assistance," the site lists over 25 hyperlinks which it classifies as "resources available for looking up phone numbers in the States and abroad." With all of these services available at the click of the mouse, most of which are available at no additional charge and which provide unlimited use, these sites provide an attractive alternative to traditional wireline directory assistance for the great majority of Arizona consumers.

Q. IS IT APPROPRIATE FOR THE CURRENT DIRECTORY ASSISTANCE CALL ALLOWANCE TO BE ELIMINATED?

---

[177] Claritas Convergence Audit, 2003: Convergence Audit Profiles for Arizona.

A. Yes, it is. In the Opinion and Order issued in Docket No. T-01051B-99-0105 and T-01051B-00-0369 on March 30, 2001, the Commission specified that during the term of the Price Plan, the price for Directory Assistance was to be capped at $1.15 per call and further indicated that the service should include the current one call allowance per month and two inquiries per usage. (Page 9) As demonstrated in this testimony and in the testimony of other Qwest witnesses, the telecommunications environment in Arizona has become significantly more competitive since the Price Plan was adopted. There is no need to retain the requirement for a call allowance on Qwest's Directory Assistance service. Sufficient alternatives to Qwest's Directory Assistance service exist for those consumers who need assistance in obtaining a telephone number which obviate the need for continued regulatory constraints.

Q. PLEASE SUMMARIZE YOUR PROPOSAL FOR DIRECTORY ASSISTANCE.

A. I am proposing to blend the various Directory Assistance products into a consistent Directory Assistance offering that will be priced and structured identically for local and national Directory Assistance calls, and the current free call allowance for local Directory Assistance will be discontinued to align with the national Directory Assistance product. Customers requesting numbers within their home LATA will continue to be connected to the number requested without an additional completion

[178] *InfoSpace to Acquire Switchboard Incorporated*, March 26, 2004.

charge. If the completed call is long distance in nature, standard direct-dialed long distance charges will apply. The charge for local and national Directory Assistance will continue to be $1.15 per call. This proposal will position Directory Assistance product favorably with its primary competitors' offerings, which also include call completion. The revenue impacts associated with this change are contained in Qwest's Schedule H accompanying this filing.

D. SERVICE PACKAGES

Q. WHAT CHANGES ARE YOU PROPOSING FOR QWEST SERVICE PACKAGES?

A. Qwest currently has a substantial number of local service packages that, in some instances, overlap with one another and don't deliver sufficient value as compared to ala carte feature pricing. To streamline Qwest's package set and improve the overall attractiveness of the packages, I am proposing elimination of the Real Deal, Custom Solutions, FAX Package, Home Office, SmartSet, SmartSet Plus, Teen/Roommate and Call Manager Connection service packages. Qwest is also proposing elimination of the Custom Calling packages that include 2, 3, 4 or 5 Custom Calling features. The popularity of current packages such as ValueChoice, PreferredChoice and Qwest Choice and the fact that many of the features included in the packages to be eliminated were not desired by customers has caused the rate

of subscribership in the older packages to decline. Elimination of these packages will result in a narrowed package set that is better focused on the range of features customers desire and will position Qwest's packages more favorably in the competitive market.

Q. WHAT OPTIONS ARE AVAILABLE FOR CUSTOMERS OF THE PACKAGES TO BE ELIMINATED?

A. Customers of packages to be eliminated will have the option of subscribing to another Qwest package that meets their individual needs or may purchase the specific features desired on an ala carte basis.

Q. HOW WILL CUSTOMERS OF EXISTING PACKAGES BE MADE AWARE OF THEIR OPTIONS WHEN THESE PACKAGES ARE NO LONGER AVAILABLE?

A. Qwest will notify all customers of the aforementioned packages of Qwest's intent to eliminate these packages, and customers will be presented the option to convert to a similar package. If these changes are approved by the Commission, Qwest will send written notification to all impacted customers advising them that 60 days from the date of the notice, the packages will be converted to ala carte pricing for the features in the packages. A Qwest business office number will be provided to

these customers, and they will be invited to consult with Qwest to determine the best option for them. At the end of the 60 day period the features in the packages scheduled for elimination will be converted to ala carte pricing.

Q. WHAT CHANGES DO YOU PROPOSE FOR THE CUSTOMIZED CALL MANAGEMENT/CENTRON 1 PACKAGE?

A. Centron 1 is a packaged service consisting of a standard package of features as well as range of optional features. This package has been available for a number of years, and its structure is now obsolete in view of the multiple competitive options now available. Qwest proposes to classify this service as obsolete and to move it into Section 109 of the Competitive Exchange and Network Services Price Cap tariff. To encourage customers to migrate to updated packages, Qwest proposes to reprice the optional Centron 1 features at the same rate as the same features now available on an ala carte basis and to increase the standard residence feature package to $9.25 and the standard business feature package to $10.50.

Q. DO YOU PROPOSE PRICING CHANGES TO THE CENTRON 6 AND CENTRON 30 PACKAGES, BOTH OF WHICH ARE CURRENTLY CLASSIFIED AS OBSOLETE?

A. Yes. I propose to increase the Centron 6 standard feature package to $11.75 and the Centron 30 standard feature package to $15.50 and to reprice the optional features in each package to mirror the rates for the same features available on an ala carte basis. Both services are obsolete (not available to new customers), and the rate of subscribership for these services has continued to decline as new service options have become available to traditional Centron 6 and 30 subscribers. These proposed changes will ensure proper pricing alignment between Centron 1, Centron 6 and Centron 30, and customers of these services will be encouraged to shift into other Qwest packages that are even better solutions to their communications needs.

III. CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. The telecommunications marketplace in Arizona is changing rapidly, and competitive alternatives to traditional Qwest services have become a reality. In addition to the wide range of competitive alternatives available in the Long Distance market, a wide range of competitors are now offering local services and features to Arizona customers. Based on the degree to which competitors are active in the Phoenix and Tucson areas, I recommend relaxed regulatory oversight in specific

wire centers or "competitive zones." Implementation of competitive zones will enable Qwest to respond to consumers under conditions consistent for all carriers.

I am also recommending that all new services introduced by Qwest be automatically classified as "competitive." New services are, by definition, optional and discretionary and will succeed or fail based upon market acceptance. Streamlined competitive classification of new services will enable Qwest to respond quickly to market demands without the regulatory delays inherent in the existing reclassification process. In addition, I am proposing that Qwest be granted the ability to promote its products and services under the same guidelines as its competitors.

Finally, I have outlined pricing changes designed to rebalance rates, position services properly in the competitive Arizona market and allow recovery of the cost of providing local exchange service in high cost areas on a competitively neutral basis. These changes are in keeping with the evolving competitive market in Arizona, and are supportive of the growth of true competition.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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

EXHIBITS

OF

DAVID L. TEITZEL

QWEST CORPORATION

MAY 20, 2004

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BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF QWEST CORPORATION'S FILING OF RENEWED PRICE REGULATION PLAN	))	**DOCKET NO. T-01051B-03-0454**

STATE OF WASHINGTON)
: ss AFFIDAVIT OF DAVID L. TEITZEL
COUNTY OF KING)

David L. Teitzel, of lawful age being first duly sworn, depose and states:

1. My name is David L. Teitzel. I am Staff Director – Public Policy for Qwest Corporation. My business address is 1600 7th Ave, Seattle, Washington 98191.

2. Attached hereto and made a part hereof for all purposes is my testimony consisting of pages 1 through 102, and my exhibits numbered DLT-1 through DLT-18.

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

David L. Teitzel

SUBSCRIBED AND SWORN to before me this 10TH day of May, 2004.

Notary Public residing at Seattle Washington.

My Commission Expires: 9 July 2005

RUBEN PONCE JR. NOTARY PUBLIC COMMISSION EXPIRES 7-9-05 STATE OF WASHINGTON

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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

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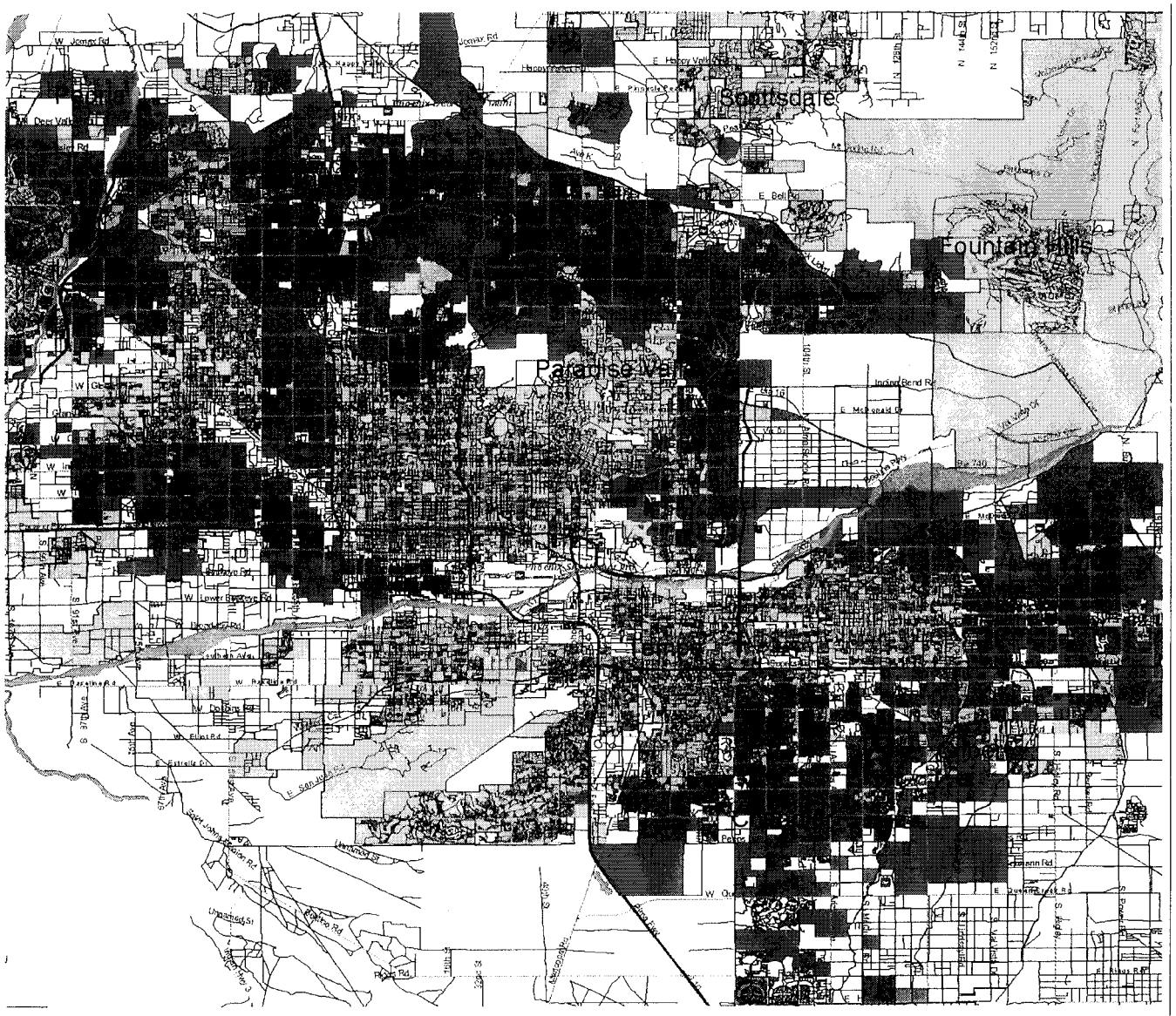
REDACTED

Arizona Corporation Commission
Docket No. T-01051B-03-0454
Docket No. T-00000D-00-0672
Qwest Corporation – DLT-2
Exhibits of David L. Teitzel
Pages 1-2, May 20, 2004

PHOENIX METRO

COX COMMUNICATIONS



TRIPLE PLAY
(CABLE + MODEM + PHONE)

DOUBLE PLAY
(CABLE + MODEM)

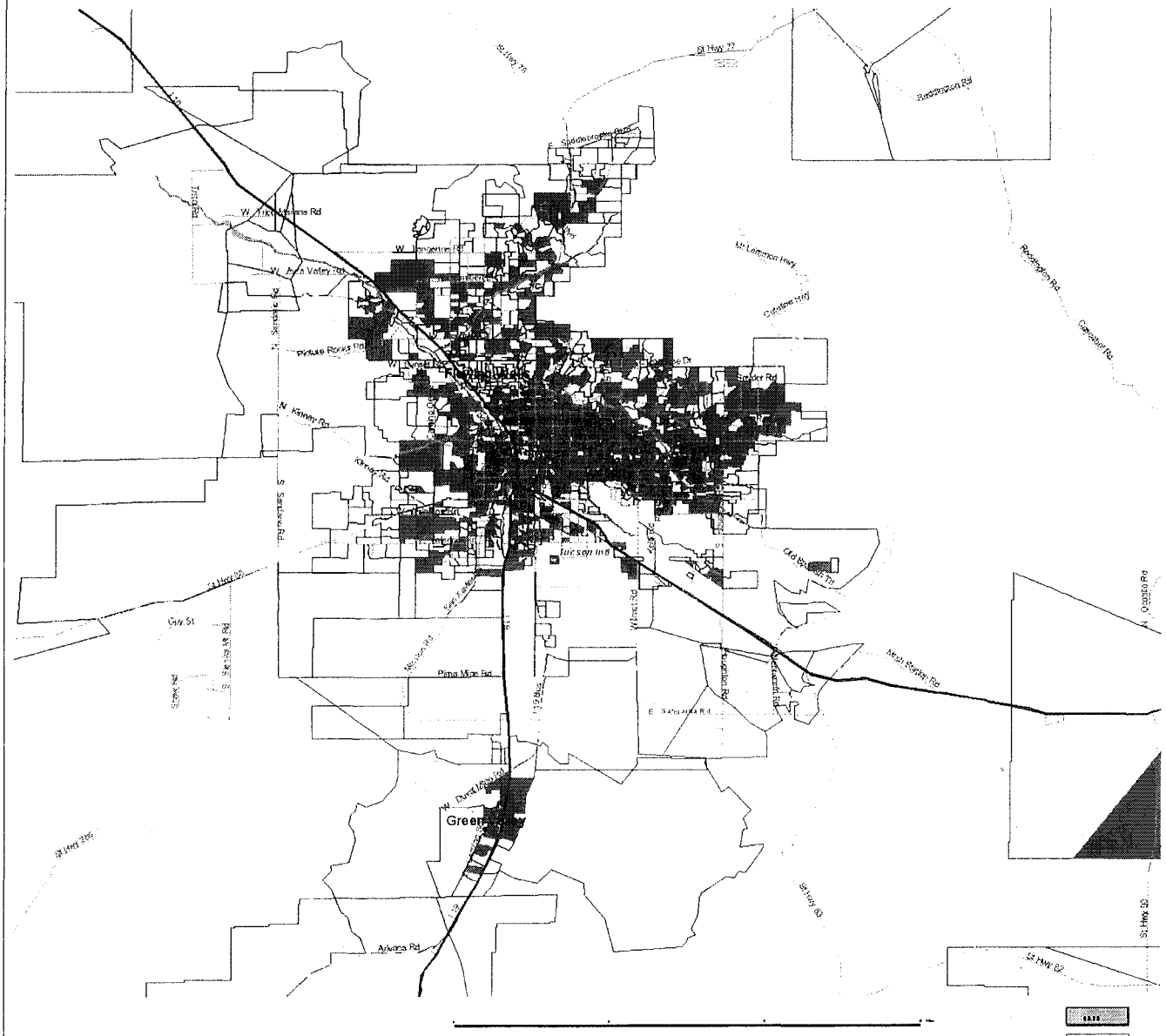
SINGLE PLAY
(CABLE ONLY)

Qwest
Spirit of Service

CONFIDENTIAL: This information is confidential and proprietary, for internal use only. Disclose and distribute solely to Qwest employees having need to know.

Data collection and analysis: Thomas and Kristin Hardie.
Marketing Analysis and Criteria: Thomas Hardie.
Map by and comments: Kristin Hardie.

TUCSON METRO



COX

- TRIPLE PLAY (CABLE + MODEM + PHONE)
- DOUBLE PLAY (CABLE + MODEM)
- SINGLE PLAY (CABLE ONLY)

COMCAST

- TRIPLE PLAY (CABLE + MODEM + PHONE)
- DOUBLE PLAY (CABLE + MODEM)
- SINGLE PLAY (CABLE ONLY)

NOTE Independent research firm Joyce Telecom Group concludes that the entire Tucson Cox footprint is telephony enabled in its Tucson Footprint Analysis published 8/14/03.

Qwest
Spirit of Service

CONFIDENTIAL: This information is confidential and proprietary to Qwest Business Only. Disclose and distribute solely to Qwest employees having a need to know.

Data collection and analysis: Jason Thomas and Kristin Hardie, Marketing Analysts and Customer Information Management. Mapping and compilation: Kristin Hardie.

Arizona Corporation Commission
Docket No. T-01051B-03-0454
Docket No. T-00000D-00-0672
Qwest Corporation – DLT-3
Exhibits of David L. Teitzel
Pages 1-51, May 20, 2004

COX DIGITAL CABLE

ENJOY ALL THE ADVANTAGES OF COX DIGITAL CABLE

- Access to over 250 channels
- Free standard service on all your TVs
- More premium channels than DirecTV® or Dish™ Network
- On-screen Interactive Program Guide
- 7 college and professional sports packages
- Local channels at no additional charge

DIGITAL VIDEO RECORDER

The DVR from lets you **pause and rewind live TV** or create your own instant replays. **Automatically record your favorite shows.** And watch them when you want.

- Record with the touch of a button
- Store up to 50 hours of programming
- Watch shows whenever you want
- Picture in picture

HIGH DEFINITION PROGRAMMING

HDTV is the biggest advance in television since color came in some 40 years ago. High Definition Service from gives you the absolute highest quality picture and sound.

- 1080i™ resolution
  - Six times sharper than traditional TV
  - Twice the color resolution
- Dolby® Digital 5.1 surround sound audio
- Theater wide-screen format
- More HD channels than satellite TV

COX DIGITAL TELEPHONE

SWITCH TO COX AND LOWER YOUR PHONE BILL EVERY MONTH

If you have Qwest phone service, you're paying more than you have to. Switch to Cox Digital Telephone today. You'll enjoy great savings every month and you can even keep your existing phone number. You can add any of the features you need. Plus, keep your existing phone number.

- Pay less than you're currently paying Qwest
- Enjoy the same popular features for less
- Great packages, including unlimited local and unlimited long distance for only $44.95 per month
- Keep your existing phone number

GREATER SAVINGS WHEN YOU ADD MORE SERVICES

Cox Digital Telephone offers a single phone line for just $11.75. Add other features for less than Qwest charges. Just look at the chart on the right and compare.

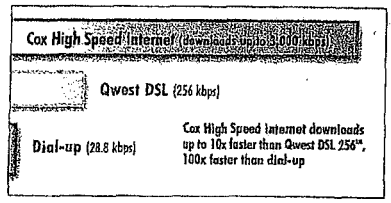
	COX	Qwest	Percent Savings
First Line	$11.75	$13.18	11%
Second Line	$ 8.50	$11.00	23%
Voice Mail	$ 4.95	$ 6.95	29%
Busy Line Redial	$ 2.00	$ 2.50	20%
Call Forwarding	$ 2.00	$ 2.75	27%
Call Forwarding-Remote Access	$ 2.00	$ 3.95	49%
Call Return	$ 2.00	$ 2.95	32%
Distinctive Ring	$ 2.00	$ 2.75	27%
Priority Ringing	$ 2.00	$ 2.50	20%
Privacy Control	$ 2.90	$ 2.95	1%
Selective Call Forwarding	$ 2.00	$ 2.50	20%
Selective Call Rejection	$ 2.00	$ 4.50	56%
Three-Way Calling	$ 2.00	$ 2.75	27%
Wire Maintenance	$ 3.95	$ 4.75	17%
Installation	FREE	$27.50	100%

COX HIGH SPEED INTERNET

Tired of waiting for your favorite web sites to load? Weary of hours spent downloading files and photos? Then try Cox High Speed Internet. It's the most affordable choice for blazing fast, reliable Internet connections.

- Download speeds up to 10x faster than Qwest DSL™
- Download speeds up to 100x faster than dial-up
- "Always On" Internet connection
- No phone line required
- Network up to 4 computers
- 7 email accounts with up to 70MB of web space

SPEED COMPARISON



WE GIVE OUR CUSTOMERS EVERYTHING THEY WANT WITH COX HIGH SPEED INTERNET

And in return, they give us their highest marks. Cox High Speed Internet, awarded PC Magazine's Readers' Choice for best high-speed Internet service.

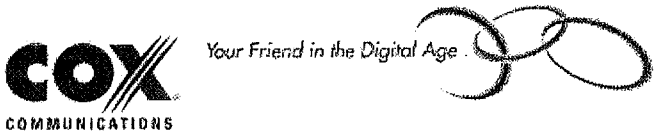
September 16, 2003 Cox High Speed Internet
Cox Communications, Inc.
PC Magazine Readers' Choice Award logo is a trademark of ZD Events Publishing Holdings Inc. Used under license.

Order today!

623-594-9439

www.cox.com/phoenix

Cox Digital Cable – Digital converter and remote rental ($5/mo) are required to receive Cox Digital Cable, multi-plexed premium movie channels and pay-per-view. A DVR capable converter and remote rental ($10/mo), subscription to a minimum service level of Cox Digital Cable, and a $5/mo service fee required to receive Cox DVR service. An HD capable converter and remote rental ($10/mo), subscription to a minimum service level of Cox Cable required to receive Cox HDTV service. Free Cox Standard service on additional TVs requires paid subscription to Cox Standard service on primary outlet. Additional monthly fees apply for Digital Cable, Digital Video Recorder programming and equipment on additional outlets. Maximum number of digital outlets per household may be limited. Subscription to Cox Digital Deluxe gives you access to over 250 channels, which includes access to 45 Music Choice channels, iN DEMAND/Sports pay-per-view channels (separate charges apply for all PPV programs) and access to up to 33 screens of multiplexed premium channels. All premium channels require a separate monthly charge. Names of the program services, features and programmers are the property of their respective owners. Cox Digital Telephone – If, during installation, we need to repair any inside wiring or add any new jacks, we may have to charge for additional work. Cox Long Distance available only to Cox Digital Telephone residential customers who subscribe to Cox total phone service. Free installation with Cox fast connect is available to anyone who currently uses Cox Cable or Internet service or who currently receives phone service and would like just one phone line and does not have a home alarm system. If you prefer, we will provide professional installation at an additional fee of $24.95. Savings are based on a comparison of Cox a la carte rates to published Qwest rates as of January 12, 2004. $11.75 per line rate is for customers who also have Cox cable or Internet service; telephone-only customers pay $19.00 per line. Unlimited minutes of Cox long distance are limited to direct-dialed long distance calls within the United States. Subscription to Cox for local, toll and long distance service required. Cox High Speed Internet – Home networking requires purchase of home networking equipment, applies to up to four PCs and a limited number of other devices, and is subject to other terms and conditions. Speed comparisons based upon maximum 3 Mbps downstream transfer speeds of Cox High Speed Internet service with published 256 kbps maximum downstream transfer speeds of Qwest DSL 256™ and a 28.8k telephone modem. Actual speeds will vary. Cox cannot guarantee uninterrupted or error-free service or the speed of your service. Visit www.cox.com/speed for more details. Qwest DSL is a registered service mark of Qwest Communications International, Inc. All rates and offers subject to change and exclude applicable taxes, equipment fees, and franchise fees. Deposit may be required. Other restrictions and limitations apply. Call Cox Communications for more details. ©2004 Cox Communications, Inc. All rights reserved. 1839 bayen adpr 1,413m 2/04



Cox Digital Services

Select a service plan

ORDER

Do you have other Cox services? Get the most popular features at a great price and complete your order faster by choosing one of our "Connection" savings plans. Are you new to Cox? Scroll to the "Non Cox Customers" section at the bottom of this page and select "Build your service plan step-by-step".

Current Cox Customers - Customers who currently have Cox Cable, Cox Digital Cable or Cox High Speed Internet.

- ○ **Connection 60**
  For $29.95 per month the Connection 60 plan includes one phone line, Solutions feature package, US Long Distance savings plan ($0.07 per minute) and 60 minutes of Cox Domestic Long Distance per month. When choosing this package you are required to use Cox local and long distance.
- ○ **Connection 90**
  For $39.95 per month the Connection 90 plan includes two phone lines, Solutions feature package on primary line, US Long Distance savings plan ($0.07 per minute) and 90 minutes of domestic Cox Long Distance per month.When choosing this package you are required to use Cox local and long distance.
- ○ **Connection Unlimited**
  For $44.95 per month the Connection Unlimited plan includes one phone line, Solutions feature package, Voicemail and unlimited long distance calling within the United States. When choosing this package you are required to use Cox local and long distance.
- ○ **Build your service plan step-by-step**

Non Cox Customers - Customers who do not currently have Cox Cable, Cox Digital Cable or Cox High Speed Internet.

- ○ **Build your service plan step-by-step**

◄ PREVIOUS CANCEL CONTINUE ►

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Connection 60
For $29.95 per
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1 line, Solutions
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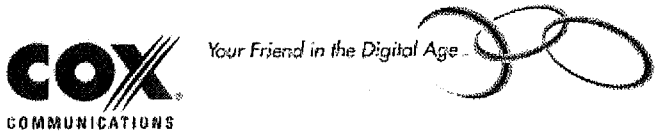
Disclaimer:

- Some features may not be available in all areas
- Long distance minutes limited to direct dialed calls. Unused minutes do not roll over month to month.

Copyright 1998-2004 Cox Communications, Inc.



Cox Digital Services

Select options, packages and features

ORDER

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Build your service plan by selecting from the options below. Click the "MORE INFO" links for detailed information on the service plans and options offered.

To select an option click the check box or radio button. In a list with radio buttons (circles), you may only select one item. In a list with checkboxes (squares), you may select more than one item. To unselect an option and select another option, click the check box or radio button again.

Items with * are required.

*Phone line service options

MORE INFO

Current Cox Customers - Customers who currently enjoy Cox digital cable or Internet services

- ◯ **Connection 60** - 1 line, Solutions Package, 60 minutes domestic long distance. When choosing this package you are required to use Cox local and long distance. — $29.95
- ◯ **Connection 90** - 2 lines, Solutions Package, 90 minutes domestic long distance. When choosing this package you are required to use Cox local and long distance. — $39.95
- ◯ **Connection Unlimited** - 1 line, Solutions Package, voicemail, unlimited minutes domestic long distance. When choosing this package you are required to use Cox local and long distance. — $44.95
- ◯ **Flat Rate Service** - basic phone line service — $11.75

Non Cox Customers - Customers without Cox digital cable or Internet services

- ◯ **Flat Rate Service** - basic phone line service — $13.00

*Select your calling feature package (monthly pricing)

MORE INFO

- ◯ **Active Lifestyle** - Call Forwarding, Three-Way Calling, Call Waiting, Speed Calling, Busy Line Redial — $6.95
- ◯ **Solutions** - Our 16 Most Popular Features — $14.95
- ◯ **None**

Add a la carte features (monthly pricing)

MORE INFO

☐ Anonymous Call Rejection	Free	☐ Priority Ring	$2.75
☐ 900 & 976 Number Block	Free	☐ Long Distance Alert	$2.75
☐ Caller ID Block	Free	☐ Selective Call Acceptance	$2.75
☐ Three - Way Calling	$2.75	☐ Selective Call Forwarding	$2.75
☐ Busy Line Redial	$2.75	☐ Selective Call Rejection	$2.75
☐ Speed Calling	$2.75	☐ Call Waiting	$4.95
☐ Call Forwarding	$2.75	☐ Caller ID	$5.95
☐ Call Forwarding Busy	$2.75	☐ Call Waiting ID	$9.00
[illegible]	[illegible]	☐ Call Forwarding on Call	[illegible]

☐ Call Forwarding No Answer	$2.75	☐ Call Forwarding on Call Waiting	$2.75
☐ Call Return	$2.75	☐ Cox Service Assurance	$3.95

***Voice mail options (monthly pricing)** MORE INFO

◯ No Voice Mail		◯ Voice Mail	$4.95
◯ Voice Mail Box Extensions	$7.90	◯ Voice Mail Plus	$6.95
◯ Voice Mail Plus Extensions	$9.90		

***Intralata - Local toll provider** MORE INFO

You have a choice of Local Toll companies, including Cox Arizona Telcom, LLC, for local toll service. Please review the list below of the companies available, or you may select Cox Arizona Telcom, LLC by clicking Cox Arizona Telcom, LLC.

☐ Cox Arizona Telcom, LLC -or- **Choose one**

***Interlata - Long distance provider** MORE INFO

You have a choice of Long Distance Providers, including Cox Arizona Telcom, LLC, for long distance service. Please review the list below of the companies available, or you may select Cox Arizona Telcom, LLC by clicking the box for Cox Arizona Telcom, LLC.

☐ Cox Arizona Telcom, LLC -or- **Choose one**

***Domestic savings plans (monthly pricing)** MORE INFO

◉ None		U.S. Savings Plan ($0.07 per minute)	$3.95
Basic Long Distance ($0.10 per minute)	Free	U.S. 500 Savings Plan ($0.05 per minute)	$25.00
US 250 Savings Plan ($0.06 per minute)	$15.00		

***International savings plan (monthly pricing)** MORE INFO

◉ None		International Plan	$2.95

***Directory listings (monthly pricing)** MORE INFO

◯ Name, Address, 411 & White Pages	Free	◯ 411 Listing Only	$2.00
◯ White Pages & 411 Listing (address not published)	Free	◯ Neither White Pages nor 411 Listing (Unlisted/Unpublished)	$2.00

How do you want your name to be listed? John Doe, Samantha Jones, etc.

Calling cards & jacks MORE INFO

Please select the number of calling cards you will need (if any): **0**

Additional jacks **0**

◀ PREVIOUS ✖ CANCEL CONTINUE ▶

Special Instructions

All services are pursuant to the tariff and found at the following link:
http://www.Cox.com/telephone/residential%20telephone%20prices.asp

Disclaimers

- Some features may not be available in all areas.
- Long distance minutes limited to direct-dialed calls. Unused minutes do not roll over month to month.
- All rates are Cox Preferred rates for customers who subscribe to other Cox Services, excluding inside wiring costs, jacks, taxes and surcharges, and are subject to change.

- Additional equipment needed for caller ID and call waiting ID.
- All domestic calling cards calls within the continental United States are a low $0.45 per minute with no surcharge. Although there is no per call surcharge associated with the calling cards, a $0.30 surcharge applies to all calls originating from pay phones. Subject to change.
- Activation excludes costs to install inside wiring and phone jacks.
- Installation of phone jacks and inside wiring is charged separately (or is additional).
- Free activation offer excludes activation of inside wiring and additional jacks.
- **Connection 60** - Service available to residential customers in limited areas. All rates are Cox Preferred rates for customers who subscribe to other Cox Services, excluding inside wiring costs, jacks, taxes and surcharges, and are subject to change. Local service limited to flat-rate basic local exchange service on the on the primary line only for Connection 60, 200 and 300 and on up to 2 lines for Connection 90. Included long distance minutes are limited to direct-dialed in-state and state-to-state long distance calls, have no cash value and expire at the end of each month. Additional minutes billed at $0.07 per minute. Customers must subscribe to Cox for local, in-state and state-to-state long distance. Not all features available in all areas. Other restrictions apply. 2003 Cox Communications Inc. All rights reserved.
- **Connection 90** - Service available to residential customers in limited areas. All rates are Cox Preferred rates for customers who subscribe to other Cox Services, excluding inside wiring costs, jacks, taxes and surcharges, and are subject to change. Local service limited to flat-rate basic local exchange service on the on the primary line only for Connection 60, 200 and 300 and on up to 2 lines for Connection 90. Included long distance minutes are limited to direct-dialed in-state and state-to-state long distance calls, have no cash value and expire at the end of each month. Additional minutes billed at $0.07 per minute. Customers must subscribe to Cox for local, in-state and state-to-state long distance. Not all features available in all areas. Other restrictions apply. Connection 90 feature package included on primary line only. The included long distance minutes are limited to direct-dialed state-to-state and in-state long distance calls each month on the primary line only. 2003 Cox Communications Inc. All rights reserved.
- **Unlimited Connection Package** - Unlimited Connection Package minutes of Cox long distance are limited to direct-dialed long distance calls within the United States. Subscription to Cox for local, toll and long distance service required. $44.95 special monthly rate for Unlimited Connection Package is valid for one year, then will revert to regular rate of $49.95 per month.

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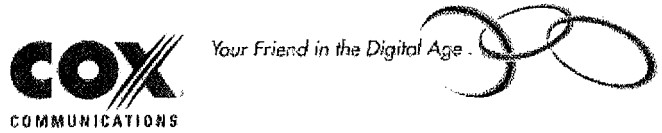

Phoenix

Digital Telephone

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Ask us live!
Mon-Fri
9am-6pm

BEST DEALS

EasyPay
AUTOMATIC
SECURE
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FAQ's

1... What parts of the valley are serviceable today? How long will it take to service the rest of the valley?
2... How good will the voice quality be?
3... Will I have to buy a special telephone for the new service?
4... What phone books will our information go in?
5... What makes Cox Digital Telephone better than its competitors?
6... Will Cox Digital Telephone lines work with regular computer modems?
7... Is Cox renting its phone line from another service provider?
8... Can I keep my current phone number?
9... Does someone have to be home at the time of install?
10. What exactly do you do during the time of install?
11. What is an Network Interface Unit (NIU)?
12. Will the house have to be re-wired?
13. Does Cox provide Long Distance Services too?
14. Is there a fee to switch to Cox Long Distance?
15. What's the difference between intra-state and inter-state?
16. What are some of the FCC charges that I see on my bill for?
17. With Cox Digital Telephone, will directory assistance be available? How much will it cost?
18. Can I have all of my Cox services billed together?

1. What parts of the valley are serviceable today? How long will it take t service the rest of the valley?

At this time Cox Digital Telephone is available in much of the Valley. Click he to check for availability of your address.

Our services will continue to roll out based upon the installation of fiber optic cable and the hardware required to facilitate the return of the digital signal ba to the serving Head End or MTC. Cox Communications is aggressively pursuing the installation of these facilities and has committed millions of dolla over the next several years to complete the process Valley wide.

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2. How good will the voice quality be?

Cox's digital broadband network provides excellent voice quality that meets today's telecommunication standards.

back to top

3. Will I have to buy a special telephone for the new service?

No, the telephone devices working with your current service should work on Cox's Digital Telephone service. Cox utilizes the same type of switching

equipment and software as other telephone service providers.

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4. What phone books will our information go in?

The same directory that they currently reside in: Qwest Dex.

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5. What makes Cox Digital Telephone better than its competitors?

Cox Digital Telephone is provided over a digital fiber-optic network that has made Cox first in reliability. Our state-of-the art technology assures you of crystal-clear connections and, to keep your phone service trouble-free, we monitor the network 24 hours a day.

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6. Will Cox Digital Telephone lines work with regular computer modems

Yes, Cox telephone service also works with dial-up modems.

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7. Is Cox renting its phone line from another service provider?

No, Cox Communications is a facilities-based provider. That means all of our services are provided over a network that we've built and monitor.

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8. Can I keep my current phone number?

Yes, in most instances, you can! Local Number Portability (LNP) allows a customer to change local exchange carriers and maintain their current telephone number, even though they are now serviced by a different provide

back to top

9. Does someone have to be home at the time of install?

This depends on the work being done. In some instances, we can install you phone service from the outside of your home without you having to be there. When ordering your service, ask one of our representatives if this is an optio for you.

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10. What exactly do you do during the time of install?

We will attach a Network Interface Unit (NIU) to the side of the your home (usually where the other utilities are located), test phone lines and jacks, veri services and test outgoing and incoming call ability.

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11. What is an Network Interface Unit (NIU)?

A Network Interface Unit (NIU) is the device placed on the side of a custome house that connects incoming signals to the wiring inside a customer's home Cox's NIU is similar to the device that other phone companies utilize.

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12. Will the house have to be re-wired?

Usually not. There might be a time when our customer wants an outlet in a place that is not pre-wired or there is a problem with the existing pre-wire but this is the exception, not the rule.

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13. Does Cox provide Long Distance Services too?

Yes, Cox has two long distance plans available to meet your needs. The Cox everyday plan is only $ .10 per minute, 24 hours a day with no monthly fee. C you can chose the Cox U S Savings Plan that provides long distance service $ .07 per minute 24 hours a day for a low monthly fee.

back to top

14. Is there a fee to switch to Cox Long Distance?

Answer: There is no charge to switch over to Cox Long Distance. And, Cox Long Distance is simple and affordable. Calls in the U.S. are just .07 or .10 cents a minute, depending on the plan you choose.

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15. What's the difference between intra-state and inter-state?

Intra-state refers to calls that originate and terminate within the same state. Inter-state calls originate in one state and terminate in another. For example, call from Phoenix to Tucson is considered intrastate, while a call from Phoen to Houston, TX is interstate. Cox Communications is licensed to provide both intra and interstate services to our customers.

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16. What are some of the FCC charges that I see on my bill for?

The Universal Fund Fee was created by the FCC to help provide affordable telecommunications services for low-income families, to remote areas and advanced services, such as Internet access, to eligible organizations. All long distance carriers pay into this fund. The Carrier Line Fee helps recover a portion of fees paid to other telephone companies for access.

back to top

17. With Cox Digital Telephone, will directory assistance be available? How much will it cost?

Directory Assistance is available with Cox Digital Telephone service. Director Assistance is $.60 for each use.

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18. Can I have all of my Cox services billed together?

Yes Cox provides a flexible billing option so customers can decide what products and services they wish to have billed together, and which services they wish to have on separate statements.

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Calling cards

Calling Cards

Stop paying per call service charges every time you use a calling card! End the mystery of how much you will be charged for a call. With the Cox Digital Telephone Calling Card, there is no per call surcharge for within the United States. Plus, calls are a flat per minute rate, no matter where you call within the U.S. Perfect for when you are on the road and need to make a call!

The Cox Digital Telephone Calling Card gives you the convenience of making local and long-distance phone calls while you are away from your own phone then billed on your monthly Cox Digital Telephone bill.

Jacks

Also known as a phone jack this is an outlet that your phone plugs into in order to begin placing telephone calls. As a new subscriber to Cox Digital Telephone it is not necessary to order new phone jacks for your residence; the existing phone jacks in your home will continue to work just fine. If you do require additional jacks or need Cox to move existing jacks there may be an additional fee for every phone jack that you request. This fee will vary by your geographical location and can range anywhere from $25 to $55 per additional phone jack.

RETURN

FREE Installation with Cox fast connect!

Crystal Clear Digital Telephone, Plain and Simple.

If you currently have Qwest phone service, you're paying more than you have to. With Cox Digital Telephone you'll enjoy great savings every month!

Cox Digital Telephone offers a single phone line for just $11.75 a month if you already have Cox Digital Cable or Cox High Speed Internet. And, if you don't, it's just $13.00 a month. If that's all you want to pay, you'll pay nothing more. It's your choice. Plus, we offer the same features as Qwest for less money.

Call Waiting FREE & Caller ID First Month

Call us today and make the switch.

Switching is easy. Just call and tell us you'd like to lower your phone bill every month! Plus, you can ***keep your current phone number***. Don't wait. Switch to Cox Digital Telephone before this offer expires on July 27! Order now and get ***FREE installation*** with Cox fast connect and ***first month FREE of Call Waiting and Caller ID***.

Pick and Choose Your Telephone Features and Save.

	Cox	Qwest	Percent Savings
Primary Line	$11.75	$13.18	11%
Second Line	$8.50	$11.00	23%
Voice Mail	$4.95	$6.95	29%
Busy Line Redial	$2.00	$2.50	20%
Call Forwarding	$2.00	$2.75	27%
Call Forwarding Remote Access	$2.00	$3.95	49%
Call Return	$2.00	$2.95	32%
Distinctive Ring	$2.00	$2.75	27%
Priority Ringing	$2.00	$2.50	20%
Privacy Control	$9.90	$9.95	1%
Selective Call Acceptance	$2.00	$2.50	20%
Selective Call Forwarding	$2.00	$2.50	20%
Selective Call Rejection	$2.00	$4.50	56%
Three-Way Calling	$2.00	$2.75	27%
Wire Maintenance	$3.95	$4.75	17%
Installation	FREE	$27.50	100%

Our disclaimer is plain and simple, too.

Offer is good through July 27, 2003. If, during installation, we need to repair any inside wiring or add any new jacks, we may have to charge for additional work. If you choose Caller ID, you will need to use a compatible display unit. After your first free month of Call Waiting ID we will automatically include Call Waiting ID on your monthly bill at the rate of $9.00. If you do not wish to continue Call Waiting ID, just give us a call and we'll take it off any future bills. Fast connect installation is available to anyone who currently uses Cox services or who currently receives phone service and would like just one phone line and does not have a home alarm system. If you prefer, we will provide professional installation at an additional fee of $24.95. Savings are based on a comparison of Cox a la carte rates compared to published Qwest rates as of April 25, 2003. Lastly, as with every telephone provider, applicable taxes and surcharges must be added to our rates and they are subject to change. Telephone services are provided by Cox Arizona Telcom, LLC. Other restrictions and limitations may apply. © 2003 Cox Communications, Inc. All Rights reserved.

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- Your phone line is as low as $11.75 a month
- Enjoy your favorite features for less than you're paying Qwest
- Keep your existing phone number

COX COMMUNICATIONS

Your Friend in the Digital Age

News Releases

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Cox Communications Delivers Cox Digital Telephone to 12th Market; Roanoke, Va. Marks Cox's First Market Launch of VoIP Technology

ATLANTA, Dec 15, 2003 (BUSINESS WIRE) -- Cox Communications (NYSE:COX) today announced the availability of Cox Digital Telephone in Roanoke, Va., marking the company's 12th telephone market and first deployment of Voice over Internet Protocol (VoIP) technology. Cox's VoIP technology enables phone calls to be transported over Cox's private, IP-based data network.

"The launch of Cox Digital Telephone in Roanoke is monumental for Cox," said David Pugliese, Cox's vice president of product marketing and management. "It furthers our commitment to providing customers with a full-service package of communications and entertainment services, while also allowing us to expand our phone service footprint and maximize the power of our nationwide IP backbone network with the use of VoIP technology. Telephony is a critical component of Cox's bundle of advanced services, as underscored by the fact that 40 percent of Cox Digital Telephone customers also subscribe to Cox High Speed Internet and video."

Cox Digital Telephone subscriptions have grown 40 percent in 2003 over the same period in 2002 largely due to its competitive value, reliable service and quality customer service. In just six years time, Cox has successfully pioneered cable telephony via circuit-switched technology -- garnering proven experience that has been central to its VoIP launch while also receiving highest honors in J.D. Power and Associates' 2003 Residential Local Telephone Customer Satisfaction Study in the Western Region. Now, with Cox's first market launch of VoIP technology, Cox delivers its quality telephone service to residential households in Roanoke, while providing opportunities for greater operational efficiencies. With Cox's VoIP architecture, customers receive the same lifeline service as traditional telephone service, including Enhanced 911 and the popular calling features that customers have come to expect such as call waiting, caller ID and voice mail. Cox's self-managed VoIP architecture also supports number portability, thereby enabling customers to switch their existing phone number over to Cox Digital Telephone service.

Cox Digital Telephone markets include: San Diego; Orange County, Calif.; Phoenix; Omaha, Neb.; Connecticut; Rhode Island; Hampton Roads, Va.; New Orleans, La.; Oklahoma City, Okla.; Wichita, Kansas; Tucson, Ariz.; and Roanoke, Va.

Cox Communications (NYSE:COX), a Fortune 500 company, is a multi-service broadband communications company with approximately 6.6 million total customers, including 6.3 million basic cable subscribers. Cox is the nation's fourth-largest cable television provider, and offers both traditional analog video programming under the Cox Cable brand as well as advanced digital video programming under the Cox Digital Cable brand. Cox provides an array of other communications and entertainment services, including local and long distance telephone under the Cox Digital Telephone brand; high-speed Internet access under the brands Cox High Speed Internet and Cox Express; and commercial voice and data services via Cox Business Services. Telephone services in Virginia are provided by Cox Virginia Telcom, Inc. Local cable advertising, promotional opportunities and production services are sold under the Cox Media brand. Cox is an investor in programming networks including Discovery Channel. More information about Cox Communications can be accessed on the Internet at www.cox.com.

SOURCE: Cox Communications

Cox Communications Bobby Amirshahi, 404-843-7872 Bobby.Amirshahi@cox.com Laura Oberhelman, 404-269-7562 Laura.Oberhelman@cox.com

"Safe Harbor" Statement under the Private Securities Litigation Reform Act of 1995: Statements in this press release regarding Cox Communications Inc.'s business which are not historical facts are "forward-looking statements" that involve risks and uncertainties. For a discussion of such risks and uncertainties, which could cause actual results to differ from those contained in the forward-looking statements, see "Risk Factors" in the Company's Annual Report or Form 10-K for the most recently ended fiscal year.

News Releases

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Cox Communications Surpasses Five Million Digital Service Subscriptions
ATLANTA--(BUSINESS WIRE)--Feb. 12, 2004--

Cox Serves Two Million Digital Cable, Two Million High-Speed Internet

and One Million Digital Telephone Customers Nationwide

Cox Communications, Inc. (NYSE:COX), today announced that it surpassed 5 million digital service subscriptions in January by reaching key customer milestones in its digital video, Internet and telephone services.

In 1997, Cox was the first company to deliver a full package of telephone, high-speed Internet and digital cable television over a single broadband network. Today, Cox has 2 million digital cable television subscriptions, 2 million high-speed Internet subscriptions and 1 million digital telephone subscriptions.

"We are thrilled with the continued growth of our suite of digital services in this increasingly competitive environment," said Pat Esser, Chief Operating Officer. "These milestones illustrate that Cox is the provider of choice to our customers in the delivery of a true bundle of video, Internet and telephone services."

Cox Digital Video

Cox continues to enjoy a leading share of the multi-channel video market in all of its service areas. Cox Digital Cable is available to 98 percent of all homes in Cox markets, and more than one-third of Cox's video customers choose digital cable service over traditional analog cable. In 2003, Cox focused on the continued rollout of advanced video offerings such as high definition service, Entertainment on Demand and digital video recorder service.

"Innovative and high-tech advanced video services only increase our customer value proposition," said David Pugliese, Vice President of Product Marketing and Management. "We recognize that high-definition television services, in particular, will be a key purchase criterion for consumers, so we've moved rapidly to make this service available to 85 percent of our customer base."

Cox High Speed Internet

Cox High Speed Internet, the company's fastest-growing service, experienced year-over-year growth of 41 percent in 2003. Cox is the third-largest cable Internet service provider in the country, and Cox High Speed Internet is the only broadband service to be graded "A+" in 2003 by the readers of PC Magazine. Seven out of ten broadband customers in Cox markets have Cox High Speed Internet instead of DSL service, exceeding the 64 percent nationwide penetration of cable modem service.

Cox's flagship level of Internet service - a 3 Mbps download speed service for approximately $40 per month (bundled price) - continues to offer the most speed for the best price, making Cox High Speed Internet the best value in the marketplace today.

Cox Digital Telephone

Cox's successful seven-year history of providing primary line telephone service is key to its bundling strategy and has resulted in more than one million

telephone customers. In Cox's most mature markets, one in three homes subscribe to Cox Digital Telephone.

"As the leading provider of cable telephony services, Cox has gained invaluable experience as a primary access line provider, which is a key component to our successful bundling strategy," said Pugliese. "Our competitors are attempting to build a bundle of services through co-marketing agreements or partnerships. Meanwhile, the Cox bundle remains the only truly integrated bundled option in our markets, affording customers enhanced convenience, flexibility and value."

Cox's highly reliable and robust platform, integrated billing system and award-winning customer care have been the keys to both winning and keeping its telephone customers' business. In 2003, the company grew its residential telephone customer base by 38 percent. In addition, the company received the highest honors in the J.D. Power and Associate's 2003 Residential Local Telephone Customer Satisfaction Survey for the Western Region -- over entrenched competitors Qwest, SBC and Verizon.

"We take great pleasure in the achievement of each of our digital subscriber milestones, but the growth of our telephony customer base holds special reward," said Esser. "We've proven that cable providers can successfully be telephone providers and we look forward to continuing our leadership position by offering the service to a broader segment of our customer base in 2004."

"The strong results we achieved in 2003 are testament to the professionalism and dedication of Cox's employees. In the last several years, we've enjoyed many accolades that have validated our strategy and recognized the excellence of our execution. We firmly believe that the quality of our products and the excellence of our service delivery are second to none. This belief is proven by the outstanding growth we continue to see in each of our product categories," said Esser.

About Cox Communications

Cox Communications (NYSE:COX), a Fortune 500 company, is a multi-service broadband communications company with approximately 6.6 million total customers, including 6.3 million basic cable subscribers. The nation's fourth-largest cable television provider, Cox offers both analog cable television under the Cox Cable brand as well as advanced digital video service under the Cox Digital Cable brand. Cox provides an array of other communications and entertainment services, including local and long distance telephone under the Cox Digital Telephone brand; high-speed Internet access under the Cox High Speed Internet brand; and commercial voice and data services via Cox Business Services. Local cable advertising, promotional opportunities and production services are sold under the Cox Media brand. Cox is an investor in programming networks including Discovery Channel. More information about Cox Communications can be accessed on the Internet at www.cox.com.

CONTACT: For Cox Communications
Bobby Amirshahi, 404-843-7872
Laura Oberhelman, 404-269-7562

SOURCE: Cox Communications, Inc.

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BUSINESS

FRIDAY, SEPTEMBER 19, 2003

AT&T begins local service in Arizona

OSCAR ABEYTA
Tucson Citizen

Choices continue to multiply for Tucson telephone customers with the announcement yesterday that AT&T plans to offer local service in Arizona.

AT&T plans several phone service packages that bundle local calling, calling features and long-distance service.

Arizona and Minnesota are the first states in Qwest Communications International's territory where AT&T will offer competitive local service. AT&T already provides local service to more than 3 million customers in 13 other states.

To spur local phone competition, Arizona regulators last year slashed the rates Qwest is allowed to charge competitors to lease its lines.

"We are making this commitment because both the Federal Communications Commission and the Arizona

Corporation Commission decided to stick to the intent of the Telecommunications Act," AT&T Senior Vice President Kevin Crull said in a statement.

The residential phone market here has changed dramatically since 2001, when Qwest was the only company offering local service to residential customers. Since then, MCI has begun offering local and long-distance service by leasing Qwest's lines. Cox Communications started offering local and long-distance telephone service over its cable network.

"We welcome AT&T to the market, even if they are a bit late in getting in the game," Qwest spokesman Jeff Mirasola said. "It's no coincidence that they're finally beginning to compete in the local market just three short months before we expect to receive approval from the (FCC) to sell long-distance services to Arizona customers."

Qwest is the only phone company that offers service throughout Arizona. MCI and AT&T do not offer service in remote areas because the cost to lease those lines from Qwest makes it unprofitable. Cox offers phone service to areas that receive Cox cable service.

To see if AT&T local service is available in your area or to order service, call (800) 288-4255.

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February 2004

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15	16	17	18	19	20	21
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29						

- Today's Events

Check out what's going on in and around Tucson, with the Citizen's new events calendar.

The Business Journal of Phoenix - June 24, 2003
http://phoenix.bizjournals.com/phoenix/stories/2003/06/23/daily11.html

The Business Journal
PHOENIX

LATEST NEWS

June 24, 2003

Cox adds phone service for Tucson area

Cable giant Cox Communications Inc. late Monday announced the launch of its digital telephone service in Tucson area.

Cox Digital Telephone is now available to more than 200,000 households in the Tucson-Green Valley area.

On a nationwide scale, Tucson marks the 11th market in which Cox provides local and long distance digital telephone service.

Cox Communications is an Atlanta-based multiservice broadband communications company, serving approximately 6.3 million customers nationwide, including those in Arizona.

For more: www.cox.com.

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Radyne ends Wegener bid

Radyne ComStream Inc.'s offer to purchase all of the outstanding publicly held shares of Wegener Corp. at a price of $1.55 per share expired and the company will not further pursue an acquisition.

The minimum tender condition of a majority of the shares being tendered was not satisfied. Although Radyne ComStream prepared a consent solicitation statement seeking to obtain control of the Wegener board of directors, it decided not to proceed with the consent at this time, Radyne officials said.

"We believe we have done what we can to awaken Wegener's stockholders to our desire to purchase the company," said Radyne ComStream Chief Executive Bob Fitting. "It is now in their hands to put pressure on the board of directors to act in the best interests of the stockholders."

Fitting said Wegener stockholders had taken the first step in addressing the board's entrenchment by filing a lawsuit against the directors related to the tender offer -- a lawsuit which Wegener did not disclose to its stockholders.

"Wegener is simply less attractive to us at this point, and, without a strong push from the stockholders or a reversal of the board's attitude towards entrenchment, we do not intend to pursue this matter further," Fitting said.

Wegener officials were happy that what they considered a hostile takeover has come to an end.

"We are extremely pleased with this outcome and thank our stockholders for their overwhelming support throughout this process," said Robert Placek, chairman, president and chief executive of Wegener Corp., in a statement.

"We look forward to putting this unwelcome and costly disruption behind us so that we can focus our attention on managing the business in the best interests of Wegener's stockholders without further distraction."

Duluth, Ga.-based Wegener is an international provider of digital solutions for IP data, video and audio networks.

Radyne is a manufacturer of products, systems and software used for the transmission and reception of data and video over satellite, microwave and cable communication networks.

For more: www.radn.com.

Cox expands in Arizona

Cox Communications Inc. expanded its Cox Digital Telephone service to more than 200,000 households in Tucson and Green Valley.

Cox Digital Telephone has been available in Phoenix since 1998, making Cox the second-largest provider in Arizona. It's currently available to more than 700,000 Valley households. Cox plans to offer Valleywide service within the next three to four years.

In Arizona, Cox customers pay $11.75 per month for a Cox Digital Telephone line and a second Cox phone line is $8.50.

Special calling features -- such as voice mail, caller ID, call waiting, call forwarding, privacy control and other services -- are available, and customers who sign up for more than one feature receive additional discounts.

Cox Communications is a broadband communications company serving nearly 1.48 million residential and business service subscribers in Phoenix and Southern Arizona.

The Business Journal of Phoenix - September 10, 2003
http://phoenix.bizjournals.com/phoenix/stories/2003/09/08/daily29.html

The Business Journal
PHOENIX

LATEST NEWS

September 10, 2003

Cox targets Latino market with cable/phone combinations

Cox Communications Inc. hopes to add to its customer base with two new long-distance calling plans, geared to people with friends or families in Mexico.

The plans will offer customers up to 120 minutes of free long-distance calls to Mexico each month, with additional minutes at just 15 cents per minute.

"Cox is committed to providing high-quality products and services that meet the needs of the Latino community," said Steve Rizley, vice president and general manager of Cox Communications Arizona. "In addition to providing Spanish-speaking customer service representatives and field technicians, we're now offering these special calling plans to help families stay connected with loved ones in Mexico."

The first plan offers Cox customers 60 minutes of free long-distance calls to Mexico each month when they subscribe to Cox Digital Telephone with at least one added feature, such as Caller ID or Call Waiting, and Cox Digital Cable with TeleLatina, the Spanish-language program package. That package starts at $64.20 per month before taxes.

The second plan includes 120 minutes of free long-distance calls to Mexico each month when customers subscribe to Cox Digital Cable with TeleLatina and Cox Digital Telephone with a feature package such as Active Lifestyle, which includes Call Waiting, Call Forwarding, Three Way Calling, Speed Calling and Busy Line Redial. That package starts at $68.40 per month.

Atlanta-based Cox Communications is a multiservice broadband communications company serving nearly 1.55 million residential and business service subscribers in Phoenix and Southern Arizona.

For more: www.cox.com/phoenix.

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Interactive Town Tour
An Interactive Guide to Verrado's Proposed Amenities

Fast Facts

Access

From downtown Phoenix, travel west on I-10 to Verrado Way, exit 120.

Acreage

The Verrado site is approximately 8,800 acres. Phase I comprises 1,145 acres.

Community Size

Current plans for Verrado call for 9,500 homes (with the site zoned for up to 14,000 homes) with 325 proposed acres of parks and up to 4 million square feet of commercial space. Phase I plans include 2,040 homes.

Education

Verrado resides in the Litchfield Elementary School District, the Saddle Mountain School District and the Agua Fria Union High School District. Part of the Litchfield Elementary School District, Verrado's first elementary and middle school is scheduled to open in the fall of 2004

Communications Services

Verrado is a Cox Digital Community providing residents with the latest technology through Cox's state-of-the-art fiber-optic-based network. With Cox Digital Cable, Cox Digital Telephone and Cox High Speed Internet, residents can enjoy access up to 250 channels, phone service and fast download speeds.

Elevation

Ranging from 1,100 to 3,600 feet.

Location

Twenty-five minutes from the heart of downtown, west of Phoenix in Buckeye, Arizona.

Phase I

A total of 1,145 acres, with plans for approximately 2,040 homes in distinct neighborhoods. These neighborhoods will be subtly defined and blend together in a manner supporting town-building principles.

Parks

Twenty parks covering a total of 350 acres proposed for Phase I.

Community opening scheduled for January 2004.

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MEDIA CONTACT:

Bobby Amirshahi
404-843-7872 - voice
404-353-7138 - mobile

Press Room

Case Studies

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October 27, 2003

TECHNOLOGY AND TRUST DRIVE UPWARD GROWTH OF COX BUSINESS SERVICES

Cox Grows its Commercial Business Revenue by 50%, Celebrates its 100,000th Customer Location in New England

ATLANTA, October 27, 2003 — Since its launch in 1998, Cox Business Services, the commercial broadband division of Cox Communications, Inc. (NYSE: COX), has experienced record growth in revenue and customer locations*. Revenue growth has equaled approximately 50 percent each year and during the first half of 2003, revenue has grown 24 percent over the same period in 2002. Cox attributes its capability to deliver critical voice and broadband services, coupled with trusted business expertise, as its primary drivers of success.

To recognize the growth of Cox Business Services, Cox will honor its 100,000th customer location, State-Wide Multiple Listing Service in Warwick, Rhode Island --- a Cox customer for telephone and data services.

"Cox is in a unique position in the commercial services arena," said Bill Stemper, vice president of Cox Business Services in Atlanta. "All of our pieces ---- from the network we own and manage, to our architecture with built-in reliability to the business solutions and expertise we offer to small- and medium-sized business owners and enterprise alike --- contribute to the sense of trust that our customers have with us. Trust is a critical part of doing business in today's environment and it will contribute to the ongoing success of Cox Business Services."

A closer look at Cox's customers reveals its breadth of reach --- encompassing enterprises, small and medium businesses as well as government properties and teleworkers/home offices. Many school systems and air force bases, hospitals, enterprises and airports, law firms and teleworkers trust Cox for the delivery of circuit-switched telephone and long distance services, high-speed Internet access, web hosting, VPN and data transport services.

Approximately 40 percent of Cox's commercial services customers choose to bundle their voice and data services, according to company research. State-wide Multiple Listing Service chose Cox for its ability to provide reliable, one-stop shopping for telecommunications services – a testament to the business efficiencies achieved by Cox's bundled services.

"The state of real estate has changed dramatically," said Susan Arnold ESQ., CEO and general counsel of State-Wide

Multiple Listing Service. "We have 4,000 realtors and affiliates who count on us around-the-clock for a real-time picture of what's for sale in today's hot real estate market --- a minute offline translates to a missed opportunity for us, our members and their buyers and sellers." The State-Wide Multiple Listing Service provides local realtors the most complete database of realtor-listed properties in Rhode Island, as well as other advanced marketing tools such as its public website, RILiving.com, which provides virtual tours, extensive search functions and comprehensive resources on financing and local information; an on-line contract and transaction management system; remote data accessibility; and economic analysis reports.

Moving from a business-to-business outreach to business-to-consumer has also heightened State-Wide Multiple Listing Service's emphasis on reliability and speed. By working with Cox, the company feels comfortable that it can address its future bandwidth and telecommunications needs with ease.

Cox Business Services products and services include: dedicated data transmission up to OC-192 speeds over fiber, T-1 and ATM, as well as VPN; Internet access; switched voice and long distance; video services and music choice; web hosting and E-commerce; and carrier access services.

About Cox Business Services

Cox Business Services is a division of Atlanta-based Cox Communications, Inc., the nation's fourth largest cable broadband communications company. A full-service, facilities-based provider of communications solutions, Cox Business Services excels at helping businesses of all sizes generate greater efficiencies. The company offers high-speed Internet services; switched voice and long-distance services; and dedicated voice, data and video transport services for home offices, small, medium and large-sized businesses, school districts and hospitality, government and military properties in 28 markets across the nation. For more information, visit www.coxbusiness.com.

* A Cox customer location is a single business location with one ore more active Cox data, voice or transport services on one or more accounts. Video-only business customers are not included in this figure.

COX Business Services

GO WITH A COMPLETE COMMUNICATIONS SOLUTION FROM COX BUSINESS SERVICES AND RUN YOUR BUSINESS AT FULL STRIDE.

$28 PER MONTH TELEPHONE SERVICE.

Get Cox Digital Telephone for $28 per month when bundling telephone and data services. Plus get 200 long distance minutes, three phone features and activation FREE.*

Contact us today to switch to Cox Business Services and get our special, money-saving offer.

Choose Cox Business Services and you'll partner with one of today's most trusted communications providers. Cox delivers a complete package of leading-edge data and commercial cable solutions to your business needs and size.

Cox Digital Telephone® makes switching easy and includes everything the "local" phone company offers — standard business lines, long distance and toll-free services, Centrex and more — plus quality service and savings up to 20%.*

Cox high-speed business Internet gives you a flexible solution including reliable and fast Internet access, web hosting, business-grade e-mail, teleworking services and more. Choose Cox Business Internet℠ for access speeds that blow away DSL. Or choose fiber-based Cox Optical Internet,℠ with bandwidth scalable up to OC-12 in capacity, for even greater operating efficiency.

Cox Commercial Cable keeps you up to speed on all the late-breaking news and information around the clock with more than 100 channel choices, plus a complete Music Choice option.

With our nationwide next-generation IP network, and 24/7 local technical support, you have all the horsepower and people-power you need to help you stay ahead of the competition.

www.coxbusiness.com

*Offer Details

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NEW FOR TUCSON BUSINESSES:
DIGITAL VOICE PRODUCTS SO RELIABLE, THEY'LL LEAVE YOU SPEECHLESS

Introducing a new way to help your business run more efficiently - digital phone service from Cox Business Services.

Unlike other providers, we manage and maintain our own fiber-optic network, which allows us to offer all the services you need including voice and Internet, all at competitive prices. You can keep your current phone numbers and move them to our network with no activation fee. Plus, we provide responsive, 24/7 customer service and network monitoring, which is comforting when you're running a business that relies on clear, consistent phone service.

BUNDLE COX DIGITAL TELEPHONE AND INTERNET SERVICES TODAY AND SAVE.
We have a variety of digital telephone and Internet options to fit any business. Sign up for one year of both services and you'll get FREE installation and activation on all Cox digital telephone lines, 200 FREE long distance minutes per month for a year, and for a limited time, your choice of THREE FREE features from the list below:*

- Call Waiting
- Caller ID
- Call Forwarding
- Call Forward-Busy
- Call Forward-No Answer
- 3-Way Calling
- Call Transfer
- Speed Call-30
- Call Hunting

Choose a two-year digital telephone and Internet package and get all the features mentioned above, **plus 50% off installation of Cox Business Internet service.**

Choose a three-year digital telephone and Internet package and get all the features mentioned above, **plus FREE installation of Cox Business Internet service.**

For details, call one of our customer service representatives at 520-207-2122.

Click here to make the switch.

www.coxbusiness.com Legal

To find the services offered in your area:

Product Categories

Phoenix

Customer Profiles

CRITICAL
Internet Security Information

PHOENIX

Cox Business Services provides a range of advanced communications services, including local and long distance telephone services, high-speed Internet access, data transport and video solutions, all delivered over our state-of-the-art fiber-optic-based broadband network. And, as an affiliate of Cox Communications, one of the largest broadband communications companies in the nation, we stand behind our work to attend to all your customer service needs.

Contact Us:
623-594-7298

Are you a new Cox Business Services customer?
Click here to view your online welcome kit!
You will need **Acrobat®** Reader.™ If you don't have the plug-in, you can get it FREE here.

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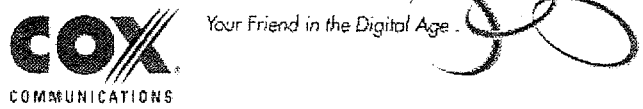

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Mon-Fri
9am-6pm

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AUTOMATIC
SECURE
EFFORTLESS

Phoenix

Fast and Easy Online Ordering

Save Time and Get A Better Offer By Ordering Here!

*Street Number
_Direction (SW, NW, etc.)
*Street Name
_Street Type
_Apartment
*Zip Code

Offer Code
: : See Below : :

submit clear

Choose from one of the following offers:

Free Professional Installation or Free Fast Connect, plus a free first month of Call Waiting, Caller ID or Call Waiting ID.

2074 Offer Code

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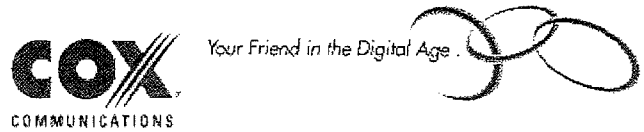

Digital Telephone

FREE Professional Installation

3 Months FREE Call Waiting and Caller ID

- **Save Every Month Over Qwest®**
- **Enjoy The Same Popular Features For Less**
- **One Company For Local and Long Distance On One Bill**
- **Keep Your Existing Phone Number**

Click Here To Order

It's Time To Start Saving Money With Cox Digital Telephone!

With Cox Digital Telephone, you get crystal-clear connections carried over a state-of-the-art fiber-optic-based network. Yet, that's just the beginning. As a Cox Digital Telephone customer, you can enjoy both local and long distance from one company on one bill. You can take advantage of a wide choice of convenient calling features like Caller ID, Call Waiting and much more. You don't even have to change your existing phone number when you switch to Cox!

Cox Digital Telephone Gives You Significant Savings Over Qwest.
Cox preferred customers can get Cox Digital Telephone service for as low as $11.75* per month. Enjoy the convenience of Voice Mail for just $4.95 per month. And get a second line for just $8.50 per month. That's a significant savings when compared to Qwest's rates.

Choose Cox and Save!			
Pay Less Every Month	**Cox**	Qwest	Percent Savings
Phone Line	$11.75*	$13.18	11%
Second Line	$8.50	$11.00	23%

Voice Mail	$4.95	$6.95	29%
Busy Line Redial	$2.00	$2.50	20%
Call Forwarding	$2.00	$2.75	27%
Call Forwarding Remote Access	$2.00	$3.95	49%
Call Return	$2.00	$2.95	32%
Distinctive Ring	$2.00	$2.75	27%
Priority Ringing	$2.00	$2.50	20%
Privacy Control	$9.90	$9.95	1%
Selective Call Acceptance	$2.00	$2.50	20%
Selective Call Forwarding	$2.00	$2.50	20%
Selective Call Rejection	$2.00	$4.50	56%
3-Way Calling	$2.00	$2.75	27%
Wire Maintenance	$3.95	$4.75	17%
Installation	FREE	$27.50	100%

Order Online Now!

Save Even More On Local Telephone Service With The Cox Solution Package.
The Cox Solution Package plus one line is only $26.70 per month and includes 15 great calling features at a price that beats Qwest.

For Even Greater Savings, Take Advantage Of A Connection-60 Package.
With our Cox Connection-60 package, you'll get the same great 15 features in the Solution Package. Plus, the low price of just $29.95 includes 60 minutes of domestic Cox Long Distance each month (7¢ per minute after that) and valuable call management features including Caller ID, Call Waiting, Selective Call Forwarding and much more.

Solution Package
Your phone line plus:

- Busy Line Redial
- Three-Way Calling
- Speed Calling
- Call Forwarding Busy
- Selective Call Rejection
- Call Return
- Selective Call Acceptance
- Long Distance Alert
- Priority Ringing
- Call Waiting ID (Call Waiting/Caller ID)
- Selective Call Forwarding
- Call Forwarding
- Call Forwarding on No Answer
- Call Forwarding on Call Waiting

Connection-60 Features

Your phone line plus:

- Three-Way Calling
- Speed Calling
- Selective Call Forwarding
- Call Acceptance
- Selective Call Rejection
- Long Distance Alert
- U.S. Savings Plan (7¢ per minute long distance) and 60 minutes of domestic Cox Long Distance
- Call Waiting ID (Call Waiting/Caller ID)
- Busy Line Redial
- Call Forwarding
- Call Forwarding Busy
- Call Forwarding on Call Waiting
- Priority Ringing

*$11.75 per line rate is for customers who also have Cox Cable or Internet service; telephone-only customers pay $13.00 per line. $2.00 per month first feature rate is limited to first-time subscribers to Cox Digital Telephone service. After 1 year, the regular rate of $2.75 per month on the first feature will apply. Savings are based on Cox a la carte rates compared to published Qwest rates as of 4/25/03. Installation rate excludes installation of inside wiring and additional jacks. Fast Connect installation is available only to current Cox customers or any household that currently receives phone service from any provider, and requests only one phone line from Cox, and does not have a home alarm system. Professional installation rate is $24.95. Customer must subscribe to local exchange, local toll and state-to-state long distance services from Cox to receive one bill for local and long distance service. Long distance rates are within the United States for direct-dialed calls. Customer must subscribe to Cox Digital Telephone to receive Cox Long Distance. Connection-60 and -90 plans are only available to customers who also subscribe to cable or Internet access from Cox. Long distance minutes included in Connection-60 and Connection-90 packages apply to domestic direct-dialed calls only and do not carry over from month to month. Caller ID products require compatible display unit. All rates exclude applicable taxes and surcharges and are subject to change. Service may not be available in all areas. Telephone services provided by Cox Arizona Telcom, LLC. Other restrictions and limitations apply. © 2003 Cox Communications, Inc. All rights reserved.

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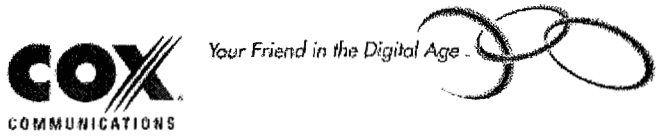

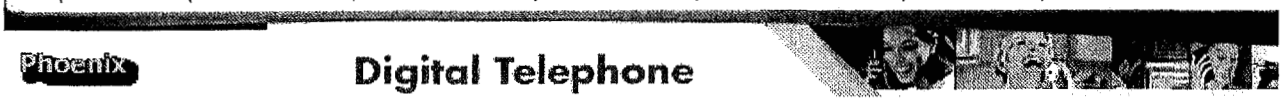

Phoenix

Digital Telephone

Got a quick question?
Ask us live!
Mon-Fri
9am-6pm

- **Save Every Month Over Qwest**
- **Enjoy The Same Popular Features For Less**
- **One Company For Local and Long Distance On One Bill**
- **Keep Your Existing Phone Number**

Click Here for an exclusive online offer

Cox Digital Telephone Gives You Significant Savings Over Qwest.

Choose Cox and Save!			
	Cox	Qwest	Percent Savings
Phone Line	$11.75	$13.18	11%
Second Line	$8.50	$11.00	23%
Voice Mail	$4.95	$6.95	29%
Busy Line Redial	$2.00	$2.50	20%
Call Forwarding	$2.00	$2.75	27%
Call Forwarding Remote Access	$2.00	$3.95	49%
Call Return	$2.00	$2.95	32%
Distinctive Ring	$2.00	$2.75	27%
Priority Ringing	$2.00	$2.50	20%
Privacy Control	$9.90	$9.95	1%
Selective Call Forwarding	$2.00	$2.50	20%
Selective Call Rejection	$2.00	$4.50	56%
3-Way Calling	$2.00	$2.75	27%
Wire Maintenance	$3.95	$4.75	17%

Get UNLIMITED local and long distance:
With our Unlimited Connection Package, you'll get your phone line plus all th features included in the Solution Package, Voice Mail and UNLIMITED domestic long distance for only $44.95 per month.

Cox Solution Package
The Cox Solution Package plus one line is only $26.70 per month and includ 15 great calling features at a price that beats Qwest.

Solution Package
Your phone line plus:

- Busy Line Redial
- Three-Way Calling
- Speed Calling
- Call Forwarding Busy
- Selective Call Rejection
- Call Return
- Selective Call Acceptance
- Long Distance Alert
- Priority Ringing
- Call Waiting ID (Call Waiting/Caller ID)
- Selective Call Forwarding
- Call Forwarding
- Call Forwarding on No Answer
- Call Forwarding on Call Waiting

*Offer expires March 14, 2004. Savings are based on Cox a la carte rates compared to published Qw rates as of January 12, 2004. $11.75 per line rate is for customers who also have Cox cable or Interne service; telephone-only customers pay $13.00 per line. Caller ID products require compatible display unit. Customer must subscribe to local exchange, local toll and state-to-state long distance services fr Cox to receive one bill for local and long distance service. Long distance rates are within the United States for direct-dialed calls. Customer must subscribe to Cox Digital Telephone to receive Cox Long Distance. Unlimited Connection Package minutes of Cox long distance are limited to direct-dialed lon distance calls within the United States. Subscription to Cox for local, toll and long distance service required. All rates exclude applicable taxes and surcharges and are subject to change. Service may n be available in all areas. Telephone services provided by Cox Arizona Telcom, LLC, an affiliate of Co Communications, Inc. Other restrictions and limitations apply. © 2003 Cox Communications, Inc. All rights reserved.

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Issue Date: December 8, 2000

Effective Date: February 2,.2991

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1400 Lake Hearn Drive,

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Issued by: Martin Corcoran
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Cox Communications, Inc.
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Atlanta, GA 30319

COX COMMUNICATIONS Digital Cable **Digital Telephone** High Speed Internet

Make The Switch To Cox Digital Telephone And Lower Your Phone Bill Every Month!

With Cox Digital Telephone, you get crystal-clear connections carried over a state-of-the-art fiber-optic-based network. Take advantage of a wide choice of convenient calling features like Call Waiting, Voice Mail and much more. You don't even have to change your existing phone number when you switch to Cox!

Cox Digital Telephone Gives You Significant Savings Over Qwest.

Your first phone line is just $11.75 per month if you already have Cox Digital Cable or Cox High Speed Internet. Add a second line for only $8.50 a month. Enjoy the convenience of Voice Mail for just $4.95 per month. That's a significant savings when compared to Qwest's rates. Plus with Cox Digital Telephone, you pay only for the features you want.

	Cox	Qwest	% Savings
First Line	$11.75	$13.18	11%
Second Line	$8.50	$11.00	23%
Voice Mail	$4.95	$6.95	29%
Busy Line Redial	$2.00	$2.50	20%
Call Forwarding	$2.00	$2.75	27%
Call Forwarding Remote Access	$2.00	$3.95	49%
Call Return	$2.00	$2.95	32%
Distinctive Ring	$2.00	$2.75	27%
Priority Ringing	$2.00	$2.50	20%
Privacy Control	$9.90	$9.95	1%
Selective Call Acceptance	$2.00	$2.50	20%
Selective Call Forwarding	$2.00	$2.50	20%
Selective Call Rejection	$2.00	$4.50	56%
Three-Way Calling	$2.00	$2.75	27%
Wire Maintenance	$3.95	$4.75	17%
Installation	FREE	$27.50	100%

Enjoy The Convenience Of Local And Long Distance From Cox.

With Cox Long Distance, you'll receive reliable long distance without paying too much. Choose the plan that's best for you:

- Standard Plan – No monthly fee and 10¢ a minute
- US Savings Plan – $3.95 monthly fee and 7¢ a minute
- US 250 Savings Plan – $15.00 per month includes 250 minutes of domestic long distance (7¢ a minute after that)
- US 500 Savings Plan – $25.00 per month includes 500 minutes of domestic long distance (5¢ a minute after that)

For Even Bigger Savings, Take Advantage Of One Of Our Great Packages.

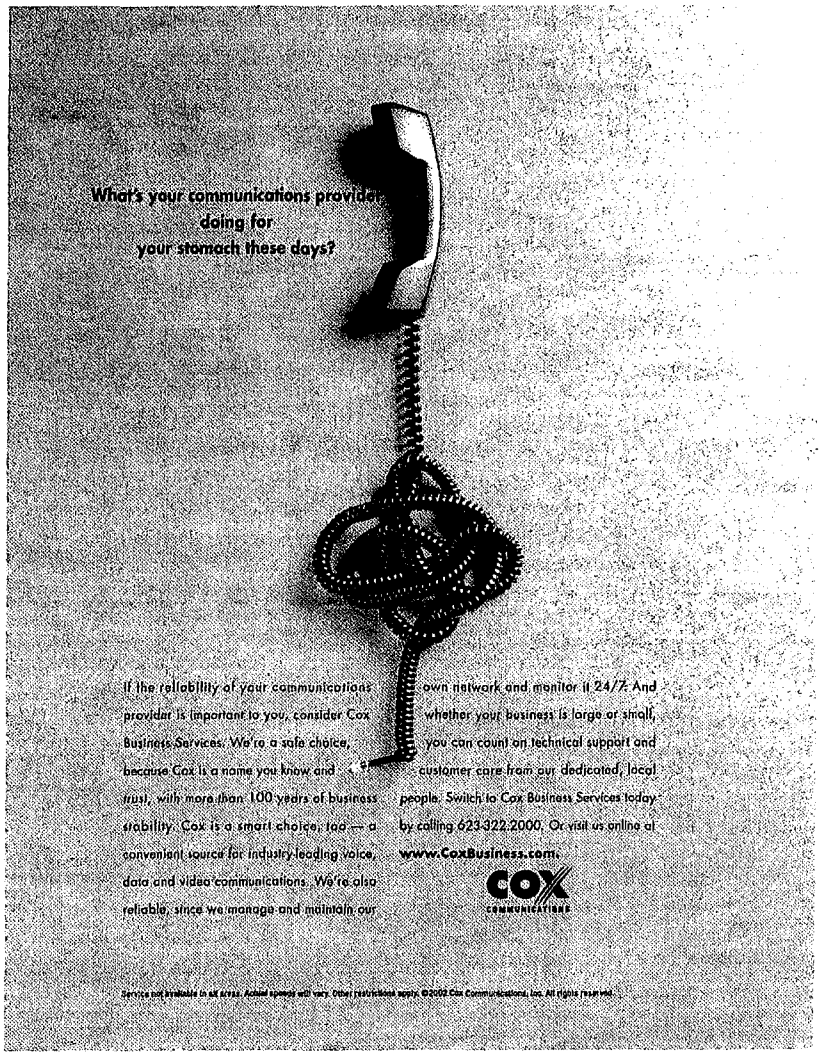
A Digital Telephone Package from Cox Communications is a great way to get all the features and services you want at an even better price. For example, our Unlimited Connection Package is just $44.95. You get your line, 16 of our most popular calling features, including voice mail, and **unlimited minutes of domestic long distance.** A sales associate will be happy to help you select the right package for you. Just **call 623-594-1126** to find out more.

Call Us Today And Make The Switch.

Switching is easy. Just call and tell us you'd like to lower your phone bill every month! Plus, you can **keep your current phone number.** Don't wait. Switch to Cox Digital Telephone before this offer expires on December 14!

FREE Installation
with Cox fast connect.

ORDER TODAY AND SAVE! **623-594-1126**



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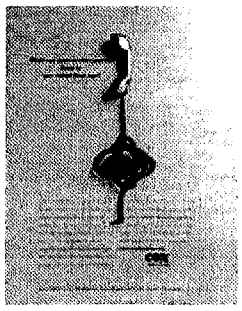


AD IDENTIFICATION

Ad Code: **COXCA-2486**
- Print
- 2 occurrences

Advertiser: Cox Communication
Headline/LeadAudio: WHAT'S YOUR COMMUNICATIONS PROVIDER
Primary Visual: PHONE RECEIVER AND TANGLED CORD

CLASSIFICATION

Product/Campaign: Image-Business
Subcategory: Marketing Image
Category: Image
Market Segment Business

AIRING/INSERTION

First Run Date: Jan 17, 2003
Last Run Date: Feb 28, 2003
First Run Media: Phoenix Business Jounal
TV/Print: Print

SHOPPING BASKET

Competitrack
Competitive Advertising Tracking Service

Cox Communication: Cox Seven Day Sale

Length: 30 **First Airing:** PHOE-03/11/03 **Ad Code:** COXCA-2574
Category: Internet Related Services **Subcat:** High Speed Cable internet

(Music)
VOICE OVER: For the next 6-days...

take advantage of this free professional installation offer from Cox Communication.

But, it's only available for the next 6-days!

Call this number and get free professional installation...

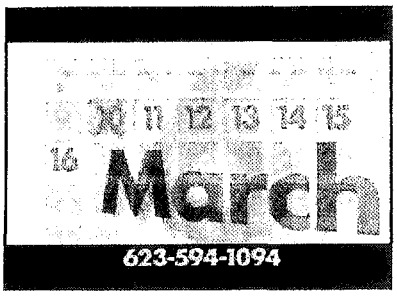
during the Cox 7-Day Sale. Go all-digital with Cox.

Get up to 250 channels with Cox Digital Cable.

Save every month over Qwest with Cox Digital Telephone...

and download files up to 100 times faster than dial-up with Cox High-Speed Internet.

All 3 installed free!



You only have 6-days left.

Call now at 623-594-1094. This free professional installation offer...

Text: Cox Digital Cable, Cox Digital Phone and Cox High-Speed Internet on one pre-wired outlet only. Equipment rental required to receive Cox Digital Cable, modem required to recieve Cox High-Speed Internet service.

ends Sunday.
(Fade out)

Text: Other restrictions apply. Cox is a registered trademark of Cox Communications. ©2003 Cox Communications, Inc. All rights reserved.

- Tapes and MPEGs can be ordered by contacting us at 718.482.4211 -

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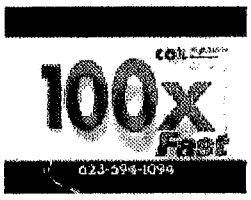
ADD TO SHOPPING BASKET | DOWNLOAD OPTIONS



AD IDENTIFICATION

Ad Code: **COXCA-2574**
- New TV-30
- 7 occurrences

Advertiser: Cox Communication
Ad Title: Cox Seven Day Sale
Ad Length: 30
Headline/LeadAudio: FOR THE NEXT SIX DAYS
Primary Visual: TEXT
Description: take advantage for the free professional installation only available for the next 6 days.go all digital with cox. 250 channels.save every month over Qwest.all 3 install free.100x faster.offer ends Sun

CLASSIFICATION

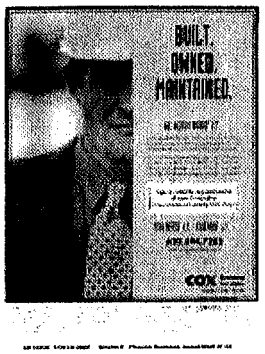
Product/Campaign: Bundled Services w/Internet
Subcategory: Residential Services With Internet
Category: Residential Communications
Market Segment Consumer

AIRING/INSERTION

First Run Date: Mar 11, 2003
Last Run Date: Mar 11, 2003
First Run Media: KPHO - Phoenix*
TV/Print: TV

SHOPPING BASKET

ADD TO SHOPPING BASKET | DOWNLOAD OPTIONS



AD IDENTIFICATION

Ad Code: **COXCA-2607**
- Print
- 2 occurrences

Advertiser: Cox Communication
Headline/LeadAudio: BUILT. OWNED. MAINTAINED.
Primary Visual: MAN W/TIE & HARDHAT

CLASSIFICATION

Product/Campaign: Cox Bundled Business Service
Subcategory: Bundled Business with Internet
Category: Business Communications
Market Segment Business

AIRING/INSERTION

First Run Date: Mar 21, 2003
Last Run Date: Mar 28, 2003
First Run Media: Phoenix Business Jounal
TV/Print: Print

SHOPPING BASKET

Bashas'

azcentral.com

Arizona is lucrative market for Cox

Subscribers rose 400% since '95

Erica Sagon
The Arizona Republic
Mar. 17, 2004 12:00 AM

Until recently, Cox Communications Arizona was like a jock who pumped a lot of iron but never stepped on a scale to gauge the progress.

The company on Tuesday said it will contribute almost $1 billion to the state economy this year.

Elliott Pollack & Co., headed by Scottsdale economist Elliot Pollack, conducted the study, which estimates that Cox operations and construction generated, directly and indirectly, 2,500 Valley jobs and 7,500 statewide. In addition, the company pays $296 million in wages annually across the state and $140 million in the Valley.

This is the first time the company has commissioned such a study, said Ivan Johnson, vice president of communications and televideo for Cox. He said the findings show how the company has muscled its way from a small cable company to a multi-service broadband communications company.

"We've been impressed with our growth, but we weren't sure that anyone else was aware," Johnson said.

When Cox entered the Arizona market in 1995, it had 429,000 service subscribers. In less than 10 years, that figure has leaped 400 percent, to 1.7 million subscribers today. Arizona has become one of the most lucrative markets for Cox.

Johnson touted the company's $1.7 billion investment into a broadband network as a major commitment to the state's future. High-speed Internet and phone services are the fastest-growing products provided by Cox, which has been known primarily as a cable provider.

The number of telephone service subscribers has increased 57 percent and high-speed Internet has increased 47 percent since last year at this time. Cox phone service is now available in 75 percent of the Valley, and that number increases every few weeks.

The study also found that Cox generated $91.1 million in taxes to the city, county and state governments, including $78 million in the Valley alone. Construction of new buildings, plant and telecommunication facilities racked up $150 million in expenditures, and generated $8.3 million for the state.

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Print this article **Click to print**
Most popular pages **Today | This Week**

government program."

*Offer valid from 6/30/03 to 8/31/03 to new commercial Cox subscribers of both Cox data and telephone services in Cox-wired, serviceable locations. Amount of credit ranges from $100 to $1000 based upon customer commitment for new monthly recurring charges for each qualifying telephone and data service added with a minimum 2-year service contract and does not include applicable taxes, fees or usage. This offer is a one-time credit applied within 90 days of the first billing cycle and may not be applied to any other Cox account. Installation charges will apply for 2-year contract. 50% off installation on a 3-year contract up to $500. Installation charges are waived on a 5-year contract up to $1,000. Free or discounted installation does not include construction costs, inside wiring fees, installation of jacks and equipment charges. Early termination charges per contract and normal termination charges per tariff will apply and customer must reimburse Cox for any promotional credits/benefits provided to customer. Services not available in all areas. Cox cannot guarantee uninterrupted or error-free Internet service or the speed of your service. Rates and bandwidth options vary and are subject to change. Other restrictions apply. Cox Business Services, LLC is an affiliate of Cox Communications, Inc. and CoxCom, Inc. Telephone and regulated services are provided by Cox Arizona Telcom, L.L.C. All other services provided by CoxCom, Inc. ©2003 Cox Communications, Inc. All rights reserved.

AZ Republic 7-30-03

COX COMMUNICATIONS — Digital Cable — Digital Telephone — High Speed Internet

ECRWSHC-079
[redacted]
16014 N. 58th Pl.
Scottsdale, AZ 85254-1875

With Cox Digital Telephone℠ You Get Great Quality At An Even Better Price.

Dear [redacted]

Thank you for being a valued customer of Cox Communications. We appreciate your business. Our records indicate that your home is serviceable for Cox Digital Telephone. Now, for a limited time, you can subscribe to Cox Digital Telephone and take advantage of this special offer.

If You Currently Have Qwest Phone Service, You're Paying More Than You Have To.

When you choose Cox Digital Telephone, you'll enjoy great savings every month! With your first line you can save 11%. Add a second line and you can save 23%. Enjoy the convenience of Voice Mail and you can save 29%. The savings go on and on!

Get FREE Installation!

Switching is easy! Order now and get **FREE installation** with Cox fast connect or professional installation for only $24.95. Just call Cox at 623-594-1126 and tell us you'd like to lower your phone bill every month! And remember, **you don't even need to change your current phone number.** Switch to Cox Digital Telephone before this special offer expires on December 14!

Crystal-Clear Digital Telephone, Plain And Simple.

Cox Digital Telephone is carried over a state-of-the-art fiber-optic-based network, ensuring that you receive the level of quality and clarity you expect from your local telephone company. And with Cox Digital Telephone, you pay only for the features you want. See the chart below to pick your favorite features.

Choose A Package Because You Want To, Not Because You Have To.

You could save even more when you choose one of our telephone packages. For example, our Unlimited Connection Package is just $44.95. You get your line, 16 of our most popular calling features, including Voice Mail, **and unlimited minutes of domestic long distance.** A sales associate will be happy to help you select the right package for you. Just **call 623-594-1126** to find out more.

Call 623-594-1126 Today To Order Cox Digital Telephone!

Don't wait any longer to enjoy the savings that Cox Digital Telephone has to offer. Call Cox right now at 623-594-1126 and take advantage of this special offer. What are you waiting for — call today!

Sincerely,

Meredith Barnes

Meredith Barnes
Marketing Manager

P.S. Starla, hurry, this special offer expires on December 14. Call us at **623-594-1126** today and start saving. Remember, if you order today you'll get **FREE installation** with Cox fast connect!

Save Every Month Over Qwest

■

Enjoy the Same Popular Features for Less

■

One Company for Local and Long Distance on One Bill

■

State-of-the-Art Fiber-Optic-Based Network

■

Keep Your Existing Phone Number

Pay Less Every Month!

	Cox	Qwest	Percent Savings
First Line	$11.75	$13.18	11%
Second Line	$8.50	$11.00	23%
Voice Mail	$4.95	$6.95	29%
Busy Line Redial	$2.00	$2.50	20%
Call Forwarding	$2.00	$2.75	27%
Call Forwarding Remote Access	$2.00	$3.95	49%
Call Return	$2.00	$2.95	32%
Distinctive Ring	$2.00	$2.75	27%
Priority Ringing	$2.00	$2.50	20%
Privacy Control	$9.90	$9.95	1%
Selective Call Acceptance	$2.00	$2.50	20%
Selective Call Forwarding	$2.00	$2.50	20%
Selective Call Rejection	$2.00	$6.50	69%
Three-Way Calling	$2.00	$2.75	27%
Wire Maintenance	$3.95	$4.75	17%
Installation	FREE	$27.50	100%

*See reverse for details

PRISG-12 (10/03)

P-12 (DS/DO/TY) (3010) (10/03)

ORDER COX DIGITAL TELEPHONE TODAY AND SAVE!

623-594-1126

Our Disclaimer Is Plain And Simple, Too.

*Offer is good through December 14, 2003. If, during installation, we need to repair any inside wiring or add any new jacks, we may have to charge for additional work. If you choose Caller ID, you will need to use a compatible display unit. Cox fast connect is available to anyone who currently uses Cox Cable or Internet service or who currently receives phone service and would like just one phone line and does not have a home alarm system. If you prefer, we will provide professional installation at an additional fee of $24.95. Savings are based on a comparison of Cox a la carte rates to published Qwest rates as of August 28, 2003. $2.00 per month first-feature rate is limited to first-time subscribers to Cox Digital Telephone service. After one year, the regular rate of $2.75 per month on the first feature will apply. $11.75 per line rate is for customers who also have Cox Cable or Internet service; telephone-only customers pay $13.00 per line. Cox Unlimited Connection Package is only available to customers who also subscribe to cable and Internet access from Cox. Introductory rate of $44.95 for the Unlimited Connection Package is for one year and then rate automatically increases to $49.95. Unlimited Connection Package minutes of Cox long distance are limited to direct-dialed long distance calls within the United States. Subscription to Cox for local, toll and long distance service required. Lastly, as with every telephone provider, applicable taxes and surcharges must be added to our rates and they are subject to change. Available to residential customers in Cox wired serviceable locations. *Telephone services are provided by Cox Arizona* Telcom, LLC. Other restrictions and limitations may apply. © 2003 Cox Communications, Inc. All rights reserved.

For your convenience, visit any of our Cox Digital Stores

Central Phoenix
742 E. Glendale Ave.
Ste. 180
M-F 10am - 7pm
Sat. 10am - 4pm

South Phoenix
115 N. 51st Ave.
M-F 10am - 7pm
Sat. 10am - 4pm

North Phoenix
1101 E. Bell Rd.
M-F 10am - 7pm
Sat. 10am - 4pm

Glendale North
5932 W. Bell Rd.
Ste. D-110
M-F 10am - 7pm
Sat. 10am - 4pm

Tempe
833 W. Broadway Rd.
M-F 10am - 7pm
Sat. 10am - 4pm

Scottsdale
7241 E. Williams Dr.
M-F 10am - 7pm
Sat. 10am - 4pm

Chandler
2510-5 W. Chandler Blvd.
M-F 10am - 7pm
Sat. 10am - 4pm

Mesa
160 S. MacDonald
M-F 10am - 7pm
Sat. 10am - 4pm

Fountain Hills
13239 N. LaMontana
Tue. 1pm - 5pm
Thur. 9am - 1pm

Gilbert
511 W. Guadalupe Rd.
Ste. 3
M-F 10am - 7pm
(closed 2pm - 3pm)

Casa Grande
122 E. Cottonwood Ln.
M-F 8:30am - 4:30pm
(closed 12pm-1pm)

COX
Digital Store

COX Digital Cable℠

MORE CHANNELS, MORE CHOICES, MORE ENTERTAINMENT.

COX Digital Telephone℠

SWITCH TO COX AND SAVE EVERY MONTH OVER QWEST.

COX High Speed Internet℠

GET DOWNLOAD SPEEDS UP TO 100 TIMES FASTER THAN DIAL-UP.

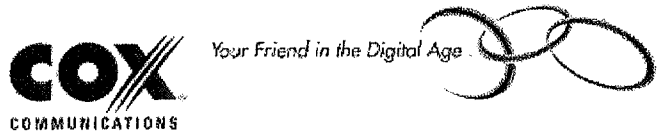
Order today!

623-594-9439

www.cox.com/phoenix

COX COMMUNICATIONS

VIDEO • VOICE • INTERNET



Phoenix

Digital Telephone

Got a quick question?
Ask us live!
Mon-Fri
9am-6pm

BEST DEALS

EasyPay
AUTOMATIC
SECURE
EFFORTLESS

Basic Service	Monthly
First Line	$11.75*
Second Line	$8.50
Activation Charge	$24.95

Basic Features	Monthly
· Three - Way Calling	$2.00
· Busy Line Redial	$2.00
· Speed Calling	$2.00
· Call Forwarding	$2.00
· Call Forwarding Busy	$2.00
· Call Forwarding No Answer	$2.00
· Call Forwarding Remote Access	$2.00
· Call Return	$2.00
· Priority Ringing	$2.00
· Long Distance Alert	$2.00
· Selective Call Acceptance	$2.00
· Selective Call Forwarding	$2.00
· Selective Call Rejection	$2.00
· Caller ID - Per Call Blocking	FREE
· Caller ID - Per Line Blocking	FREE
· 900 & 976 Number Blocking	FREE
· Anonymous Call Rejection	FREE

Premium Features	Monthly
· Call Waiting	$4.95
· Caller ID	$5.95
· Call Waiting ID	$9.00
· Voice Mail	$4.95
· Voice Mail Box Extensions	$7.90
· Voice Mail Plus	$6.95
· Voice Mail Plus Extensions	$9.90

Cox Packages	Monthly
Solution Package	$14.95

Features include:

(Call Waiting & Caller ID) Call Waiting ID, Call Forwarding on Call Waiting, Three-Way Calling, Busy Line Redial, Speed Dialing, Call Forwarding, Call Forwarding Busy, Call Forwarding No Answer, Call Return, Selective Call Acceptance, Selective Call Rejection, Selective Call Forwarding, Priority Ringing, Long Distance Alert

Control Plus Package $10.95

Features include:

Call Waiting ID (Call Waiting & Caller ID combined), Call Return, Priority Ringing and Long Distance Alert.

Active Lifestyle Package $ 6.95

Features include:

Call Waiting, Call Forwarding, Three - Way Calling, Speed Calling, Busy Line Re-dial.

Connection - 60 $29.95
Features include:

- 1 line
- Solution Package
- 60 Minutes of domestic Cox Long Distance per month ($0.07 rate)

Connection - 90 $39.95
Features include:

- 2 lines
- Solution package on primary line
- 90 minutes of domestic Cox Long distance per month on primary line ($.07 rate)

Get free installation for either package Click Here to ORDER!

*Offer expires March 14, 2004. Savings are based on Cox a la carte rates compared to published Qwest rates as of January 12, 2004. $11.75 per line rate is for customers who also have Cox cable or Internet service; telephone-only customers pay $13.00 per line. Caller ID products require compatible display unit. Customer must subscribe to local exchange, local toll and state-to-state long distance services from Cox to receive one bill for local and long distance service. Long distance rates are within the United States for direct-dialed calls. Customer must subscribe to Cox Digital Telephone to receive Cox Long Distance. Unlimited Connection Package minutes of Cox long distance are limited to di dialed long distance calls within the United States. Subscription to Cox for local, toll and long distance service required. rates exclude applicable taxes and surcharges and are subject to change. Service may not be available in all areas. Telephone services provided by Cox Arizona Telcom, LLC, an affiliate of Cox Communications, Inc. Other restrictions a limitations apply. © 2003 Cox Communications, Inc. All rights reserved.

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ARIZONA RESIDENTIAL PRODUCTS AND SERVICES COMPARISON [1]

	Current Qwest Price(1)	Proposed Qwest Price	Cox	AT&T	MCI	McLeod	SBC	Sprint	Z-Tel
Access Line									
Flat Rate Residence Line Primary Line	$13.18	$13.18	$13.00 - Standard; $11.75 Combination	$19.95	RLC: Zone 1 - $25.99; Zone 2 - $28.99	$19.95	Ala carte option not found. See Package below	$34.99	Ala carte option not found. See Package below
	Section 5.2.4		www.cox.com	*Section 5.1.11*	*Section 12.11*	*Section 4.3.1.B*		*Section 4.1*	
Flat Rate Residence Line - Additional Line	$10.00	$10.00	$13.00 - Standard; $8.50 Combination	$19.95	RLC-1: Zone 1 - $21.99; Zone 2 - $24.99	$19.95	Ala carte option not found. See Package below	See Package below	Ala carte option not found. See Package below
	Section 5.2.4		www.cox.com	*Section 5.1.11*	*Section 12.12*	*Section 4.3.1.B*			
Zone Charge	Zone 1 - $1.00; Zone 2 - $3.00	**$0.00**	N/F	N/F	Ala carte option not found. See Package below	Zone 1 - $1.00; Zone 2 - $3.00	N/F	N/F	Ala carte option not found. See Package below
	Section 5.1.6					*Section 4.3.2*			
Custom Calling Features									
Call Waiting	$2.50	$2.50	$4.95	$3.00	$5.00	$2.00	Ala carte option not found. See Package below	Ala carte option not found. See Package below	Ala carte option not found. See Package below
	Section 5.4.3		www.cox.com	*Section 5.1.2*	*Section 12.18*	*Section 4.3.3.I*			
Three-Way Calling	$2.50	$2.50	$2.00	$2.75	$3.50	$2.00	Ala carte option not found. See Package below	Ala carte option not found. See Package below	Ala carte option not found. See Package below
	Section 5.4.3		www.cox.com	*Section 5.1.2*	*Section 12.18*	*Section 4.3.3.J*			
Caller ID	$5.00	$5.00	$5.95	$5.50	$5.95	$4.00	Ala carte option not found. See Package below	Ala carte option not found. See Package below	Ala carte option not found. See Package below
	Section 5.4.3		www.cox.com	*Section 5.1.2*	*Section 12.18*	*Section 4.3.3.I*			
Stand-Alone Feature Package	N/A	N/A	$6.95 - $14.95	N/F	N/F	N/F	N/F	N/F	$4.95
			www.cox.com						

ARIZONA RESIDENTIAL PRODUCTS AND SERVICES COMPARISON [1]

	Current Qwest Price(1)	Proposed Qwest Price	Cox	AT&T	MCI	McLeod	SBC	Sprint	Z-Tel
Packaged Services									
Qwest Choice	$25.99	$25.99	Connection -60: $29.95	$21.95 - $29.95	RZA: Zone 1 - $49.99, Zone 2 54.99. RZB- $31.99; RLE: Zone 1 - $31.99, Zone 2 $36.99; RLG: Zone 1 - $27.99, Zone 2 35.99; RLH: Zone 1 - $37.99, Zone 2	$30.95, $32.95	SBC Phone Solution for Residence - $30.00	N/F	ZLineHome Basic - UNE Zones 1, 2 - $19.99, UNE Zone 3 - $39.99
	Section 5.2.4, 5.9.1		*www.cox.com*	*Section 5.1.11*	*Section 12*	*Section 4.3.1.B.*	*Section 4.8.4*		*Section 10.1.1*
Qwest Choice w/ Long Distance	$45.99	$45.99	Connection -90: $39.95	$43.95 - $48.95	Neighborhood Advantage 200 - $37.99; Neighborhood Complete - $49.99	Separate LD packages	N/F	Sprint Complete Sense - $34.99 $49.99	ZLineHome Unlimited - $59.99 - UNE Zones 1, 2; $$79.99 UNE Zone 3
	www.qwest.com		*www.cox.com*	*Section 5.1.11*	*www.theneighborhood.com*			*Section 4*	*Section 10.1.1*
Inside Wire Maintenance	$4.75	$4.75	$3.95	$3.95	$4.00	$4.75	N/F	$6.50	$4.95
	Section 13.3		*Direct mail*	*Section 5.15.6*	*www.theneighborhood.com*	*Section 4.3.3.G.2*		*Section 6.20*	*www.z-tel.com*
Voice Mail	$6.95	$6.95	$4.95	$5.95	Offered with The Neighborhood	N/F	Available - pricing not published	Included or $5.99	Included or $4.95
	Section 10.12.1		*www.cox.com*	*Section 5.15.5*	*www.theneighborhood.com*		*www.sbc.com*	*www.sprint.com*	*www.z-tel.com*

N/F - Not found on website or tariff.
(1) Price reflects monthly rate unless otherwise specified.

ARIZONA BUSINESS PRODUCTS AND SERVICES COMPARISON [1]

	Current Qwest Price	Proposed Qwest Price	Cox	AT&T	MCI	McLeod	Eschelon	XO	Xspedius
Access Line									
Flat Rate Business Line	$30.40	$30.40	$30.00	$29.50; All-in-One: $31.80	Ala carte option not found. See Package below	OneLine Preferred - $34.95 (Rate Group 1)	Ala carte option not found. See Package	$30.35	$29.00
	Section 5.2.4		Section 3.1.2.2	*Section 7.2, www.att.com*		*Section 4.3.1.B*		*Section 3.1.1*	*Section 13.23*
Trunk - 2-Way Flat Rate	$38.51	$38.51	$35.00	$34.75	$38.51	Ala carte option not found. Trunks available w/ISDN, T-1 Service	Ala carte option not found. Trunks available w/Precision Integrated Access, T-1 Service	$37.85	*$34.00*
	Section 5.3.3		Section 3.1.3	*Section 7.2*	*Section 2.2*			*Section 3.1.2*	*Section 13.23*
Zone Charge	Zone 1 - $1.00; Zone 2 - $3.00	**$0.00**	N/F	N/F	N/F	Zone 1 - $1.00; Zone 2 - $3.00	N/F	N/F	N/F
	Section 5.1.6					*Section 4.3.2*			
Custom Calling Features									
Call Waiting	$4.00 (discounted w/pkg)	$4.00 (discounted w/pkg)	$7.00	$6.75 (discounted)	$3.00	$5.00	Ala carte option not found. See Package below	$6.00	$3.00
	Section 5.4.3		*Section 3.1*	*Section 7.4*	*Section 1.3.2*	*Section 4.3.3.J*	*Section 7.3.1*	*Section 3.1.1*	*Section 13.23*
Three-Way Calling	$3.50	$3.50	$3.50	$3.50 (discounted)	$2.00	$3.00	Ala carte option not found. See Package below	$3.00	$3.00
	Section 5.4.3		*Section 3.1*	*Section 7.4*	*Section 1.3.2*	*Section 4.3.3.J*	*Section 7.3.1*	*Section 3.1.1*	*Section 13.23*

ARIZONA BUSINESS PRODUCTS AND SERVICES COMPARISON [1]

	Current Qwest Price	Proposed Qwest Price	Cox	AT&T	MCI	McLeod	Eschelon	XO	Xspedius
Caller ID	$4.00 (discounted w/pkg)	$4.00 (discounted w/pkg)	$7.00	$6.75 (discounted)	$5.00	$6.00	$7.75	$7.00	$7.50
	Section 5.4.3		*Section 3.1*	*Section 7.4*	*Section 1.3.2*	*Section 4.3.3.J*	*Section 7.3.2*	*Section 3.1.1*	*Section 13.23*
Hunting	$4.00	$4.00	$3.50	$4.50	Available @ no charge to small business customers	$4.00	Ala carte option not found. See Package below	$7.00	$4.00
	Section 5.4.11		*Section 3.1*	*Section 7.4*	*Section 3.119*	*Section 4.3.3.D*	*Section 7.3.1*	*Section 3.1.1*	*Section 13.23*
Packaged Services									
Qwest Choice 1 Line Package	$39.99	$39.99	Optional Feature Packages - Business Value ($12.95); Business ID ($17.95); Solution ($21.95) plus line charges	N/F	Business Complete Advantage - $34.99	Simple Preferred - $41.95	$32.99	N/F	N/F
	Section 5.9.1		Section 3.1.2		*www.mci.com*	*Section 5.1*	*Section 7.1*		
Qwest Choice 1 Line Package w/unlimited Toll	$59.99	$59.99	Bundled Services Package - $93.00	All In One Advantage - $56.95	Business Complete Unlimited - $59.99	Business Preferred Advantage Long Distance w/Local - rates vary by number of minutes subscriber selects	First Eschelon rates not published	N/F	N/F
	www.qwest.com		*Section 7.1*	*www.att.com*	*www.mci.com*	*Section 4.3.4.A*	www.eschelon.com		

ARIZONA BUSINESS PRODUCTS AND SERVICES COMPARISON [1]

	Current Qwest Price	Proposed Qwest Price	Cox	AT&T	MCI	McLeod	Eschelon	XO	Xspedius
Inside Wire Maintenance	$6.25	$6.25	N/F	$5.95	N/F	$4.00	N/F	N/F	N/F
	Section 13.4			*Section 7.4*		*Section 4.3.3.G.1*			
Voice Mail	$9.75 (discounted w/pkg.)	$9.75 (discounted w/pkg.)	Available - price not published	$11.15 - All in On	$7.50	$6.95	Available - pricing not published	Available - pricing not published	$6.95
	Section 10.12.2		www.cox.com	www.att.com	www.mci.com	*Section 4.3.3.H.1*	www.eschelon.com	www.xo.com	*Section 13.23*

N/F - Not found on website or tariff.
(1) Price reflects monthly rate unless otherwise specified.

Arizona Corporation Commission
Docket No. T-01051B-03-0454
Docket No. T-00000D-00-0672
Qwest Corporation – DLT-5
Exhibits of David L. Teitzel
Pages 1-44, May 20, 2004

The world's networking company™

AT HOME & ON THE GO
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For entrepreneurs and growing businesses

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AT&T WIRELESS
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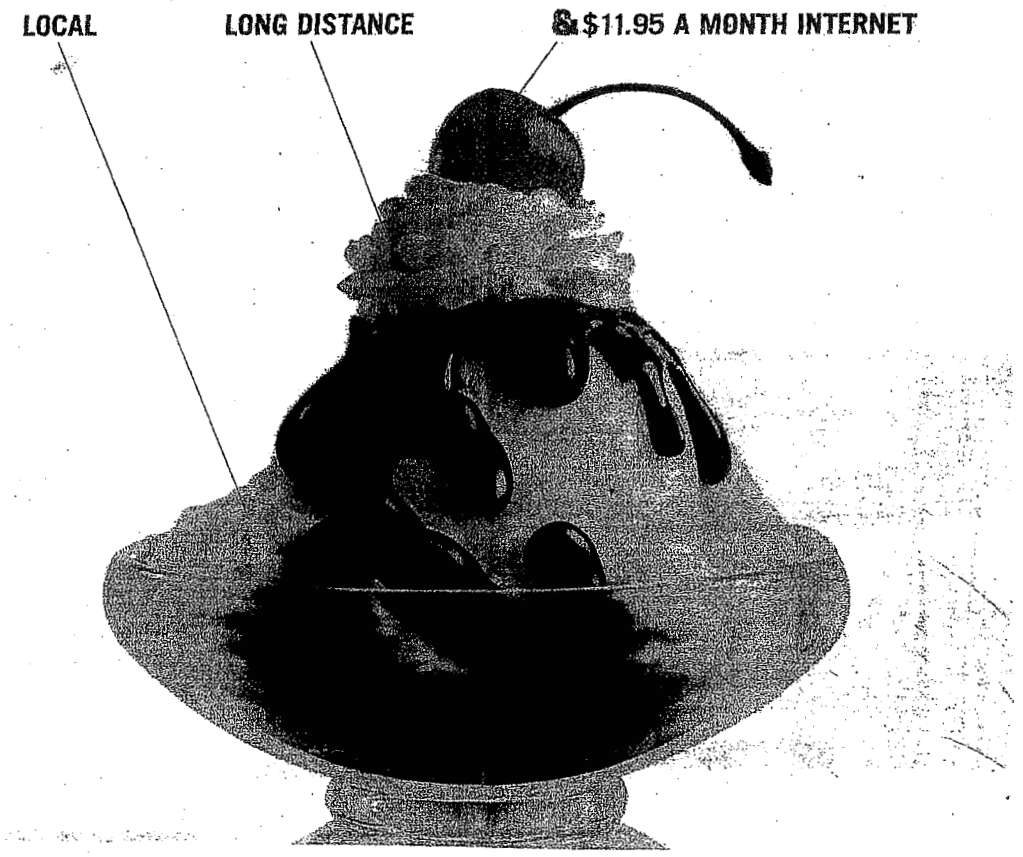

Arizona Republic

TASTY COMBINATIONS COME TOGETHER WITH &.
THAT'S WHY THERE'S & FROM AT&T.

You know you can get great local & long distance from home together with & from AT&T. Well, now here comes the cherry on top — add award-winning, unlimited Internet service for just $11.95 a month. That's half the price of AOL — with all the features you love. All on one bill and all from one company. Call 1 800 ATT 4ALL today and save up to $120 a year. It's another example of how the many ways we communicate all come together with & from AT&T.

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and bring it all together with &.
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SAVE UP TO $120 A YEAR

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Local & Long Distance & International & Wireless & Internet & VoIP

Not available in all areas. Dial-up Internet charges, including additional toll and/or access charges may apply. Savings based on comparison with $21.95 per month unlimited Internet plan. Wireless services provided by AT&T Wireless Services, Inc.

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The many ways we communicate come together for you with & from AT&T.

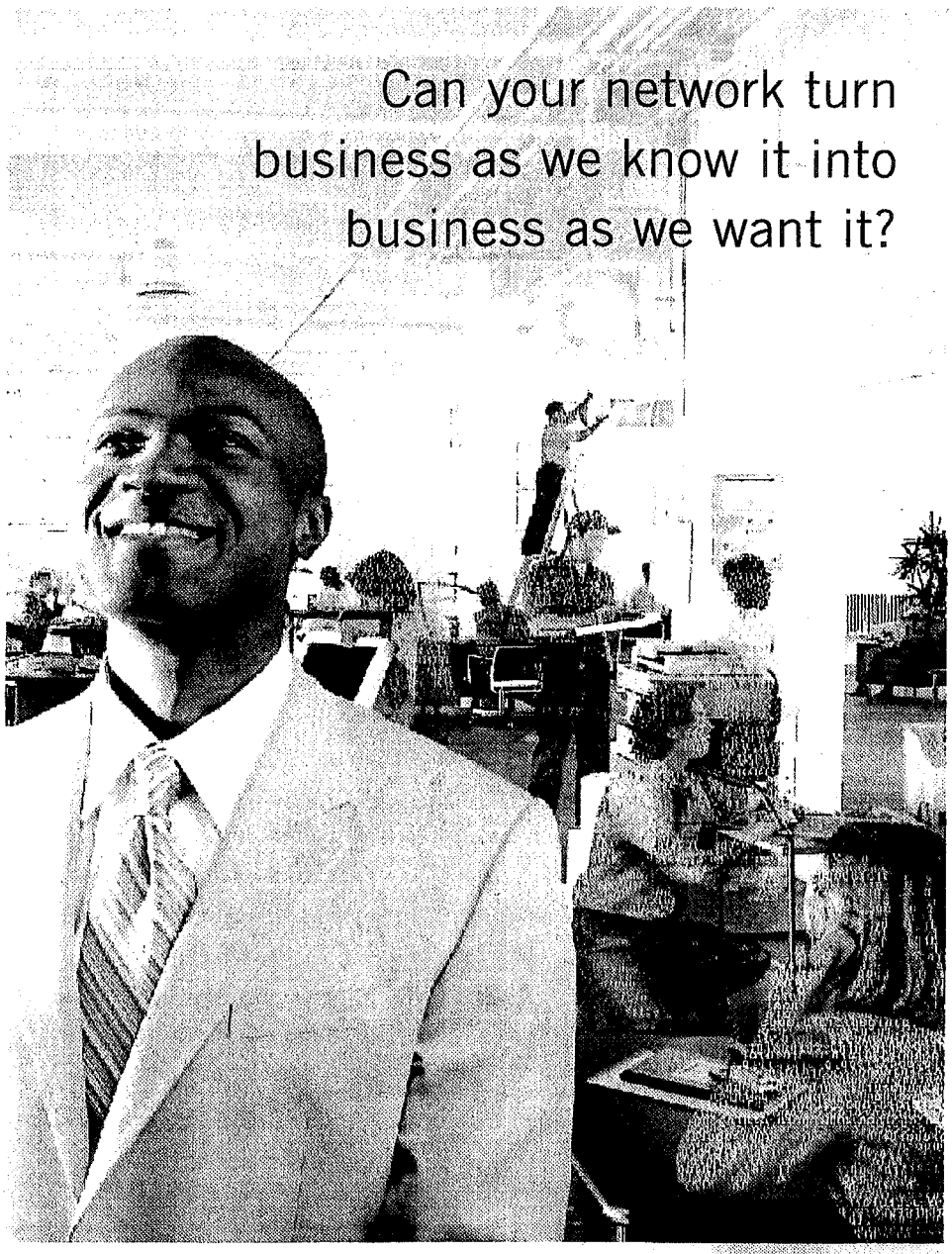
Get services like local & long distance & international & wireless & internet. All on one bill. & all from the company where there's always something more to come.

CALL 1 800 ATT 4ALL
and bring it all together with &.
att.com/home

AT&T

Not available in all areas. Wireless Services provided by AT&T Wireless Services, Inc. ©2004 AT&T

Can your network turn business as we know it into business as we want it?



IT CAN IF IT'S DESIGNED BY THE WORLD'S NETWORKING COMPANY. Now that everything is on it, your network is more important than ever. So, can your network handle the demands of a transformed, interconnected and very demanding new world? Is it wired and wireless and virtual and constantly available to authorized personnel and nobody else? Is it in lockstep with your partners and three steps ahead of your customers? At AT&T, we don't just carry more Internet traffic than anyone in North America, we're also committed to building simpler, stronger and smarter networking environments. And it's why we're partnering with other key technology companies to help make it happen. Can your network overpower every obstacle in its way and actually do all the things it was designed to do in the first place? We'd like to introduce you to one that can. **Just call 1-888-889-0234.**

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The world's networking company℠

att.com/networking ©2004 AT&T

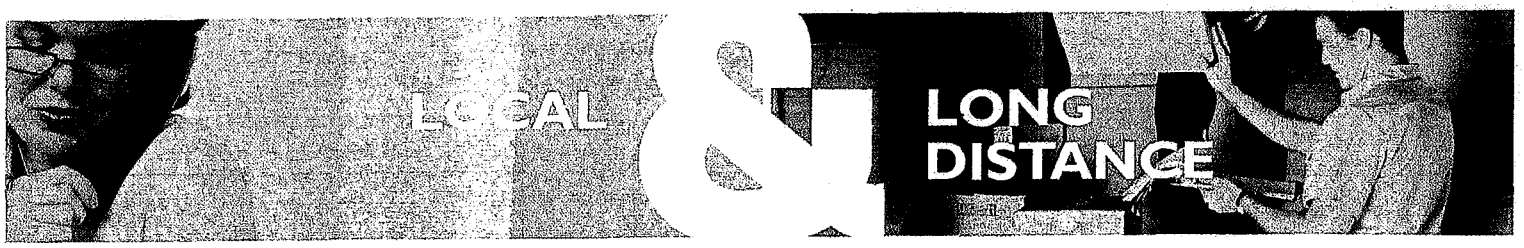
Unlimited talk is good for small business.

AT&T brings together unlimited local and long distance.

ONLY $1.80
per line/day*

AT&T All In One® Advantage
Unlimited Local & Long Distance

AT&T



UNLIMITED CALLING COMES TOGETHER.

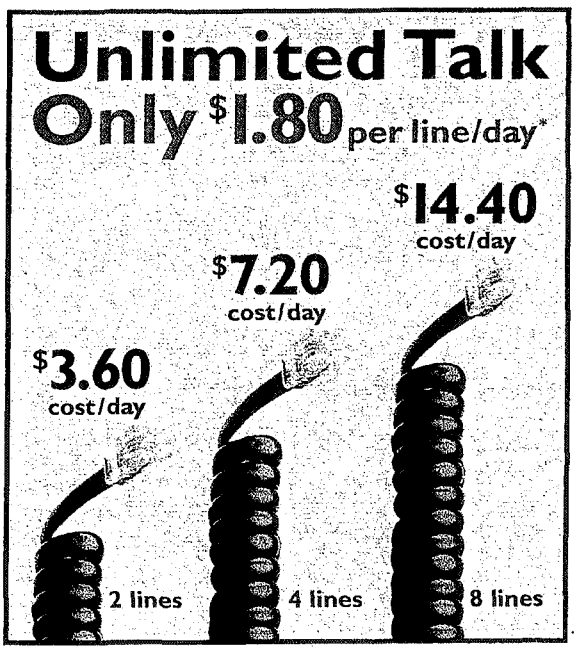
Introducing
AT&T All In One® Advantage

The one simple plan to keep your small business connected:
One fee, one bill, one company.

No more watching the clock. No counting the minutes. And no wondering what surprises will show up on your next bill. Now you'll save by calling anywhere in the U.S. and talking for as long as you want, for only one low monthly fee per line.

Features & Benefits

- **Unlimited In-State** direct dialed calling.
- **Unlimited State-to-State** direct dialed calling.
- **Unlimited Local** calling plus:
  Call Waiting • Call Forward Variable • 3-Way Calling • Call Forward Busy • Speed Dial 8
- **One** simple bill with **one** contact number for assistance.
- **Award-winning** customer service from the **AT&T Small Business Team.**



Take advantage of unlimited talk now!
Call 1 866 371-8921 or visit att.com/advantage1

We'll make it easy to switch, and easy to save.

AT&T

AZ Republic 2-26-04

*Certain conditions and restrictions apply. Based on 11 month Term commitment for direct-dialed and domestic voice calling only. Early termination charges may apply. A per-line access fee for FCC Line Charge and other state and local charges may apply. A UCC charge equal to the quarterly USF contribution factor established by the FCC found at: www.fcc.gov/wcb/universal_service/quarter.html, an Administrative Expense Fee of 0.74%, a Federal Regulatory Fee of 0.52% and a Property Tax Allotment charge of 1.18% will apply to total net state-to-state and international charges. In addition, AT&T will assess a monthly Carrier Line Charge of $3.35 per line. Total number of lines subscribing may not exceed 10 per customer account across all locations. Plan may not be available in all areas. Rates and charges subject to change.

Get **Local** and **Long Distance** together.

AT&T All In One℠

The Right Choice for Small Business Communications.

> **Simplicity...** Combine Local and Long Distance – plus calling features including Voice Mail, Caller ID and Call Waiting.

> **Savings...** New LOW state-to-state calling rates, with no contracts or minimum usage requirements.

> **Reliability...** Award-winning customer service from the AT&T Small Business Team.

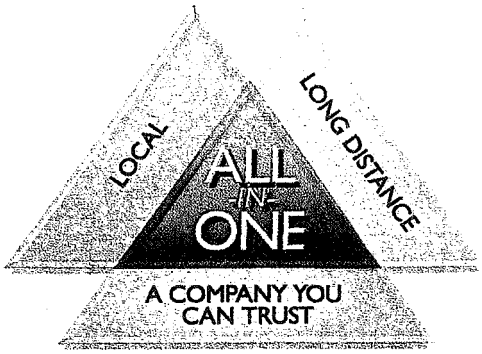
> **All Together...** A single, combined bill with one contact number for assistance.

With **AT&T All In One** Service, you only need one communications provider. Join the nearly four million small business owners who already rely on AT&T today.

Reminder

Call AT&T Today -

1-866-843-1288



SPECIAL OFFERS TO SWITCH

> One month of **FREE** Local Service

> 60 **FREE** minutes of Long Distance every month for 6 months

Switch to AT&T All In One and save!

To order, call **1 866 THE 1 ATT** or visit **att.com/freemonth** for even greater savings.
(1 866 843-1288)

Call or log on to qualify, to sign up, or to learn more. Offer expires 8/31/03. © AT&T 2003.

Small Business Owners:

1. **Choose simplicity.**
2. **Choose savings.**
3. **Choose reliability.**
4. **Choose AT&T for Local and Long Distance together.**

Check This Out!
Local & Long Distance on a single bill –
SAVE $$$

AT&T All In One℠

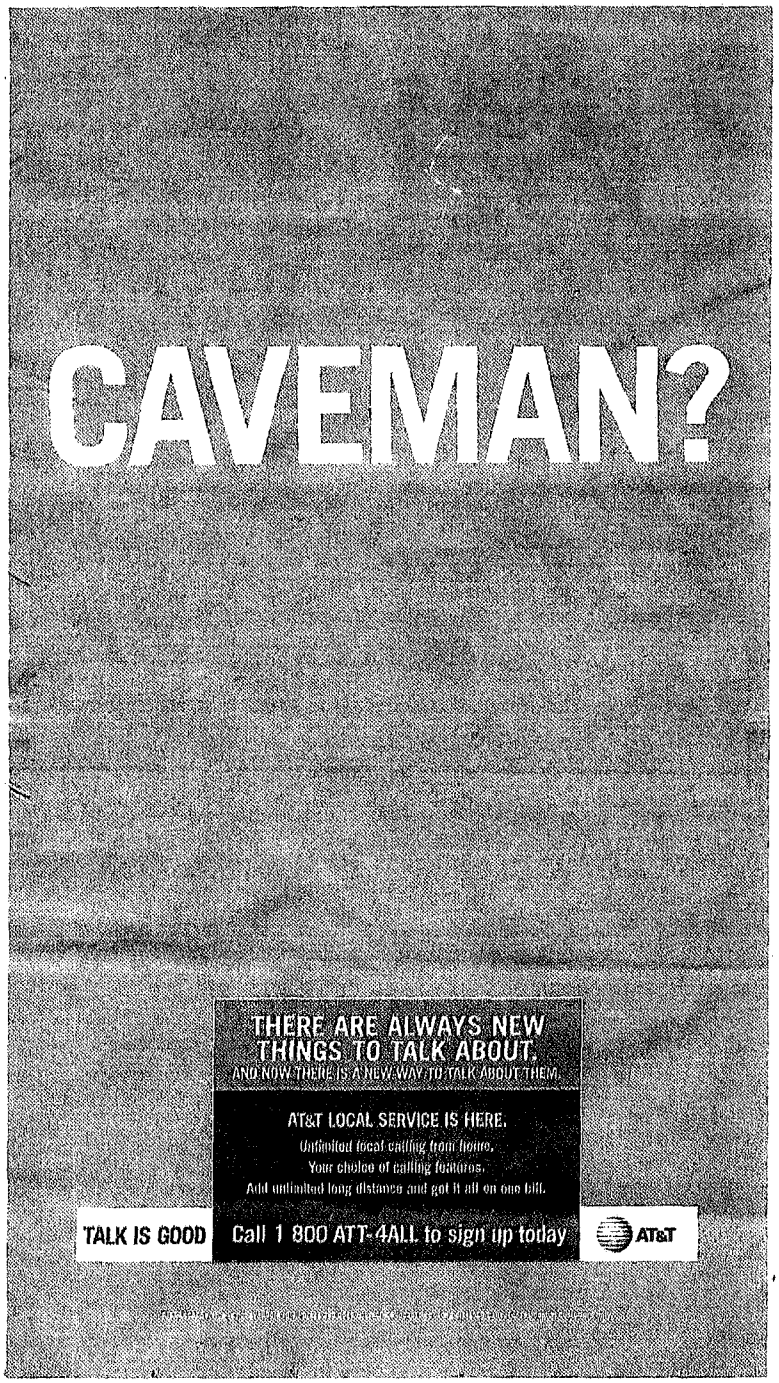
The Right Choice for Small Business Communications.

Combine the communications services your business needs, with the quality you expect, from the company you can trust. Switch to AT&T All In One and save!

To order, call **1 866 THE 1 ATT** or visit **att.com/freemonth** for even greater savings.
(1 866 843-1288)

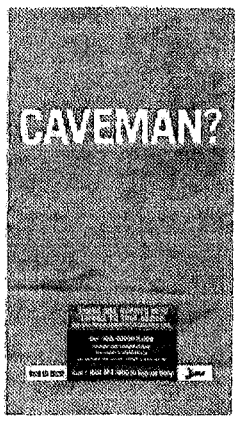
AT&T

Turn over for our special offers!



AD CODE: ATTTL-20469 SOURCE: Arizona Republic - Gazette-OCT 6 03

ADD TO SHOPPING BASKET | DOWNLOAD OPTIONS



AD IDENTIFICATION

Ad Code: **ATTTL-20469**
- Print
- 4 occurrences

Advertiser: AT&T
Headline/LeadAudio: CAVEMAN?
Primary Visual: TEXT

CLASSIFICATION

Product/Campaign: AT&T Local Service
Subcategory: Local & Regional - Residential
Category: Residential Communications
Market Segment Consumer

AIRING/INSERTION

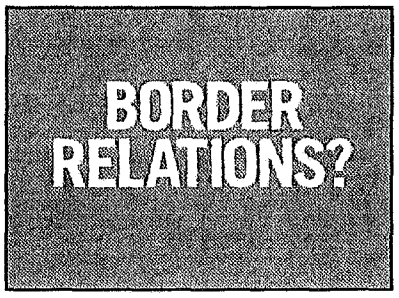
First Run Date: Oct 06, 2003
Last Run Date: Oct 14, 2003
First Run Media: Arizona Republic - Gazette
TV/Print: Print

SHOPPING BASKET

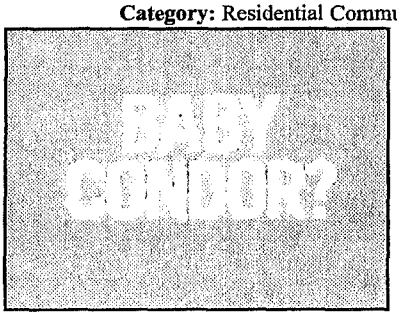
Competitrack

AT&T: Unlimited Local & Long Distance

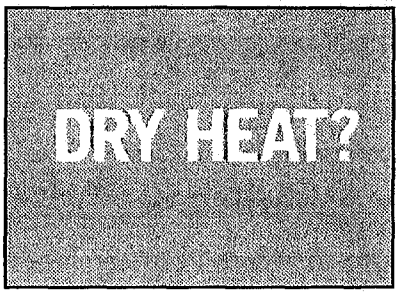
Length: 30 **First Airing:** PHOE-10/07/03 **Ad Code:** ATTTL-20386
Category: Residential Communications **Subcat:** All Distance Service



(Music)

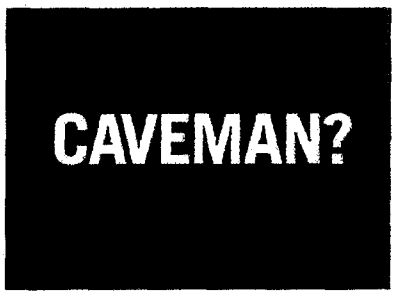


SONG: *Wherever...*

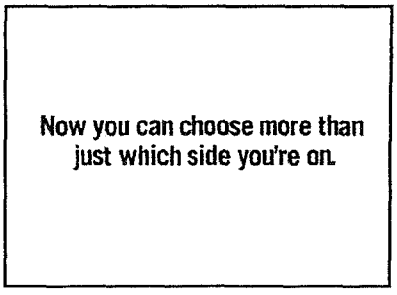


you are...

there's no place...



like home.

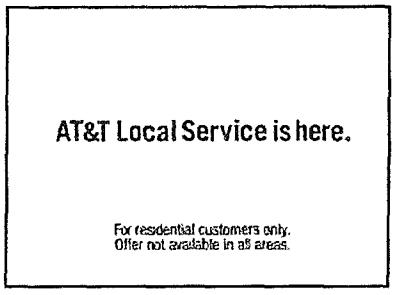


(Music)

Text: Now you can choose more than just which side you're on.

(Music)

Text: You can choose your local phone company.

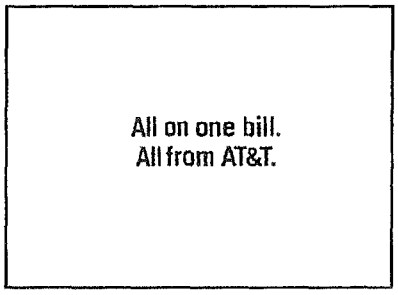


(Music)

Text: AT&T Local Service is here.
For residential customers only.
Offer not available in all areas.

Be it ever humble...

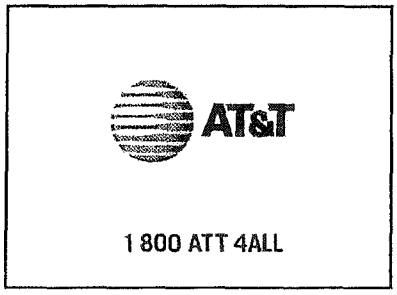
Text: Unlimited local.
Unlimited long distance.



there's no place like home.

Text: All on one bill.
All from AT&T

No place like home.



(Fade out)

- Tapes and MPEGs can be ordered by contacting us at 718.482.4211 -

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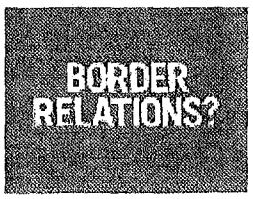
ADD TO SHOPPING BASKET | DOWNLOAD OPTIONS



AD IDENTIFICATION

Ad Code: **ATTTL-20386**
- New TV-30
- 32 occurrences

Advertiser: AT&T
Ad Title: Unlimited Local & Long Distance
Ad Length: 30
Headline/LeadAudio: (TEXT) BORDER RELATIONS?
Primary Visual: TEXT- BORDER RELATIONS
Tagline of campaign: Talk Is Good
Description: Text-Border Relations?Baby Condor?Dry Heat? Freeway Plan? Caveman? You can choose your local phone company. Unlimited Local. Unlimited Long Distance. All on one bill.

CLASSIFICATION

Product/Campaign: Local and Long Distance Service
Subcategory: All Distance Service
Category: Residential Communications
Market Segment Consumer

AIRING/INSERTION

First Run Date: Oct 06, 2003
Last Run Date: Nov 02, 2003
First Run Media: KSAZ - Phoenix*
TV/Print: TV

SHOPPING BASKET

BABY CONDOR?

[illegible] ARE ALWAYS A NEW
[illegible] TO TALK ABOUT.
[illegible]

AT&T LOCAL SERVICE IS HERE.

Unlimited local calling from home.
[illegible] off billing delivery.
And unlimited long distance and get it all on one bill.

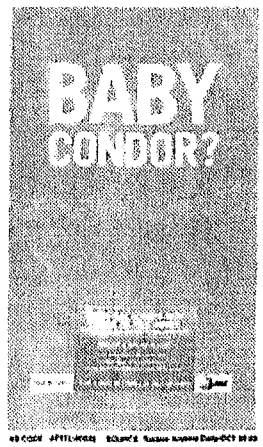
TALK IS GOOD

Call 1 800 ATT-4ALL to sign up today

AT&T

AD CODE: ATTTL-20535 SOURCE: Tucson Arizona Daily-OCT 20 03

ADD TO SHOPPING BASKET | DOWNLOAD OPTIONS



AD IDENTIFICATION

Ad Code: **ATTTL-20535**
- Print
- 4 occurrences

Advertiser: AT&T
Headline/LeadAudio: BABY CONDOR? THERE ARE ALWAYS NEW
Primary Visual: TEXT

CLASSIFICATION

Product/Campaign: AT&T Local Service
Subcategory: Local & Regional - Residential
Category: Residential Communications
Market Segment Consumer

AIRING/INSERTION

First Run Date: Oct 20, 2003
Last Run Date: Oct 27, 2003
First Run Media: Tucson Arizona Daily
TV/Print: Print

SHOPPING BASKET

AT&T Local Service
Calling Plans

ARIZONA CALLING PLANS

- Visit the AT&T Customer Center to view your current account information.
- Chat with a live online agent to order a calling plan or to inquire about other calling plans not listed below.

Plan	Monthly Fee
AT&T One Rate USA^{sm}	$43.95
AT&T One Rate Advantage	$48.95
Call Plan Deluxe	$29.95
Call Plan Unlimited with 3 Feature Package Enhanced	$23.95
Call Plan Unlimited with 2 Feature Package Enhanced	$21.95

DETAILS

Plan	Monthly Fee	Plan Includes
AT&T One Rate USA^{sm}	$43.95 per line per month, available for Primary and Additional lines	• Dial Tone • 900/976 Call Block • Touch Tone • Standard Directory Listing • Unlimited Local, Local Toll, and Long Distance calling Choice of up to 4 of the following:

		• Call Waiting • Call Waiting ID • Caller ID with Name with Anonymous Call Rejection (ACR) • Speaking Call Waiting • Call Forwarding Variable • Call Forwarding Selective • Call Forwarding Transfer • Call Screening • Three Way Calling • Custom Ring 1 • Custom Ring 2 • Custom Ring 3 • Distinctive Ring Service • Repeat Dialing • Call Return • Speed Dial 30
		TOP
AT&T One Rate Advantage	$48.95 per line per month, available on Primary and Additional lines	• Dial Tone • Touch Tone • Standard Directory Listing • Unlimited Local, Local Toll, Long Distance and International calling to Canada ○ Other International calls receive AT&T AnyHour Advantage Plan Rates *Choice of up to 4 of the following: • Call Waiting • Call Waiting ID • Caller ID with Name with

		Anonymous Call Rejection (ACR) • Speaking Call Waiting • Call Forwarding Variable • Call Forwarding Selective • Call Forwarding Transfer • Call Screening • Three Way Calling • Custom Ring 1 • Custom Ring 2 • Custom Ring 3 • Distinctive Ring Service • Repeat Dialing • Call Return • Speed Dial 30 *Some features may not be available in all areas. Please contact an AT&T representative for more information.
		TOP
AZ Call Plan Deluxe	$29.95 per month, available for Primary and Additional lines	• Dial Tone • Unlimited Local calling • 900/976 Call Block • Touch Tone • Standard Directory Listing Unlimited choice of any of the following: • Caller ID with Name including Anonymous Call Rejection (ACR) • Call Waiting • Call Waiting ID • Repeat Dialing • Speed Dial 30

		• Call Forwarding Variable • Call Forwarding Busy No Answer • Custom Ring 1 • Custom Ring 2 • Custom Ring 3 • Three Way Calling • Call Return including ACR • Call Screening • Speaking Call Waiting • Call Forwarding Transfer • Call Forwarding Selective • Distinctive Ringing Service
		TOP
AZ Call Plan Unlimited with 3 Feature Package Enhanced	$23.95 per line per month, available for Primary and Additional lines	• Dial Tone • Unlimited Local calling • 900/976 Call Block • Touch Tone • Standard Directory Listing Choice of any 3 of the following: • Caller ID with Name including Anonymous Call Rejection (ACR) • Call Waiting • Call Forwarding Variable • Call Return • Repeat Dialing • Speed Dial 30 • Three Way Calling
		TOP
AZ Call Plan Unlimited with 2 Feature Package Enhanced	$21.95 per line per month, available for Primary and Additional lines	• Dial Tone • Unlimited Local calling • 900/976 Call Block • Touch Tone

		• Standard Directory Listing Choice of any 2 of the following: • Caller ID with Name including Anonymous Call Rejection (ACR) • Call Waiting • Call Forwarding Variable • Call Return • Repeat Dialing • Speed Dial 30 • Three Way Calling

TOP

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AT&T CONSUMER HOME

SEARCH

AT&T Consumer

Arizona Local Service

Here's A Quick Comparison Of The Plans Available To You

Service Availability

Local service is available in your area.

- Line 1
  (602) 630-8226

Check another number

AT&T Local Service
- **Compare All Plans**
- **Billing Options**
- **FAQs**

CLICK HERE for LIVE help
MONDAY–FRIDAY
8:30am–4pm EST

Calling Plan	AT&T One Rate USA[sm] ß	Call Plan Unlimited - 3 Features Enhanced*	Call Plan Unlimited - 2 Features Enhanced*
Local Service			
Price/Month	$43.95/mth	$23.95/mth	$21.95/mth
Minutes Included	Unlimited local calling from home	Unlimited local calling from home	Unlimited local calling from home
Included Features	• none	• none	• none
Additional Feature Choices	Your choice of 4 features	Your choice of 3 features	Your choice of 2 features
Expanded Local Options	• Unlimited local toll calling from home	• none	• none
Long Distance			
Long Distance Options	• Unlimited domestic long distance calling from home	Your choice of the following:† • AT&T Local One Rate Plus Plan[sm] ($3.95/mth) • AT&T Unlimited Plan[þ] ($19.95/mth) • AT&T One Rate® 10¢ Plan (no monthly plan fee) +	Your choice of the following:† • AT&T Local One Rate Plus Plan[sm] ($3.95/mth) • AT&T Unlimited Plan[þ] ($19.95/mth) • AT&T One Rate® 10¢ Plan (no monthly plan fee) +
International Calling			
International Calling Options	• Not available online	AT&T AnyHour Advantage Plan with City Savings[±] ($3.95/mth)	AT&T AnyHour Advantage Plan with City Savings[±] ($3.95/mth)

Each of these Local Service Packages comes with your choice of the following for an additional monthly fee:

- Voicemail[§]
- Voicemail - Spanish[§]
- AT&T Complete Maintenance Plan[sm] ¤
- Inside Wire Maintenance Plan[°]
- AT&T Telephone Protection Plan[¤]
- No Maintenance Plan
- Caller ID with Name with Anonymous Call Rejection[‡]

- Call Waiting
- Call Waiting ID‡
- Speaking Call Waiting
- Speed Dial 8
- Speed Dial 30
- Anonymous Call Rejection
- Call Forwarding - Selective
- Call Forwarding - Transfer
- Call Forwarding - Variable
- Call Return
- Call Screening
- Caller ID Block (per line)
- Distinctive Ring Service
- Repeat Dialing
- Three-Way Calling
- Call Block - 10-10-XXX Restriction
- Call Block - International Block
- Call Block - Toll Restriction
- Call Block - Collect Calls
- Call Block - Third Party Billing
- Call Block - Third Party & Collect
- Directory Listing - Standard
- Directory Listing - Non Listed
- Directory Listing - Non Published

BACK

Don't see the plan you're interested in? Call us at **1-866-346-1298 ext. 48814** to find out about other options in your state.

ßFor residential, domestic direct-dialed calls only. Offer not available in all areas. Must subscribe to AT&T Local, Local Toll and Long Distance to be eligible for this offer. A per-line fee for local service (FCC Line Charge), Universal Connectivity Charge and other charges apply.

*AT&T Local Service and some features not available in all areas. Some features may not be compatible. For residential customers only. A per line access fee for Local Service (FCC Line Charge), Universal Connectivity Charge and other charges apply.

‡Subject to billing availability. You must be an AT&T Residential Long Distance subscriber. A Universal Connectivity Charge also applies. In some states, a monthly in-state charge and additional per minute rate for international calls terminating on wireless devices may apply. City Savings eligible calls to mobile phones or other wireless devices will be billed at the country rate. A regulatory assessment fee of 99 cents applies if you discontinue AT&T Local Service, but remain with AT&T Residential long distance service.

§There is a one-time set-up charge of $10.00 for new voicemail customers.

‡Caller ID equipment is required.

†Long Distance offer is subject to billing availability. A Universal Connectivity Charge of 9.2% applies, effective October 1, 2003. You must be an AT&T residential long distance and local toll subscriber to receive the state-to-state, in-state and local toll rates quoted for this plan.

[b]You must be an AT&T Residential Long Distance and AT&T Local Toll Service subscriber to receive the state-to-state, in state and local toll rates. Calls to many wireless phones and many broadband telephony customers are not included in the unlimited calls and will be rated at 7¢ a minute. This offer is not compatible with most free minute and bill credit promotions. No call detail will be provided for unlimited calls. Upon enrollment, you will be charged for this month's and next month's fee. If you are currently on a calling plan that includes a monthly fee, you will receive a credit for that amount. Subject to billing availability. State charges may apply.

[+] A $7.00 monthly minimum usage requirement applies beginning with your first complete monthly bill. All you have to do is make $7.00 a month in qualifying calls. Qualifying calls include direct-dialed domestic and international long distance and local toll calls, AT&T Calling Card calls, collect calls, and operator assisted calls. Taxes and the Universal Connectivity Charge do not apply to the usage minimum. If you do not meet the minimum usage of $7.00, you will be charged the difference between what you use and $7.00.

[°]Program enrollment ends 3/31/04.

[¤]If you sign up for AT&T Complete Maintenance Plan[sm] or AT&T Telephone Protection Plan, you agree to the Terms and Conditions for that plan. Please click here to read them now. These Terms and Conditions will also be included in your fulfillment kit.

[°]AT&T will repair any problem with your inside wire or telephone jacks at no additional cost. Requires continued AT&T basic telephone service. This plan will not go into effect until 30 days after your AT&T telephone service has been established. If you live in an apartment building, dorm, condo, co-op, nursing home, or other group living facility, contact your landlord or manager to determine your responsibility for the inside wiring so that you can better decide whether this feature would benefit you.

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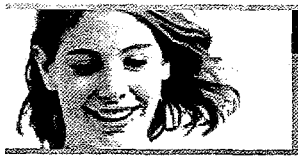

Arizona Local Service

Here's A Quick Comparison Of The Plans Available To You

Service Availability

Local service is available in your area.

- Line 1
  (520) 741-2833

Check another number

AT&T Local Service
- **Compare All Plans**
- **Billing Options**
- **FAQs**

CLICK HERE for LIVE help
MONDAY–FRIDAY
8:30am–4pm EST
CHAT

Calling Plan	AT&T One Rate USA[sm] ß	Call Plan Unlimited - 3 Features Enhanced*	Call Plan Unlimited - 2 Features Enhanced*
Local Service			
Price/Month	$49.95/mth	$23.95/mth	$21.95/mth
Minutes Included	Unlimited local calling from home	Unlimited local calling from home	Unlimited local calling from home
Included Features	• none	• none	• none
Additional Feature Choices	Your choice of 4 features	Your choice of 3 features	Your choice of 2 features
Expanded Local Options	• Unlimited local toll calling from home	• none	• none
Long Distance			
Long Distance Options	• Unlimited domestic long distance calling from home	Your choice of the following:† • AT&T Local One Rate Plus Plan[sm] ($3.95/mth) • AT&T Unlimited Plan[Þ] ($19.95/mth) • AT&T One Rate® 10¢ Plan (no monthly plan fee) +	Your choice of the following:† • AT&T Local One Rate Plus Plan[sm] ($3.95/mth) • AT&T Unlimited Plan[Þ] ($19.95/mth) • AT&T One Rate® 10¢ Plan (no monthly plan fee) +
International Calling			
International Calling Options	• Not available online	AT&T AnyHour Advantage Plan with City Savings[±] ($3.95/mth)	AT&T AnyHour Advantage Plan with City Savings[±] ($3.95/mth)

Each of these Local Service Packages comes with your choice of the following for an additional monthly fee:

- Voicemail[§]
- Voicemail - Spanish[§]
- AT&T Complete Maintenance Plan[sm ¤]
- Inside Wire Maintenance Plan[°]
- AT&T Telephone Protection Plan[¤]
- No Maintenance Plan
- Caller ID with Name with Anonymous Call Rejection[‡]

- Call Waiting
- Call Waiting ID‡
- Speaking Call Waiting
- Speed Dial 8
- Speed Dial 30
- Anonymous Call Rejection
- Call Forwarding - Selective
- Call Forwarding - Transfer
- Call Forwarding - Variable
- Call Return
- Call Screening
- Caller ID Block (per line)
- Distinctive Ring Service
- Repeat Dialing
- Three-Way Calling
- Call Block - 10-10-XXX Restriction
- Call Block - International Block
- Call Block - Toll Restriction
- Call Block - Collect Calls
- Call Block - Third Party Billing
- Call Block - Third Party & Collect
- Directory Listing - Standard
- Directory Listing - Non Listed
- Directory Listing - Non Published

BACK

Don't see the plan you're interested in? Call us at **1-866-346-1298 ext. 48814** to find out about other options in your state.

ßFor residential, domestic direct-dialed calls only. Offer not available in all areas. Must subscribe to AT&T Local, Local Toll and Long Distance to be eligible for this offer. A per-line fee for local service (FCC Line Charge), Universal Connectivity Charge and other charges apply.

*AT&T Local Service and some features not available in all areas. Some features may not be compatible. For residential customers only. A per line access fee for Local Service (FCC Line Charge), Universal Connectivity Charge and other charges apply.

‡Subject to billing availability. You must be an AT&T Residential Long Distance subscriber. A Universal Connectivity Charge also applies. In some states, a monthly in-state charge and additional per minute rate for international calls terminating on wireless devices may apply. City Savings eligible calls to mobile phones or other wireless devices will be billed at the country rate. A regulatory assessment fee of 99 cents applies if you discontinue AT&T Local Service, but remain with AT&T Residential long distance service.

§There is a one-time set-up charge of $10.00 for new voicemail customers.

‡Caller ID equipment is required.

†Long Distance offer is subject to billing availability. A Universal Connectivity Charge of 9.2% applies, effective October 1, 2003. You must be an AT&T residential long distance and local toll subscriber to receive the state-to-state, in-state and local toll rates

quoted for this plan.

[Þ]You must be an AT&T Residential Long Distance and AT&T Local Toll Service subscriber to receive the state-to-state, in state and local toll rates. Calls to many wireless phones and many broadband telephony customers are not included in the unlimited calls and will be rated at 7¢ a minute. This offer is not compatible with most free minute and bill credit promotions. No call detail will be provided for unlimited calls. Upon enrollment, you will be charged for this month's and next month's fee. If you are currently on a calling plan that includes a monthly fee, you will receive a credit for that amount. Subject to billing availability. State charges may apply.

[+] A $5.00 monthly minimum usage requirement applies beginning with your first complete monthly bill. All you have to do is make $5.00 a month in qualifying calls. Qualifying calls include direct-dialed domestic and international long distance and local toll calls, AT&T Calling Card calls, collect calls, and operator assisted calls. Taxes and the Universal Connectivity Charge do not apply to the usage minimum. If you do not meet the minimum usage of $5.00, you will be charged the difference between what you use and $5.00.

[°]Program enrollment ends 3/31/04.

[¤]If you sign up for AT&T Complete Maintenance Plan[sm] or AT&T Telephone Protection Plan, you agree to the Terms and Conditions for that plan. Please click here to read them now. These Terms and Conditions will also be included in your fulfillment kit.

[°]AT&T will repair any problem with your inside wire or telephone jacks at no additional cost. Requires continued AT&T basic telephone service. This plan will not go into effect until 30 days after your AT&T telephone service has been established. If you live in an apartment building, dorm, condo, co-op, nursing home, or other group living facility, contact your landlord or manager to determine your responsibility for the inside wiring so that you can better decide whether this feature would benefit you.

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AT&T Local Service
Calling Features

ARIZONA CALLING FEATURES

- Visit the AT&T Customer Center to view your current account information.
- Change your local calling features online.
- Chat with a live online agent to inquire about other calling features not listed below.

Type	Fee
Call Blocking Features	No additional charge
Call Forwarding Selective	$2.50 per month
Call Forwarding/Call Forwarding Variable	$2.75 per month
Call Forwarding Transfer	$6.00 per month
Call Return • When ordering this feature you must order Caller ID with Name with Anonymous Call Rejection	$2.95 per month $0.75 pay per use with a $7.50 monthly billing cap
Call Screening	$4.50 per month
Call Trace	$3.00 pay per use with no monthly billing cap Per use charge is waived if annoyance is reported to local Law Enforcement authorities
Call Waiting	$3.00 per month
Call Waiting ID combines Call Waiting	

and Caller ID with Name	
• Must also subscribe to Caller ID with Name	$8.50 per month
Caller ID with Name	
• Includes Anonymous Call Rejection (ACR), customer ***must*** activate	$5.50 per month
Custom Ring 1	$2.75 per month
Custom Ring 2	$2.75 per month
Custom Ring 3	$2.75 per month
Directory Listing Types Standard	No additional charge
Directory Listing Types Additional standard	$1.50 per month, per listing
Directory Listing Types Non-Listed	$1.75 per month
Directory Listing Types Non-Published	$2.00 per month
Distinctive Ring	$2.50 per month
Repeat Dialing	$2.50 per month $0.75 pay per use with a $7.50 monthly billing cap
Speaking Call Waiting	$2.95 per month in ***addition*** to the Call Waiting monthly charge
Speed Dial 30	$2.75 per month
Speed Dial 8	$2.00 per month
Three Way Calling	$2.75 per month $0.75 pay per use with a $7.50 monthly billing cap
AT&T VoiceMail Service	$10.00 activation fee $5.95 per month
AT&T VoiceMail Plus Service	$10.00 activation fee $6.95 per month
VoiceMail Manager 100 Unit	$19.95 plus $8.00 Shipping

	and Handling
VoiceMail Manager 200 Unit	$29.95 plus $10.00 Shipping and Handling

TOP

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AT&T Local Service
Maintenance Plans

ARIZONA MAINTENANCE PLANS

You can view account information, including your current calling plans, features, and maintenance plans at the AT&T Customer Center.

To order an AT&T Maintenance Plan, chat with a live online agent.

Type	Fee
AT&T Complete Maintenance℠ Plan	$5.95 per month
AT&T Telephone Protection Plan	$3.95 per month
Inside Wire Maintenance Plan	$3.95 per line, per month

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AT&T Local Service

Maintenance Plans

AT&T COMPLETE MAINTENANCE[sm] PLAN

Description Key Points

- The **AT&T Complete Maintenance[sm] Plan** provides you with complete maintenance coverage of your telephone equipment and inside wiring.
  - Inside Wire Maintenance Plan
  - AT&T Telephone Protection Plan
  - The equipment maintenance plan repairs or replaces damaged or broken equipment registered and eligible under the plan, up to $400.00 per year.
- Eligible equipment includes:
  - 1 line and/or 2 line sets
  - Caller ID display units
  - Answering machines
- You will need to complete and return a registration form for your telephone equipment.
- Without AT&T Complete Maintenance[sm] Plan, you are responsible for repairs or replacement of your telephones, devices, inside wiring and jacks inside your home.
- For telephone equipment claims processing, you can:
  - visit our website
  - call 1-866-844-5144 (Monday - Friday, 8:30 a.m. - 12 Midnight ET, and Saturday, 8:30 a.m. - 4 p.m. ET).
- If you reside in a multi-dwelling unit or shared tenant services, you may not be eligibile for Inside Wire Maintenance portion of this offer.

Eligibility & Restrictions

- You must have AT&T for Local Service
- You must first register your telephone equipment.
  - You will receive a registration form within 7 - 10 days of enrollment.
- Telephone repair and replacement claims ***cannot*** be made before 30 days after enrollment.
  - Equipment registered after the initial enrollment is subject to a 30 day waiting period before a claim may be filed.
- Telephone equipment replacement or repair ***does not cover***:
  - Abuse, neglect, improper installation, or pre-existing conditions,
  - Acts of God, telephone accessories and/or special needs accessories or decorative telephone sets,
  - AT&T Leased products, rotary or hardwired phones, or telephones with 3 or more lines / PBX / Key Systems,
  - Manufacturer's defects, non-telephone equipment other than answering machines and caller ID units,
  - Theft,
  - Call Manager 100 and Call Manager 200 Units are not covered under this plan, please review contract for additional specific exclusions.
- Available on multi-line accounts:
  - AT&T Complete Maintenance^{sm} Plan is provisioned on the primary line.
  - Equipment repair or replacement applies to all registered equipment on all lines on the account.

Back to Maintenance Plans

AT&T Local Service

Maintenance Plans

INSIDE WIRE MAINTENANCE PLAN

Description Key Points

- The Inside Wire Maintenance Plan is an optional warranty program that provides labor and material costs for repairs to your inside wire and jack to a single phone line for a monthly fee. Services provided are unlimited service calls, problem diagnosis and repair of telecommunications wiring and jacks. This service is billed one month in advance. Inside Wire Maintenance Plan coverage begins 30 days after enrollment (after 1 billing cycle). Pricing is on a per dial-tone basis.
  - The plan covers ***existing*** wiring and equipment (i.e., jacks) ***only***
  - This plan does ***not*** cover the installation of new jacks
  - This plan does not cover jack-reconfiguration.
- If Maintenance and Repair dispatches an Inside Wire technician who finds the problem to be in your premise equipment (i.e. telephone, fax, modem, answering machine, etc.), you will be charged for the premise visit and all other applicable charges even if you are enrolled in the Inside Wire Maintenance Plan
- Although the Inside Wire Maintenance Plan is not a requirement for Local Service, it is required on all lines on a multiline account

Back to Maintenance Plans

AT&T Local Service

Maintenance Plans

AT&T TELEPHONE PROTECTION PLAN

Description Key Points

- The **AT&T Telephone Protection Plan** provides you with telephone equipment protection, repairing or replacing damaged or broken equipment registered and eligible under the plan, up to $400.00 per year.
- Eligible equipment includes:
  - 1 line and/or 2 line sets
  - Caller ID display units
  - Answering machines
- You will need to complete and return a registration form for your telephone equipment.
- Without AT&T Telephone Protection Plan, you are responsible for repairs or replacement of your telephones, answering machines and Caller ID devices.
- For telephone equipment claims processing, you can:
  - visit our website
  - call 1-866-844-5144 (Monday - Friday, 8:30 a.m. - 12 Midnight ET, and Saturday, 8:30 a.m. - 4 p.m. ET).
- Inside Wire Maintenance Plan sold separately or as part of the AT&T Complete Maintenance[sm] Plan.

Eligibility & Restrictions

- You must have AT&T for Local Service
- You must first register your telephone equipment.
  - You will receive a registration form within 7 - 10 days

of enrollment.

- Telephone repair and replacement claims ***cannot*** be made before 30 days after enrollment.
  - Equipment registered after the initial enrollment is subject to a 30 day waiting period before a claim may be filed.
- Telephone equipment replacement or repair ***does not cover***:
  - Abuse, neglect, improper installation, or pre-existing conditions,
  - Acts of God, telephone accessories and/or special needs accessories or decorative telephone sets,
  - AT&T Leased products, rotary or hardwired phones, or telephones with 3 or more lines / PBX / Key Systems,
  - Manufacturer's defects, non-telephone equipment other than answering machines and caller ID units,
  - Theft,
  - Call Manager 100 and Call Manager 200 Units are not covered under this plan, please review contract for additional specific exclusions.
- Available on multi-line accounts:
  - AT&T Telephone Protection Plan is provisioned on the primary line.
  - Equipment repair or replacement applies to all registered equipment on all lines on the account.

Back to Maintenance Plans

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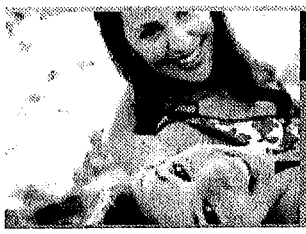

Arizona Local Service

The New And Better Choice You Deserve.

Service Availability

Local service is available in your area.

- Line 1
  (602) 630-8226

Check another number

Same for the cow - SRP 3-9-04

:: **AT&T Local Service**
- **Compare All Plans**
- **Billing Options**
- **FAQs**

CLICK HERE for LIVE help
MONDAY–FRIDAY
8:30am–4pm EST

AT&T One Rate USA[smß]

$43.95/mth

ALL YOUR HOME PHONE SERVICE FOR JUST $1.47 PER DAY!

- Unlimited local and domestic long distance calling from home
- Your choice of 4 great calling features
- One flat monthly rate
- One simple bill

LEARN MORE

BILLING

You can choc
option that s
needs:
- Automatic
- View-N-Pa
- Paper Bill

Learn mo

Compare AT&T Local Plans

Need more details? Compare the AT&T Local Plans offered in your area.

COMPARE

Call Plan Unlimited - 3 Features Enhanced*

$23.95/mth

- Unlimited local calling from home
- Your choice of 3 calling features
- Long Distance options
- AT&T AnyHour Advantage Plan

with City Savings option for an additional monthly plan fee of $3.95±

LEARN MORE

Call Plan Unlimited - 2 Features Enhanced*

$21.95/mth

- Unlimited local calling from home
- Your choice of 2 calling features
- Long Distance options
- AT&T AnyHour Advantage Plan

with City Savings option for an additional monthly plan fee of $3.95±

LEARN MORE

Interested in other calling plan options in your state?

Call 1-866-346-1298 ext. 48814 now.

ßFor residential, domestic direct-dialed calls only. Offer not available in all areas. Must subscribe to AT&T Local, Local Toll and Long Distance to be eligible for this offer. A per-line fee for local service (FCC Line Charge), Universal Connectivity Charge and other charges apply.

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±Subject to billing availability. You must be an AT&T Residential Long Distance subscriber. A Universal Connectivity Charge also applies. In some states, a monthly in-state charge and additional per minute rate for international calls terminating on wireless devices may apply. City Savings eligible calls to mobile phones or other wireless devices will be billed at the country rate. A regulatory

assessment fee of 99 cents applies if you discontinue AT&T Local Service, but remain with AT&T Residential long distance service.

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Small & Medium Home

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  - AT&T All In One
- All Products & Services

- Customer Center
- Solution Assistant℠

Need help with your order?
Live assistance is available
8am-8pm EST Mon-Fri.

AT&T All In One™

AT&T All In One is available for number (520) 741-2833.
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Available Plans

AT&T All In One Advantage℠

ORDER

Unlimited Long Distance and Local calling

See plan

This plan is recommended for businesses with heavier volumes of long distance and local calling.

- $56.95 per month per line
- Unlimited State-to-State and Regional Long Distance
- Unlimited Local Service
- Line Charge Included

Promotion FREE local line installation.

AT&T All In One Plus

ORDER

Long Distance with moderate Local calling

See plan

This plan is recommended for businesses that want a competitive long distance rate and make over 500 minutes of local calls per month.

- State-to-State Long Distance: 6.0¢ per minute for Online Billing
  6.9¢ per minute for Standard Billing
- Regional (IntraLATA) Long Distance: 11.9¢ per minute
- Local Service: $31.80 per month, unlimited calling
- Calling Card: Calls as low as 6.5¢ per minute See all rates
  Per call surcharge varies by location. Details

Promotion FREE local line installation and 360 long distance minutes.

Above service(s) can be bundled with:

AT&T Toll-Free Service - Rates as low as 6.0¢ per minute
Get a custom number with AT&T's online Toll-Free Lookup Tool.

Individual Services also available:

AT&T Long Distance - Rates as low as 6.0¢ per minute! Learn more

AT&T Local Service - Multiple plans to meet your business needs! Learn more

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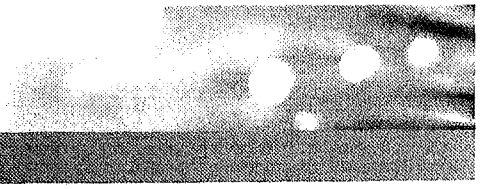

Small & Medium Home

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- Internet Services
- Integrated Offers
  - AT&T Business Network
  - AT&T All In One
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AT&T All In One™

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Available Plans

AT&T All In One Advantage℠

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Unlimited Long Distance and Local calling

This plan is recommended for businesses with heavier volumes of long distance and local calling.

- $56.95 per month per line
- Unlimited State-to-State and Regional Long Distance
- Unlimited Local Service
- Line Charge Included

Promotion FREE local line installation.

AT&T All In One Plus

ORDER

See plai

Long Distance with moderate Local calling

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  6.9¢ per minute for Standard Billing
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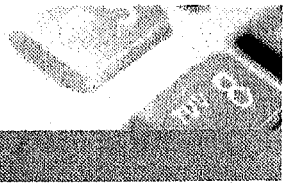

AT&T Local Service

Small & Medium Home

- Voice Services
  - Long Distance
  - Toll-Free
  - **Local**
  - Calling Card
  - TeleConference & Web Meeting
  - Wireless
- Internet Services
- Integrated Offers
- All Products & Services

- Customer Center
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Need help with your order?
Live assistance is available
8am-8pm EST Mon-Fri.

AT&T Local Service is available for number (602) 630-8226.
Check another number

Available Local Plans

AT&T All In One — Local Service for moderate calling

ORDER

See plai

This plan is recommended for businesses that generally make over 500 minutes of local calls per month, per line.

- $31.80 per month, unlimited calling

Promotion FREE local line installation.

Add Long Distance and SAVE!

AT&T All In One Advantage℠
Unlimited Long Distance and Local calling

ORDER

See plai

This plan is recommended for businesses with heavier volumes of long distance and local calling.

- $56.95 per month per line
- Unlimited State-to-State and Regional Long Distance
- Unlimited Local Service
- Line Charge Included

Promotion FREE local line installation.

AT&T All In One Plus
Long Distance with moderate Local calling

ORDER

See plai

This plan is recommended for businesses that want a competitive long distance rate and make over 500 minutes of local calls per month.

- State-to-State Long Distance: 6.0¢ per minute for Online Billing
  6.9¢ per minute for Standard Billing
- Regional (IntraLATA) Long Distance: 11.9¢ per minute
- Local Service: $31.80 per month, unlimited calling
- Calling Card: Calls as low as 6.5¢ per minute See all rates
  Per call surcharge varies by location. Details

Promotion FREE local line installation and 360 long distance minutes.

AT&T Business Network

CONTACT ME

OVERVIEW

AT&T Business Network (ABN) is a fully integrated networking solution offering a single bill, contract and commitment across a comprehensive portfolio of Services. Designed to easily expand as your business evolves, ABN offers the full breadth of networking Services including IP, Local, High Speed Packet, Access and Voice – full featured, local-to-national-to global.

PRICI

This powerfully e-enabled service delivery platform provides seamless flexibility, direct command and control of your network and the simplicity of an end-to-end experience from a trusted single provider, AT&T.

With AT&T Business Network, everything is integrated, unified, and simplified.

KEY FEATURES & BENEFITS

Integrated Billing

No need to process dozens of bills from different providers. You can combine all your services onto a single, company-wide AT&T Business Network bill, or divide up your bills by location, department, or other grouping. And everything will be on the same billing cycle, so you won't be processing bills all month long.

Manage It All Online

Your AT&T Business Network is fully e-enabled, allowing you to manage your network online, any time of day or night with your own personalized AT&T BusinessDirectSM extranet.

AT&T BusinessDirect offers a suite of online tools that help manage and monitor your AT&T Business Network services conveniently via the web - giving you instant control of your network. The powerful tools will enable your business to improve productivity, increase the speed and accuracy of

transactions, optimize network efficiency in real time, and reduce costs.

You can:

- Order **new services** or capabilities
- View your **current bill** summary and call detail
- **Pay** your monthly bill via EFT or credit card
- Review an **"Inventory"** of your network services
- Customize your **bill formats**
- Update your **account information** and review your **billing arrangements**
- Request **maintenance** and track the status of trouble tickets
- Analyze your **calling patterns** with call detail
- Evaluate your **trunk usage and efficiency**
- Monitor your overall **network status** in real time
- Track your **toll-free call activity**
- Attend online seminars, receive alerts about your account, and learn about new technologies and solutions that can help your **business**

More Buying Power

- **Low, Lower, Lowest:** If all your company locations are fully "networked" - which means directly connected to your AT&T Business Network via AT&T T1 facilities or AT&T Local Service lines - you'll gain special economies on your voice communications. That's because calls between locations that both use direct AT&T access get the lowest per-minute usage rates. If just one end of the call uses direct AT&T access, you'll get the next-lowest usage rates. It can save you significantly on intra-company communications.

- **Company-wide Volume Discounts:** If you agree to meet a certain annual billing amount, you'll get generous volume discounts on all your applicable AT&T Business Network usage from day one. You'll save more than you could with a number of smaller, individual services because you will be combining your buying power across all your services, at all your locations.

- **"Surge" Discounts Too:** If your network usage skyrockets for some reason - during your busiest month or due to a special project - a special additional discount will apply to virtually all your network spending. It will help take the edge off your extra expenses. (Consider it a "thank-you" for the extra business, too.)

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AT&T Business Network

Small & Medium Home

- Voice Services
- Internet Services
- Integrated Offers
  - AT&T Business Network
  - AT&T All In One
- All Products & Services

- Customer Center
- Solution Assistant℠

Access Saved Order

If you have already started an order, click below to login and continue with the ordering process.

LOGIN

Overview | Voice Services | Data and IP Services | Network Access | ORDER NC

This comprehensive, end-to-end solution combines all your voice, to advanced features, access, data, IP and local services into a single, powerful network.

AT&T Business Network is an open networking platform tailored to your unique business situation. That means all your telecom demands can be served by a flexible s that consolidates your services into one plan, with one commitment and one affordable, price — plus built-in growth to account for both your present and future needs. And this also comes with AT&T BusinessDirect℠, a complimentary suite of interactive account ma and billing tools. Take our virtual tour.

Ordering online is the fastest way to bring the benefits of AT&T Business Netwc your business. If you need a voice-only solution for up to ten locations, you can order s right here — right away. Should you require a solution that also includes data services, y the assistance of one of our sales professionals. Choose your option below.

Need a Voice Services Solution?
Order AT&T Business Network online now and take advantage of these benefits:

- **Instant price quotes**
- **Convenient help features**
- **Live ordering assistance**
- **Real-time contracts**

ORDER

Need a Voice, Data and IP Solution?
Find out how AT&T Business Network can serve all of your communication needs.

Get a free professional consultation with an AT&T expert.

What you can expect from your AT&T Business Network:

Integration: All the services your business depends on will be designed to work togethe including voice, data, IP and network access.

Cost-efficiency: You'll benefit from connected pricing across services, as well as discour based on term and spending commitments.

Convenience: Enjoy one contract, one bill, one customer service contact and one extrar lets you easily manage everything from your desktop.

Flexibility: Select the contract term that mirrors your business objectives. Plus, add nev technologies and services as they are required without recontracting.

Innovation: AT&T provides you with a complimentary suite of industry-leading online management tools to help manage and monitor your network. Take our virtual tour to se

your business can:

- Order new services or capabilities
- View your current bill summary and call detail
- Pay your monthly bill via EFT or credit card
- Review an "Inventory" of your network services
- Customize your bill formats
- Update your account information and review your billing arrangements
- Request maintenance and track the status of trouble tickets
- Analyze your calling patterns with call detail
- Evaluate your trunk usage and efficiency
- Monitor your overall network status in real time
- Track your toll-free call activity

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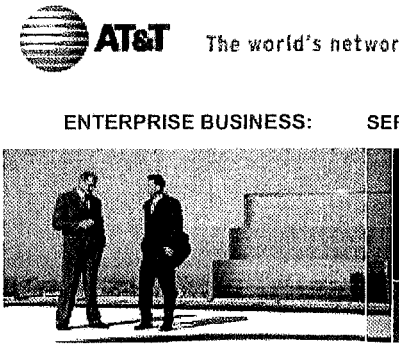


INSIGHT & NEWS

Read our latest case studies, white papers, press releases and more.

Bombay Company accessorizes with Managed Frame Relay Service
AT&T's advanced networking capabilities help the home furnishings industry leader identify sales trends, analyze customer-buying patterns, track in-store sales and monitor inventory levels -- while improving profitability.

Turning the Network 'inside out'
AT&T is changing the game for customers by turning the network 'inside out', creating a user-centered, application-driven network. Learn more about AT&T's networking vision and where networking will take your business.

AT&T Wins Highest Customer Satisfaction With Business Local Telephone Service Providers
J.D. Power and Associates 2003 Major Provider Business Telecommunications Services Study℠. Study conducted among 4,717 businesses with 2-500+ employees that subscribe to the major providers in the local telephone service market. www.jdpower.com.

MANAGE YOUR ACCOUNT with BusinessDirect ℠

Manage, monitor, and analyze network performance in real time

Request circuit tests, create and track service tickets

Pay bills electronically and more

Arizona Corporation Commission
Docket No. T-01051B-03-0454
Docket No. T-00000D-00-0672
Qwest Corporation – DLT-6
Exhibits of David L. Teitzel
Pages 1-36, May 20, 2004

Eschelon Telecom, Inc.

Business at the next level

eschelon℠
telecom, inc.

Who is Eschelon?

An integrated communications provider of voice, data and Internet services, business telephone systems and equipment for businesses like yours.

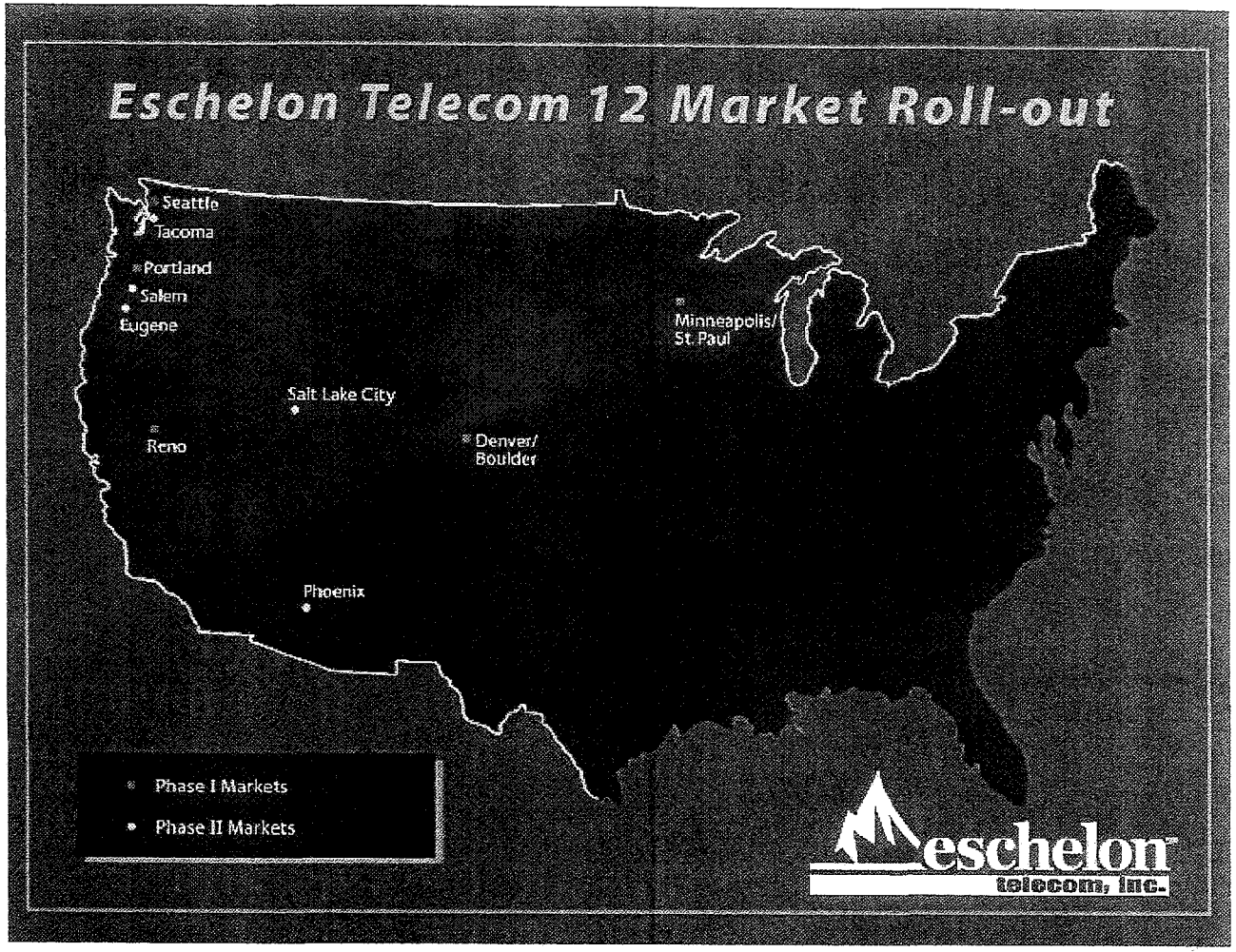
eschelon™ telecom, inc.

Who is Eschelon?

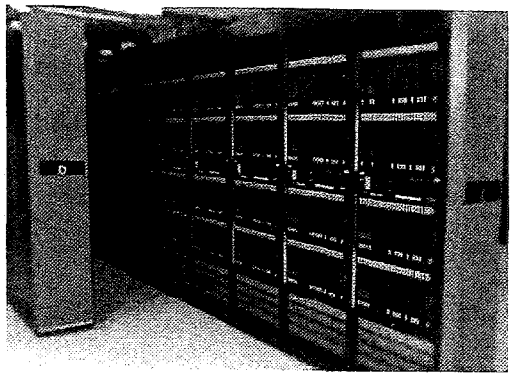
- Employs approximately 900 telecom/Internet professionals
- Currently has more than 38,000 customers with over 200,000 access lines in service
- Serves 12 markets in 7 states
- One of the fastest growing telecom companies in the US

eschelon telecom, inc.

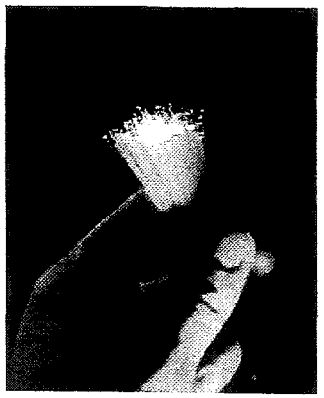
Eschelon's National Network



Our Network



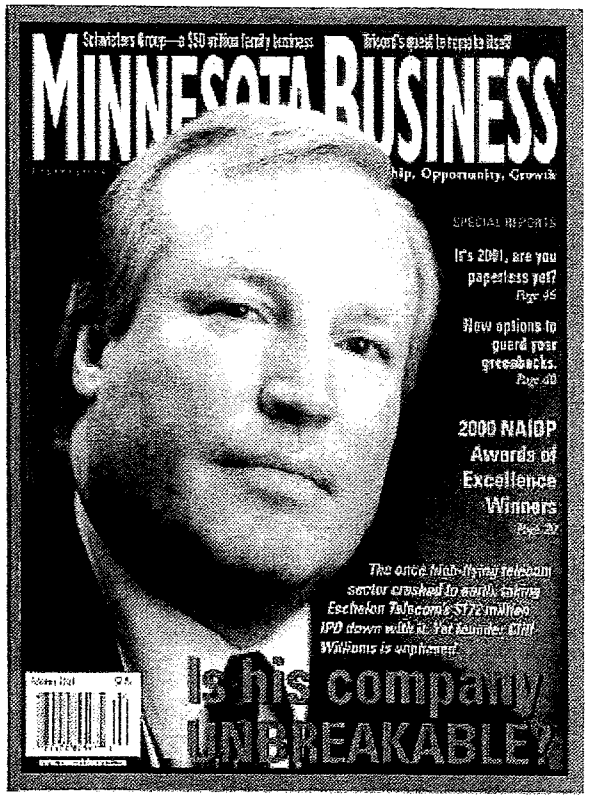
- Facilities-based provider
- Network built on state-of-the-art technology for Voice/Data
- Internet Service Provider, with 4 redundant backbone connections to the Internet to ensure service
- 24 hour network operations and monitoring center
- Advanced troubleshooting system



eschelon telecom, inc.

Financial Stability

- Raised $327MM in financing
- World-class team of investors
- Cash flow positive since September 2003



eschelon telecom, inc.

Our Investors

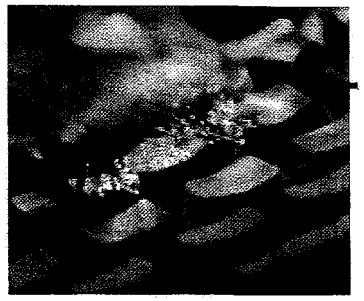
- Bain Capital
- Stolberg Equity Partners
- US Bancorp
- Wind Point Partners
- General Electric Capital Corporation
- First Union

eschelon telecom, inc.

Our Products and Services

- Voice services

  - Analog phone lines
  - Digital T-1
    - Local, Long Distance, PRI
    - Combination Local/Internet
  - Long distance
  - Voice messaging



- Internet services
  - T-1, Integrated Internet and Voice T-1
  - DSL
  - Dial-up, E-mail, Web hosting

Meschelon telecom, inc.

Our Products and Services

- Hardware
  - Business telephone systems
  - Internet firewalls
  - Customized solutions for your company

eschelon telecom, inc.

What to Look for in a Telecom Provider

- Breadth of Services
  - local, long distance, voice messaging, DSL, T-1, Internet, phone systems
- Simplicity and Convenience
  - Dedicated team of professionals to serve your needs
  - Consolidated billing
- Customer Service
  - Experienced, knowledgeable account management
- Reliability
  - Uses only business-proven technologies backed by solid guarantees
- Value
  - Offers the best solution for increased efficiency, not just the lowest price
- Financial Stability
  - World-class team of investors
  - Raised $327 Million in financing

eschelon telecom inc.

Our Consultative Approach

- Our Approach
  - We analyze your current situation and propose solutions that will:
    - meet your unique applications needs
    - streamline your handling of calls and data
    - make the most of your telecom budget
    - offer the most advanced technologies
    - help your business become more efficient

eschelon telecom, inc.

Thank you!

For more information, please visit
www.eschelon.com.

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telecom, inc.

Sponsor profile: ESCHELON TELECOM

Excellent products and customer service place Eschelon Telecom above the telecommunications fray

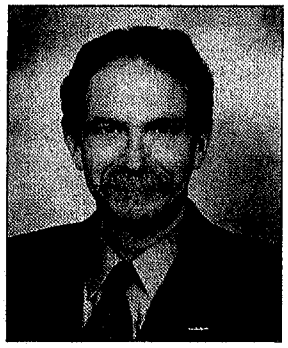
Eschelon Telecom, Inc. is a rapidly growing provider of integrated voice, data, Internet services, and business phone systems. The company, founded in 1996, serves a growing base of 38,000 business customers in the Twin Cities and six other states. As one of only 10 Competitive Local Exchange Carriers (CLECs) in the country to turn free cash-flow positive results, it signals an optimistic achievement for the telecommunications industry.

"It's unusual to have early stage telecommunications companies be cash-flow positive. We've been in business for seven years, never shut down a market, never had a major layoff, and serve thousands of business customers," says President and CEO Richard Smith. "For all those reasons, we're a company that's here for the long run."

Headquartered in Minneapolis, Eschelon Telecom offers small and medium-sized businesses a comprehensive line of telecommunications and Internet products, including local lines, long distance, business telephone systems, DSL, dedicated T-1 access, network solutions and web hosting. Its customer base is in the Twin Cities metro area, and in Arizona, Utah, Washington, Oregon, Colorado and Nevada. Eschelon Telecom is a $150 million company that employs 910 people, more than half of which are located in Minneapolis.

Smith says Eschelon has focused on providing a high level of service, and offering a valuable suite of products that can save companies as much as 10% on their telecommunications costs. Its customer service center is staffed with dedicated people who answer customer calls personally, as opposed to recorded messages, within 15 seconds on average. Eschelon is also proud of its customer churn rate, the percentage in which customers leave your business every month, for a variety of reasons. Smith says Eschelon's rate is 33 percent lower than the industry average, which is a solid indication that the company is providing what businesses need.

Many of its customers came to Eschelon from major carriers, such as Qwest, AT&T, MCI and Global Crossing. Eschelon provides an in-house analysis of the customer's telecommunications needs, and makes recommendations for a customized system sized to fit those needs.



Rick Smith

"We've been in business for seven years, never shut down a market, never had a major layoff, and serve thousands of business customers. For all those reasons, we're a company that's here for the long run," says CEO Richard Smith.

"Sometimes we actually recommend that they have fewer lines and fewer services than they're carrying. They might have had employees leave the business or taken out fax machines and never closed the lines," says Smith. "Or they may have overflow on lines that they didn't realize they had."

The company's product package has gone through dramatic changes in recent years, notes Smith. Just two years ago, the typical business would need five or six phone lines, a couple of fax lines and a long distance product. Today, the average customer is ordering packages with Internet access, voice and data lines, and features, such as Caller ID, conference calling, and voice mail, all delivered over a 24-channel pipe called a T-system.

"Customers want more bandwidth, which offers the flexibility to grow their businesses faster at a lower cost. The T-system is a pretty sophisticated set, and it's relatively new for us, but it has just skyrocketed," says Smith.

Eschelon's T-system already accounts for half of its new monthly sales. It is due in part to the growth in data transmission, which accounts for 20 to 30% of a customer's telecommunication needs. Smith says that percentage will continue to grow as more and more companies use the Internet to operate their businesses more efficiently.

Eschelon's business model has proven very effective in the marketplace. It has the right product mix to serve a growing customer niche, small-to-mid-sized businesses, says Smith.

"Over our history, Eschelon has proven to have the right vision, committed, high performing associates and the right execution to excel in today's business climate."

Contact: *Eschelon Telecom, Inc.; 730 2nd Avenue South, Suite 1200; Minneapolis, MN 55402; www.eschelon.com; 612-376-4400; Richard A. Smith, President and CEO; 612-436-6626; rasmith@eschelon.com*

eschelon telecom, inc.

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Business at the next level™

Award-winning. Groundbreaking. Action-packed.
Highlights of what makes us what and who we are!

Eschelon Telecom, Inc. Rings in the New Year with New Flexible Suite of Telecom Solutions

Minneapolis, Minn. – January 5, 2004: Eschelon Telecom, Inc., a provider of voice, data, Internet services and business telephone systems, announced today that it has enhanced its T-1 solutions product set and is also expanding its offering of long distance minute packages.

Eschelon has enhanced its line of T-1 products to offer more flexibility and Internet speeds to customers. Customers now have the option to purchase a T-1 product in 64kpbs blocks enabling them to add bandwidth as their needs grow. Customers may choose from a variety of integrated voice and IP T-1 solutions designed specifically for their telephone equipment. This solution set enables customers to customize their configurations to meet their exact needs and system requirements.

In response to customer requests, Eschelon is also expanding its Summit product line which features a wide selection of long distance minute packages. For a flat monthly fee, customers may choose a minute package ranging from 500 to 20,000 domestic minutes per month that fits their usage requirements with competitive per minute rates thereafter.

"We've expanded and added flexibility to our most popular product offerings to eliminate the complexity for our customers and provide them with more scalable solutions," stated Robert Pickens, Eschelon's executive vice president of marketing.

"It is now easier to add bandwidth to a T-1 connection solution, or minutes to an LD plan, based on the specific needs of the customer. No other provider is offering this level of flexibility and simplicity in their T-1 and long distance solutions."

About Eschelon Telecom, Inc.

Eschelon Telecom, Inc. was founded in 1996 and is a rapidly growing provider of integrated voice, data and Internet services and equipment. Headquartered in Minneapolis, Minnesota, the company offers small and medium sized businesses a comprehensive line of telecommunications and Internet products including local lines, long distance, business telephone systems, DSL, dedicated T-1 access, network solutions and Web hosting. Eschelon employs approximately 900 telecommunications/Internet professionals and has more than 200,000 access lines in service throughout its markets in Minnesota, Arizona, Utah, Washington, Oregon, Colorado and Nevada.

Back to 2003 Press Releases

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Eschelon is an award-winning telecommunications enterprise committed to delivering satisfaction to you.

History | Network | Mission Statement

Industry Resources | Terms & Conditions

Company History for Phoenix

Eschelon opened its Phoenix office in April, 2000. In November, Eschelon completed the build-out of its switching facilities and collocations in 14 Phoenix area Central Offices. Eschelon is now able to offer Phoenix area businesses a full suite of voice, Internet and data services.

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To learn more about our history in your region or another area of the country click on the state that you are interested in.

- Arizona
- Colorado
- Minnesota
- Nevada
- Oregon
- Utah
- Washington

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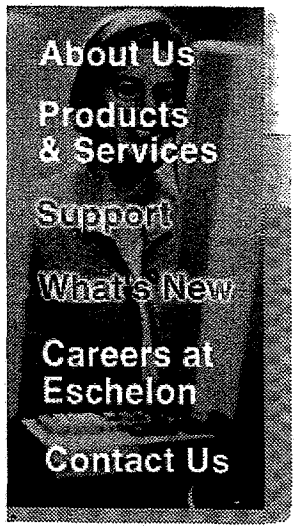

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Eschelon Telecom, Inc. to Offer Customers Integrated Access Solutions

Minneapolis, MN, February 3, 2003: Eschelon Telecom, Inc., a provider of voice, data, Internet services and business telephone systems, announced today that it has launched its Precision Integrated Access Service to compliment its full suite of bundled telecommunications solutions.

Precision Integrated Access delivers voice and data services over a single T-1 circuit and is ideal for businesses that have at least six voice telephone lines and want the speed and reliability of an affordable T-1 connection to the Internet. The Precision product will allow customers to choose from 256k to 768k of dedicated bandwidth, a package of 1,000 to 5,000 included long distance minutes and from 6 to 16 telephone lines. Best of all, the Precision telephone lines allow customers to choose from over 20 useful business services at no extra monthly charge such as: Call Waiting, Caller ID, Call Forwarding and Call Transfer. These features provide a higher level of functionality without requiring customers to upgrade to a PBX telephone system.

Precision Integrated Access was developed to respond to the needs of customers who either cannot get DSL service or do not want to invest in a new telephone system to get integrated digital voice and high-speed data service.

"Now customers who want affordable, high speed Internet service integrated with their voice platform can have their needs met with Precision Integrated Access," said Bob Pickens, Eschelon's Executive Vice President of Marketing. "The Precision product enables small-medium sized businesses to manage their telecom services efficiently and cost-effectively with the ease of working with a single provider."

Eschelon Telecom, Inc. was founded in 1996 and is a rapidly-growing provider of integrated voice, data and Internet services. The company offers small and medium sized businesses a comprehensive line of telecommunications and Internet products including local lines, long distance, business telephone systems, DSL, T-1, network solutions and Web hosting. Eschelon employs more than 900 telecommunications/Internet professionals and currently provides service to more than 35,000 business customers in Minnesota, Arizona, Utah, Washington, Oregon, Colorado and Nevada. For more information, please visit our Web site at www.eschelon.com.

Back to 2003 Press Releases

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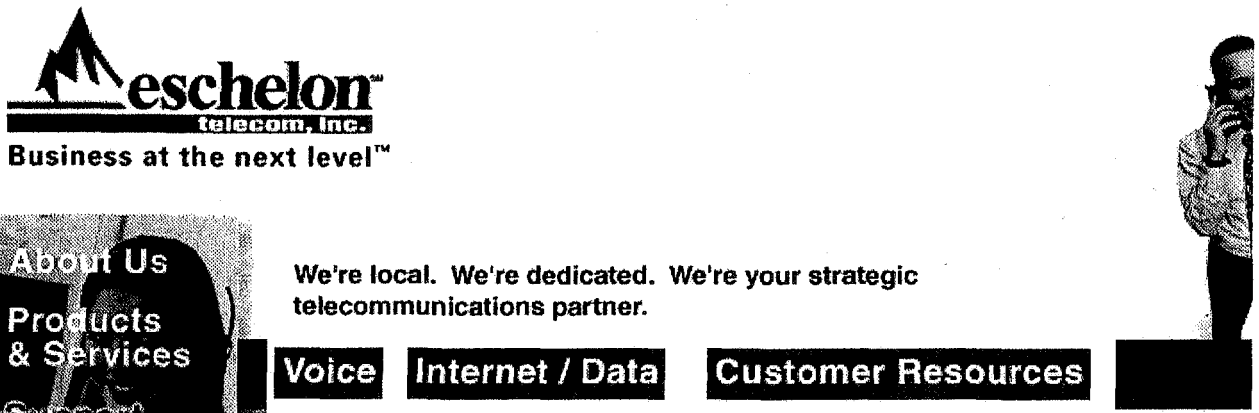
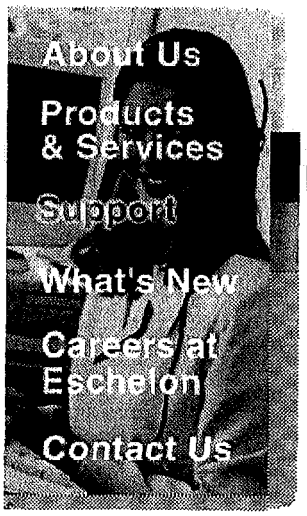


Business at the next level™



We're local. We're dedicated. We're your strategic telecommunications partner.

The Value of Eschelon Telecom

The telecommunications industry is full of options. Companies of all shapes and sizes are claiming lower prices for your telephone services. However, Eschelon Telecom, Inc. is different. We are committed to offering you a better value for your telecommunications dollar. Experience for yourself the value of working with a trusted, reliable telecommunications provider that is not just interested in copying the service that you have today; but rather, helping you achieve your goals of tomorrow and beyond.

Feature Rich Product
Many other providers quote a featureless local line. This makes their pricing seem low; however, most charge $2 - $6 for additional features. Eschelon offers feature-rich service that allows you to customize your local line with up to 26 additional *features to fit your unique business needs without incurring* additional monthly charges.

Term Liability
Other providers may tie customers into long term contracts that trap them into uncompetitive pricing programs. Some providers may even charge a customer for the remaining length of the contract PLUS a certain percentage of their monthly recurring local revenue. Eschelon stands *behind its service offering* and is committed to earning our customers' businesses every day. We don't lock you into cumbersome agreements.

Financial Strengths
We have a sound and proven business plan backed by a world-class team of investors. We are recognized as a company that generates exceptional operational and financial results. All of our markets are now EBITDA (Earnings Before Interest, Taxes, Depreciation and Amortization) positive on a pre-corporate basis.

Comprehensive Solutions
We offer one of the widest geographic footprints in the industry, which helps us provide service to multiple locations. Our wide array of product capabilities allows us to analyze your entire communication requirements – from the desk top to the world –

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for both voice and data communications. We don't just focus on what you have today, but rather, on what you need today and in the future.

Back to General FAQ

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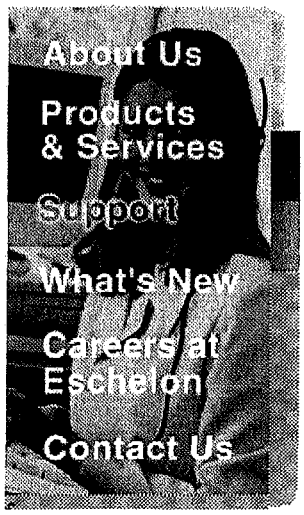
Business at the next level™



We're local. We're dedicated. We're your strategic telecommunications partner.

Voice | Internet / Data | Customer Resources

Equipment | Telecom Glossary | Billing

What to look for in a telecommunications provider

Financial Stability

Eschelon Offers:

- Supported by a team of world class investors committed to the company's financial needs and success

Simplicity & Convenience

Eschelon Offers:

- Consolidates services on a single, monthly bill

Customer Service

Eschelon Offers:

- Dedicated team of professionals available to serve you
- Focused on serving only the small- to medium-sized businesses, so we understand your needs
- Offers a 100% customer satisfaction guarantee

Reliability

Eschelon Offers:

- Facilities-based provider
- Internet service provider
- A network with a self-healing SONET backbone connection
- 24 x 7 network operations and monitoring center
- Network built on tried and true technologies from the industry's leading manufacturers
- Back up power systems to ensure redundancy and

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Breadth of Services

Eschelon Offers:

- A single source that offers a full suite of telecom products including local, long distance, voice messaging, T-1s, DSL, Web services and business telephone systems
- Product specialists who help you design and execute a strategic telecommunications plan within your budget

Value

Eschelon Offers:

- Offers the most efficient solution for your business, not just the lowest price

Back to General FAQ

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We're local. We're dedicated. We're your strategic telecommunications partner.

Voice **Internet / Data** **Customer Resources**

Equipment **Telecom Glossary** **Billing**

Eschelon Offices

Phoenix, Arizona

- **Eschelon Telecom, Inc.**
  2600 North Central, Suite 550
  Phoenix, AZ 85004-4560

- **Telephone:** 602-424-2400
- **Facsimile:** 602-420-9333
- **Customer Service, Repair, and Billing questions:** 1-866-ESCHELON (372-4356)
- **Sales questions:** 602-420-9900
- **For an update on the status of your order please contact:** 1-866-ESCHELON (372-4356)

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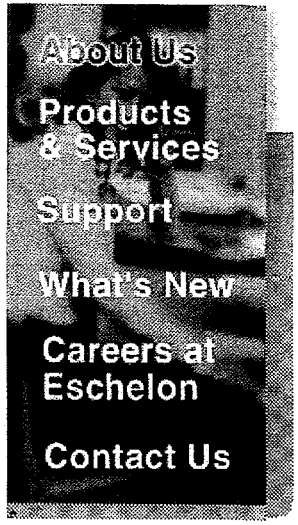

Eschelon is an award-winning telecommunications enterprise committed to delivering satisfaction to you.

History | Network | Mission Statement | Industry Resources | Terms & Conditions

Peak Network Performance

As a premier facilities-based Integrated Communications Provider, Eschelon takes very seriously its commitment to provide customers with a reliable network. Over the past several years, Eschelon has made significant investments in its network to ensure optimal reliability for our customers.

The Operations and Engineering department is vigilant about anticipating network problems and preventing them before they affect our customers. This goal is accomplished through network diversity – properly building our network, providing 24 x 7 network monitoring and completing proactive testing and maintenance. Eschelon's network was designed using link and carrier diversity. With Link diversity, our customer traffic is spread across two sets of separate circuits, which may be purchased from a single underlying carrier. Carrier diversity is achieved when customer traffic is spread across two sets of separate circuits that are carried by two distinct underlying carriers. If a problem occurs on one circuit, carrier diversity helps ensure that traffic will continue moving across the second circuit – often with little or no interruption to our customers.

Overview of Eschelon's Network

- 6 voice switches: Nortel Networks DMS-500
- 7 data switches: Nortel Networks Passport ATM

- 101 collocations: 97 in Qwest territory and 4 in SBC/Verizon territory

- Approximately 150 Central Offices from which we can provide T-1 services

Eschelon's state-of-the-art Network Operations Control Center (NOCC) monitors the network activity of our voice switches and collocation sites. Based in Minneapolis, the NOCC provides 24 x 7 monitoring of Eschelon's network alarms.

Eschelon is proud to offer our customers a reliable and diverse voice and data network that utilizes proven technology by leading manufacturers. With continued investment and support, Eschelon's network will remain one of the company's greatest assets and a major competitive advantage.

Network Map
Back to Network

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Business at the next level™

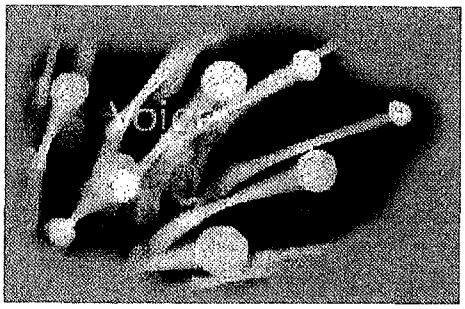
Providing comprehensive solutions - from local telecommunications to networking. Eschelon is committed to offering you customized technology at your fingertips!

Products for ARIZONA:

Voice

Internet / Data

Bundled Solutions



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Products On-Line Analysis

Products for ARIZONA:

Voice

Local Line Products
Long Distance
Voice Messaging
T-1 Services - Local & Integrated
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Products for ARIZONA:

Voice

- Back to Voice
- Back to All Products

Local Line Products

Eschelon Local Services

With Eschelon's Local Services, you'll receive the highest quality telephone service available to help your business thrive. We offer affordable, feature-rich local service lines that are just right for small to medium-sized businesses. That's why we created our local line products with the features you need to optimize your telecommunications.

Premium Service

- State-of-the-art switching technology from the industry's leading suppliers.
- Monitored 24 X 7 to ensure optimal performance.
- Supports PBX, Key System and individual line functions.
- A dedicated team of telecom professionals to ensure your services continue to provide optimum value.

A Cost-effective Solution

With Eschelon's Premium Service, you can customize your service with a variety of valuable features at no additional cost.

- Call Transfer
- 3-Way Conference
- Consultation Hold
- Hunting

- Caller ID Number
- Speed Call
- Call Forwarding
- Plus many more
- Essential features on the lines themselves
- Flexible term discounts are available for commitment periods.

Enhance your communications and save money.

Back to Voice
Back to All Products

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Providing comprehensive solutions - from local telecommunications to networking. Eschelon is committed to offering you customized technology at your fingertips!

Products | Profile Analysis

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Products for ARIZONA:

Voice

Back to Voice
Back to All Products

T-1 Services - Local

Primarily for businesses with 12 or more lines, Eschelon's Local and Integrated T-1 Services provide cost-effective, highly functional solutions to optimize your communications. A T-1 is a high-quality digital switched service featuring 24 channels bundled over two pairs of copper wire. You can take up to 24 calls at the same time on a single T-1, rather than the 24 separate lines required with traditional analog telephone service. Eschelon's T-1 services are delivered over our own high-speed, reliable network built with technology from the industry's leading suppliers.

Local T-1 Service

- Assign different phone numbers to each employee, fax machine and modem in your company.
- Less time routing calls to intended recipients and more time communicating directly with your customers.
- More efficient use of your phone system's capacity and requires a T-1 compatible phone system.
- Accommodates up to 24 lines using only one slot in the phone system
- Complement any Eschelon T-1 product with Summit Long Distance for a monthly flat rate. Select from a variety of long distance calling plans, ranging from 500 to 20,000 domestic minutes per month with competitive per-minute rates thereafter.

Save money compared to the cost of similar standard business line services.

eschelon telecom, inc.

Business at the next level™

Providing comprehensive solutions - from local telecommunications to networking. Eschelon is committed to offering you customized technology at your fingertips!

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Products for ARIZONA:

Voice

Back to Voice
Back to All Products

First Eschelon

Today's high tech business arena demands that companies use fast, innovative systems to communicate. First Eschelon does just that by giving you the ability to combine local, long distance and high-speed Internet service over a single digital T-1 loop. You'll get fast, reliable connections between your employees and customers, and you'll save money by bundling the services onto one circuit versus purchasing each service separately. With Eschelon, not only will you save time and money, you'll gain a customer service and strategic telecommunications partner you can trust.

- Simplify your communication systems and make network management easier.
- Benefit from a dedicated team of telecom professionals for planning, executing and maintaining your telecommunications systems.
- Increase data transfer speeds over dial-up modems without the expense of purchasing multiple lines.
- Maintain your company's bottom line with First Eschelon features like tiered rate structure and cost-competitive Internet access.
- Receive support for local telephone service features like Direct Inward Dialing (DID), which allows you to assign a different phone number to each employee, fax machine and modem in your company.

Back to Voice
Back to All Products

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Highlights of what makes us what and who we are!

Eschelon Telecom, Inc. Achieves Milestone, Exceeds 200,000 Access Lines in Service

Minneapolis, Minn. – December 1, 2003: Eschelon Telecom, Inc., a provider of voice, data, Internet services and business telephone systems, announced today that it has crossed the 200,000 mark for access lines in service for the month ending November, 2003.

"We are very pleased to have achieved this accomplishment in such a short timeframe," stated Richard A. Smith, president and chief executive officer of Eschelon Telecom, Inc. "In just two years, we have doubled the number of access lines we have in service. This milestone and our customer survey efforts indicate that we are meeting the diverse needs of the business community and they are recommending us to their business associates. Because of this we are the #1 Competitive Local Exchange Carrier measured by market share in the twelve markets that we serve and the entire Eschelon team is very proud of that."

"The dramatic growth in access lines can be attributed to our position in the marketplace as a capable, customer-oriented, and financially-stable telecommunications provider," stated Bob Pickens, executive vice president of marketing. "Our customers and potential customers tell us that these criteria are critical in their selection of long-term telecommunications partners."

Eschelon Telecom, Inc. was founded in 1996 and is a rapidly growing provider of

integrated voice, data and Internet services. Headquartered in Minneapolis, Minnesota, the company offers small and medium sized businesses a comprehensive line of telecommunications and Internet products including local lines, long distance, business telephone systems, DSL, dedicated T-1 access, network solutions and Web hosting. Eschelon employs approximately 900 telecommunications/Internet professionals and currently provides service to more than 38,000 business customers in Minnesota, Arizona, Utah, Washington, Oregon, Colorado and Nevada.

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Arizona Corporation Commission
Docket No. T-01051B-03-0454
Docket No. T-00000D-00-0672
Qwest Corporation – DLT-7
Exhibits of David L. Teitzel
Pages 1-13, May 20, 2004

McLeodUSA®

For Immediate Release

McLeodUSA to Deploy Voice Over IP (VoIP) Services in 2004

Next Generation of Preferred Advantage℠ Local, Long Distance and Internet Services Will Provide Customers with Enhanced Flexibility and New Features

CEDAR RAPIDS, Iowa – January 21, 2004 – McLeodUSA Incorporated (Nasdaq: MCLD), one of the nation's largest independent competitive telecommunications services providers, today announced it is moving forward aggressively to deploy the next generation of Preferred Advantage℠ services utilizing Internet Protocol (IP) technology. The new Voice-over-IP (VoIP) platform will be launched early in the second quarter across the McLeodUSA network to initially offer McLeodUSA business customers an enhanced set of flexible features for their Local, Long Distance, and Internet services via McLeodUSA's highly successful Integrated Access product. McLeodUSA will also utilize VoIP to lower cost and enhance other Preferred Advantage services for both residential and business customers in the near future.

The market for VoIP services in the U.S. is expected to grow significantly over the next few years as service providers deploy this technology and new customer applications develop. For McLeodUSA VoIP services, key customer benefits will include dynamic selection and management of calling packages, features, rate plans, and service characteristics along with the ability to add or change a service profile in real-time through a simple, easy-to-use web interface. In addition, customers will be able to adjust bandwidth utilization on each Integrated Access T-1 facility across voice and data services.

"McLeodUSA is committed to providing a world-class service experience to our customers by delivering products and services that are simple, flexible, easy-to-use and affordable," said Chris A. Davis, Chairman and CEO of McLeodUSA. "We already have the local infrastructure, facilities and provisioning capabilities required to implement technology innovations such as VoIP. This technology will allow us to continue to execute our product and services strategy and expand our Preferred Advantage product portfolio to include exciting new features and capabilities. VoIP technology will provide customers with higher speeds, more feature choices and pricing alternatives, initially for Integrated Access services and then other McLeodUSA products and services over the next 12 to 18 months."

In 2003, McLeodUSA deployed VoIP technology for internal company use and has extensively tested its platform. Expansion across the McLeodUSA network will continue with VoIP services available to customers in selected markets by the end of the second quarter and extended to other markets throughout the remainder of 2004 and 2005. Specific product and pricing information will be made available at the time of actual market introduction. Further product introductions for other VoIP services will follow.

In 2003, McLeodUSA introduced Preferred Advantage Integrated Access services with trunk side and line side features based on current Time Division Multiplexing (TDM) technology. VoIP technology will enhance this product with the new features and the dynamic management and control offered to customers.

For general information on all McLeodUSA services and Preferred Advantage Integrated Access Services for business, please contact a McLeodUSA Customer Care Representative at 1-800-593-1177 or visit the Company's website at www.mcleodusa.com.

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About McLeodUSA

McLeodUSA provides integrated communications services, including local, long distance, wireless voice, data, and Internet in 25 Midwest, Southwest, Northwest and Rocky Mountain states. The Company is a facilities-based telecommunications provider with, as of September 30, 2003, 38 ATM switches, 44 voice switches, 604 collocations, 435 DSLAMs and 3,480 employees. As of April 16, 2002, Forstmann Little & Co. became a 58% shareholder in the Company. Visit the Company's website at mcleodusa.com.

Some of the statements in this press release include statements about our future expectations. Statements that are not historical facts are "forward-looking statements" for the purpose of the safe harbor provided by Section 21E of the Exchange Act and Section 27A of the Securities Act. Such statements may include projections of financial and operational results and goals, including revenue, EBITDA, profitability, savings and cash. These forward-looking statements are subject to known as well as unknown risks and uncertainties that may cause actual results to differ materially from our expectations. Our expectations are based on various factors and assumptions and reflect only our predictions. Factors that could cause actual results to differ materially from the forward-looking statement include technological, regulatory, public policy or other developments in our industry, availability and adequacy of capital resources, current and future economic conditions, the existence of strategic alliances, our ability to generate cash, our ability to implement process and network improvements, our ability to attract and retain customers, our ability to migrate traffic to appropriate platforms and changes in the competitive climate in which we operate. These and other risks are described in more detail in our most recent Annual Report on Form 10-K and Form 10-K/A both filed with the SEC. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of future events, new information or otherwise.

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BY: David R. Conn
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McLeodUSA®

For Immediate Release

McLeodUSA Launches Preferred Advantage℠ Integrated Access Service Platform

Combines Voice, Data and Internet Services Over a Reliable, High-Speed Digital Connection

CEDAR RAPIDS, Iowa – July 22, 2003 – McLeodUSA Incorporated (Nasdaq: MCLD), one of the nation's largest independent competitive telecommunications services providers, today announced the launch of Integrated Access, a new addition to the Preferred Advantage℠ products family. Initially, small and medium-sized businesses, with approximately 6 - 20 voice lines and data services, can now combine local, long distance and Internet services over a dedicated, digital facility with Integrated Access.

"With our commitment to providing value-added solutions to our customers, Integrated Access offers a flexible method of consolidating voice and data services over a digital facility, providing businesses with reliability, affordability and speed," said Chris A. Davis, Chairman and CEO of McLeodUSA. "Integrated Access, along with our other Preferred Advantage products and services, is designed to reduce communications expense, improve quality and offer the right business solutions to meet customers needs."

McLeodUSA customers will now have the opportunity to add digital channel increments for additional voice and high-speed Internet service at a single price for voice or data. This solution provides businesses an affordable answer to address their communications needs, including Internet access and data transfer through the ADTRAN™ Total Access® 600 Series integrated access devices. This flexible product structure is scalable, making it easy to add or delete channels as business needs dictate.

Over the next 60 days, McLeodUSA plans to further enhance its Integrated Access product by providing even more features over a reliable, high-speed, high-quality digital connection to customers without the requirement to have a digital PBX or enhanced Key System. Customers will benefit from these additional features, available on the McLeodUSA network, utilizing the ADTRAN Total Access 4303 Series gateway.

Integrated Access is part of the McLeodUSA Preferred Advantage product offerings. Preferred Advantage products provide flat-rate pricing, one inclusive billing statement and

the elimination of the hidden charges that are typically found in the telecommunications marketplace.

Preferred Advantage Integrated Access for business customers will be implemented in stages in 20 of McLeodUSA's 25-state footprint, including Arizona, Colorado, Idaho, Illinois, Iowa, Indiana, Kansas, Michigan, Minnesota, Missouri, Nebraska, New Mexico, North Dakota, Ohio, Oregon, South Dakota, Texas, Utah, Washington and Wisconsin, as tariffs are filed and approved by the state regulatory commissions. For more information on Preferred Advantage products, call 800-593-1177 or visit mcleodusa.com.

# # #

About McLeodUSA

McLeodUSA provides integrated communications services, including local services, in 25 Midwest, Southwest, Northwest and Rocky Mountain States. The Company is a facilities-based telecommunications provider with, as of March 31, 2003, 38 ATM switches, 46 voice switches, 567 collocations, 433 DSLAMs and 3,720 employees. As of April 16, 2002, Forstmann Little & Co. became a 58% shareholder in the Company. Visit the Company's Web site at www.mcleodusa.com.

Some of the statements in this press release include statements about our future expectations. Statements that are not historical facts are "forward-looking statements" for the purpose of the safe harbor provided by Section 21E of the Exchange Act and Section 27A of the Securities Act. Such statements may include projections of financial and operational results and goals, including revenue, EBITDA, profitability, savings and cash. These forward-looking statements are subject to known as well as unknown risks and uncertainties that may cause actual results to differ materially from our expectations. Our expectations are based on various factors and assumptions and reflect only our predictions. Factors that could cause actual results to differ materially from the forward-looking statement include technological, regulatory, public policy or other developments in our industry, availability and adequacy of capital resources, current and future economic conditions, the existence of strategic alliances, our ability to generate cash, our ability to implement process and network improvements, our ability to attract and retain customers, our ability to migrate traffic to appropriate platforms and changes in the competitive climate in which we operate. These and other risks are described in more detail in our most recent Annual Report on Form 10-K and Form 10-K/A both filed with the SEC. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of future events, new information or otherwise.

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McLeodUSA®

For Immediate Release

McLeodUSA Expands Residential Communications Services Into Eight Additional States

CEDAR RAPIDS, Iowa – April 2, 2003 - McLeodUSA Incorporated (Nasdaq: MCLD), one of the nation's largest independent competitive telecommunications providers, today announced expansion of its Preferred Advantage℠ residential local, long distance and Internet services into eight additional states. These new states include Washington, Utah, Texas, Oregon, Missouri, Arizona, New Mexico and Ohio, bringing to 20 the total number of states in its 25-state footprint where the Company will now offer residential services.

"In late 2002, we launched McLeodUSA's new Preferred Advantage℠ portfolio of simplified products with bundled pricing packages. We are now extending these product offerings to residential customers in eight additional states where we previously provided telecommunications services to business customers only," said Chris A. Davis, Chairman and CEO of McLeodUSA. "We believe the significant accomplishments we have achieved over the last 12 months in service delivery intervals and network reliability; as well as, the results of our ★QUALITY™ employee training initiative have laid the groundwork for McLeodUSA to provide an excellent customer experience for residential customers alongside our business customers in these states."

Residential customers can sign up for attractive local and long distance services for their home and choose from a variety of packages which include the most popular features such as Caller ID and Call Forwarding. They can also select long distance calling plans with fixed buckets of minutes that allow for calls anywhere, anytime and to any domestic destination all for one flat monthly rate. Internet access may also be added at a discounted rate of only $14.95/month to the package of either local or long distance services. As an introductory offer, customers may be eligible to receive their first month of Internet service free. Additionally, optional services such as voicemail and calling cards are available.

The Preferred Advantage℠ product offerings emerged from in-depth market research, competitor analysis and detailed investigation of the requirements for customers and prospects. The products provide flat rate pricing, one inclusive billing statement and the elimination of hidden charges that are typically found in the telecommunications marketplace.

-more-

The new Preferred Advantage[SM] products and services for residential customers will be implemented in stages across the new states of Washington, Utah, Texas, Oregon, Missouri, Arizona, New Mexico and Ohio as tariffs are filed and approved by the state regulatory commissions. McLeodUSA expects that all of these new states will have access to the Preferred Advantage[SM] residential product offerings by June 2003. Preferred Advantage[SM] residential services are already available from McLeodUSA in the states of Colorado, Idaho, Illinois, Indiana, Iowa, Michigan, Minnesota, Nebraska, North Dakota, South Dakota, Wisconsin and Wyoming. For more information on McLeodUSA Preferred Advantage[SM] products and offerings, call 1-800-909-3012.

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About McLeodUSA

McLeodUSA provides integrated communications services, including local services, in 25 Midwest, Southwest, Northwest and Rocky Mountain states. The Company is a facilities-based telecommunications provider with, as of December 31, 2002, 38 ATM switches, 50 voice switches, 562 collocations, 430 DSLAMs and 3,719 employees. As of April 16, 2002, Forstmann Little & Co. became a 58% shareholder in the Company. Visit the Company's Web site at www.mcleodusa.com.

Some of the statements in this press release include statements about our future expectations. Statements that are not historical facts are "forward-looking statements" for the purpose of the safe harbor provided by Section 21E of the Exchange Act and Section 27A of the Securities Act. Such statements include projections of financial and operational results and goals including closing of sales of businesses, revenue, EBITDA, profitability, savings and cash. These forward-looking statements are subject to known as well as unknown risks and uncertainties that my cause actual results to differ materially from our expectations. Our expectations are based on various factors and assumptions and reflect only our predictions. Factors that could cause actual results to differ materially from the forward-looking statement include technological, regulatory, public policy or other developments in our industry, availability and adequacy of capital resources, current and future economic conditions, the existence of strategic alliances, our ability to generate case, our ability to implement process and network improvements, our ability to attract and retain customers, our ability to migrate traffic to appropriate platforms, our ability to close on sales of businesses and changes in the competitive climate in which we operate. These and other risks are described in more detail in our most recent Annual Report on the Form 10K and Form 10K/A both filed with the SEC. The Company undertakes no obligation to update publicly any forward-looking statements, whether as a result of future events, new information or otherwise.

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Mcleodusa.ir@mcleodusa.com

Products and Services available for 4041 CENTRAL AV Simple Preferred® Package

Outstanding service at an outstanding price - with the McLeodUSA Simple Preferred® Package.

Sign Up

$34.95 Per Month

Reliable local telephone service is the cornerstone of your business, providing your connection to customers, prospects and suppliers. The McLeodUSA Simple Preferred® Package provides all the communications power and dependability your business needs today, with the flexibility to expand as your business grows tomorrow - all at a price you can afford. And when you choose McLeodUSA for long distance or Internet plans, you can receive one convenient bill for all your communications services.

The McLeodUSA Simple Preferred® Package includes:

- Dependable standard local dial-tone and touch-tone service
- Unlimited local calling
- 24/7 network maintenance and customer service
- 99.9% system reliability, from McLeodUSA-owned and operated facilities
- Primary directory listing - your company's name and number in the directory white pages and available for use by directory assistance providers
- Call Waiting - so people can reach you while you are already on the phone
- Call Forwarding - forward calls to another number
- Call Transfer - so you can easily transfer an incoming call to any number you choose without disconnecting the call
- Federal Access and Extended Area Service charges included

Great additional services from McLeodUSA

Additional Optional Local Features

Anonymous Call Rejection - Prevents incoming calls with Caller ID Blocking (must be purchased with Caller ID Name

and Number).
Call Forward Busy - Forward calls to another number if your line is busy.
Call Forward Don't Answer - Forward calls to another number if your line is not answered.
Call Waiting ID - Identify who is calling in while you are on another call.
Remote Access to Call Forward Variable - Program call forwarding on your line from any phone.
Speed Call 30 - Dial up to 30 numbers with the touch of one or two buttons.
Three Way Calling - For three-party conversations.

Directory Listing Options

Additional Directory Listing - Add additional directory listings for your business or customize your own listing.
Alternate Directory Listing - Refer a directory user to another telephone number.
Client Main Listing - Obtain a main listing in the telephone directory for your patrons or clients.
Cross Reference Listing - List your business by common and official name.
Informational/Extra Line Listing - List additional informational numbers pertaining to your business.
Foreign Listing - Include your business in additional directories other than the one housing your primary directory listing.
Non-listed Service - Your telephone number will not be listed in the telephone directory, but is available through Directory Assistance.
Non-published Service - Your telephone number will not be listed in the telephone directory or available through Directory Assistance.
Reference Directory Listing - Provide a listing of additional telephone numbers to be called in the event there is no answer from your main phone number.
Temporary Listing - Provide a listing of another business to your premise during a temporary absence.
Alpha Listing - List your company vanity number in addition to a numerical representation.

Voice Mail

Voice Mail Host Box - Never miss a call -- with Preferred Advantage[SM] Voice Mail Service from McLeodUSA.
Voice Mail Tree Box (1-4) - Select a recipient from a directory "tree" of up to four individual users through one main mailbox.
Voice Mail Tree Box 5 Plus - Select a recipient from a directory "tree" of individual users through one main mailbox.
Voice Mail Listen Only Box - Provide an informational message to your customers or employees without recording incoming messages.

Scheduled Greetings - Record and schedule up to five

unique greetings for your callers based on date and time.
Non-McLeod Pager Notification - Send an urgent pre-determined numeric page.

Call Restrictions

Block 10/10 Dial Around - Restrict access to other long distance carriers from your telephone number.
Caller ID Block - Prevent the disclosure of your number to a subscriber of Caller ID.
Call Trace Block - - Prevent the use of Call Trace on a per use basis.
Collect Call Block - Restrict collect calls to your telephone number.
Continuous Redial Block - Prevent the use of Continuous Redial on a per use basis.
Toll Restriction - Restrict long distance calling from your telephone number.
Last Call Return/Callback Block - Prevent the use of Last Call Return/Callback on a per use basis.
Third Party Block - Restrict third party billing to your telephone number.
Three Way Call Block - Prevent the use of Three-Way Calling on a per use basis.

Call Hunting Options

Hunting, Basic - Search the next available for the first available line.
Hunting, Circular - Search all pre-defined numbers for an available line.

Wire Care

Get troubleshooting tips on site – with Preferred Advantage[SM] Wire Care Service from McLeodUSA.

People are asking for a better communications company.
We're answering the call.
Take our survey ▶
Tell us about your business ▶

Special offers from McLeodUSA!

For a limited time, save big on select Preferred Advantage[SM] services
Learn more ▶

Send a text message now!
Send a text message from the web.

Click here ▶

Here's a new w concept for bu

only pay for t you actually Preferred Ad Wireless
Learn more

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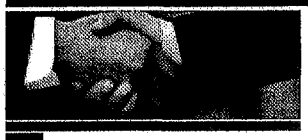
Arizona Corporation Commission
Docket No. T-01051B-03-0454
Docket No. T-00000D-00-0672
Qwest Corporation – DLT-8
Exhibits of David L. Teitzel
Pages 1-28, May 20, 2004

About MCI



Our Company

Today, MCI's focus is clear - to use our global network and expertise to deliver innovative products that provide simplicity and unsurpassed value to our customers. With more than 20 million business and residential customers, MCI® is a leader in serving global businesses, government offices, and U.S. residential customers.

MCI delivers a comprehensive portfolio of local-to-global business data, Internet and voice services to a 'Who's Who' list of the Fortune 1000. MCI is an established leader in IP network technology and Virtual Private Networking (VPN), delivering VPNs based on private data networks as well as our global Internet backbone, which spans six continents. Our portfolio includes SONET private line, frame relay, ATM and a full range of dedicated, dial and value-added Internet services.

MCI today owns and operates some of the world's most complex and sophisticated custom networks, delivering value for a wide variety of customers and more than 75 U.S. federal government agencies. We also are a premier provider of audio, video, and Net conferencing services that enable customers to meet and collaborate remotely to effectively conduct business anywhere, anytime.

MCI is the United States' second largest long distance company for residential customers. In April 2002, MCI launched The Neighborhood built by MCI, the industry's first truly any-distance, all-inclusive offering combining local and nationwide long distance calling from home to consumers for one low monthly price. The Neighborhood continues MCI's pioneering tradition, which has been based on opening up monopoly markets and providing innovative services to consumers nationwide.

The Strength and Innovation of MCI

- The industry's farthest-reaching global Internet backbone*, spanning six continents, over 140 countries, over 2,800 cities and over 4,500 Points of Presence (PoPs)
- The most rigorously engineered IP backbone network, with more than 3.2 million dial modems
- Over 98,000 owned and operated global network route miles, including terrestrial and undersea cable
- The most robust set of converged communications services in the industry, including integrated voice, data, and Internet services
- An expansive global customer base including leading companies among the Fortune 1000
- A world-class service and technology-oriented workforce including 55,000 highly-skilled employees deployed around the world

* Based on number of company-owned global PoPs.

News

Our Plan for Moving Forward

On April 14, 2003, attorneys representing WorldCom and substantially all of its active U.S. subsidiarie business plan of reorganization to its creditors and the Bankruptcy Court for the Southern District of N plan included a three-year business plan outlining the future plans for WorldCom.

Highlights of the three-year business plan

Technology is redefining the way we communicate and share information, shifting the focus from trad to Internet (IP) enabled services. With one of the world's largest, most sophisticated and reliable Inter we will lead the industry's transformation into converged services, providing customers operational an efficiencies through simpler, cost effective products and services.

Our Key Strategies

- We will deliver customer-centric solutions centered on IP-enabled services. This means conv legacy networks into a single backbone.
- We are leveraging our global IP reach to deliver superior quality of service necessary to capt piece of the IP-enabled services market.
- We will use retail and wholesale models to attack the enterprise, small and medium business markets.
- We will set new standards to drive operational and business performance.
- We are working diligently to become a role model for corporate governance - witness our new team and board, enhanced Ethics Office, code of ethics and ethics training, and financial rep

Our Competitive Advantage

- We are the leader in data services and we own one of the world's most complete IP backbon an unsurpassed range of Internet products and services.
- Our network development is complete, and we have the necessary capacity to fully satisfy the customers for the foreseeable future.
- We offer a well-defined product road map to meet demand for a broad scope of solutions.
- We have a global footprint, providing service in more than 140 countries on six continents.
- Our superior network optimization skills enable us to offer a unified standards-based environr delivery of common services to any customer, independent of where they are located or how connected to the network.
- We have a world-class sales force, responsive to all customer needs, and our quality of servi none.

Our Customers

- We will continue to leverage our global network infrastructure to deliver innovative, cost-effec and services to our customers. By targeting different markets with relevant bundles, we will lo customers' total cost of ownership.
- We will address the consumer marketplace through our integrated local and long-distance off Neighborhood^{SM}built by MCI. The offering is profitable, growing and taps into the $40 billion- residential local service market.
- We will address the business marketplace through our integrated voice, data and Internet off Advantage. Through MCI Advantage, we will continue to penetrate the revenue and profit-rich medium-sized business market.

Our Financials

- Our Plan for Reorganization is solid. We will retain all our core assets.
- Our revenue is stable month-over-month and our cash balances continue to increase. Our foc to be on profit, not pure revenue growth.
- Our existing customers have remained loyal and we have continued to win new business.

*Based on number of company-owned global PoPs.

Note:

WorldCom, Inc., and substantially all of its direct and indirect domestic subsidiaries (collectively "WorldCom") file petitions for reorganization under Chapter 11 of the U.S. Bankruptcy Code on July 21, 2002, and November 8, 2

Bankruptcy law does not permit solicitation of acceptances of the Plan of Reorganization until the Court approve Disclosure Statement relating to the Plan of Reorganization as providing adequate information of a kind, and in s as far as is reasonably practicable in light of the nature and history of the debtor and the condition of the debtor's records, that would enable a hypothetical reasonable investor typical of the holder of claims or interests of the re make an informed judgment about the Plan of Reorganization. Accordingly, this web site is not intended to be, n construed as, a solicitation for a vote on the Plan of Reorganization.

The statements made by WorldCom Inc. on this web site are qualified in their entirety by, and should be read in the more detailed discussions, information, and financial statements and notes thereto in the Plan of Reorganiza Disclosure Statement.

Statements made by WorldCom Inc. which address activities, events or developments that we expect or anticipa the future, including certain of the information contained in the Plan of Reorganization and Disclosure Statement looking statements within the meaning of the Private Securities Litigation Reform Act of 1995 that reflect the Cor views with respect to current and future events and financial performance. Such forward-looking statements are the case may be, subject to many risks and uncertainties, including, but not limited to, WorldCom Inc.'s having fil bankruptcy and factors relating to WorldCom Inc.'s operations and the business environment in which WorldCom which may cause the actual results of WorldCom Inc. to be materially different from any future results expressed such forward-looking statements. Factors that could cause actual results to differ materially from these forward-l statements include those set forth in Section XI of the Disclosure Statement, and in other filings made, from time WorldCom Inc. with the Securities and Exchange Commission (the "Company Filings"). The forward-looking stat only as of the date when made and WorldCom Inc. does not undertake to update such statements.

Similarly, these and other factors set forth in the Company Filings, including the terms of the final Plan of Reorga ultimately confirmed by the Bankruptcy Court, can affect the value of our various pre-petition liabilities, common other securities. While WorldCom Inc. has filed a Plan of Reorganization with the Bankruptcy Court, no assuranc as to what values, if any, will be ascribed to each of these constituencies in the Plan of Reorganization, as ultima by the Bankruptcy Court. Until WorldCom Inc.'s Plan of Reorganization is confirmed by the Bankruptcy Court, th pre-petition claims holders are subject to change.

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Unlimited calling from your home phone to anywhere in the U.S. for one low monthly price.

Call 1-800-225-2831 and get a Free Black & White TV.*

Hurry, offer ends soon

With Neighborhood Complete, you get all this for one low monthly price.

- unlimited local calls
- unlimited long distance
- call waiting
- caller ID
- voicemail
- speed dial
- 3-way calling

*For new MCI customers only. If you've recently accepted another offer to join MCI, we can only fulfill the last response received.
Offer expires July 31, 2004 and is subject to change.
For residential service only. Call for pricing and availability in your area.
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WM-AA-V1.0

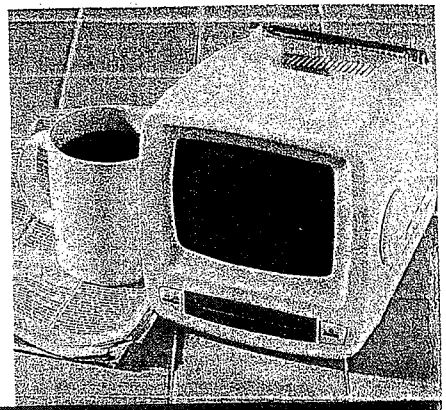
The Neighborhood built by MCI

FREE 5" Black & White TV
with AM/FM Radio

Enjoy unlimited local and unlimited long distance for one low monthly price.

Join The Neighborhood and get a FREE TV:

- Full Channel VHF/UHF Receiver with Electronic Tuning
- Built-in Carrying Handle
- 3-way Power: AC Adapter, 2V Car Cord, or 10 Alkaline "C" Batteries (not included)



Call 1-800-225-2831 today.

Hurry, offer ends soon

The Neighborhood built by MCI

Valpak® 306103.0578

Direct Mail
wk of 4-26-04

85254 zip Code

Neighborhood Advantage 200

$37.99 per month

Perfect for: people who want unlimited local calling but don't need unlimited long distance calling. And now add high speed Internet service too!

See list below for full details.

- Unlimited local calls
- 200 minutes of long distance calls
- One company, one bill
- Low rate calling card

Plus, for an additional monthly fee, you can add any of the following services:

- Add unlimited high speed Internet service (where available)
- Customize your service with popular calling features
- Additional phone lines

JOIN NOW with Neighborhood Advantage 200

See a full list of Neighborhood Advantage 200 details

† For new MCI customers only. 50% discount applies to calling plan fee for primary line only.

Unlimited calling is for residential voice service only. Click here for details.

Additional taxes and surcharges apply. Click here for details.

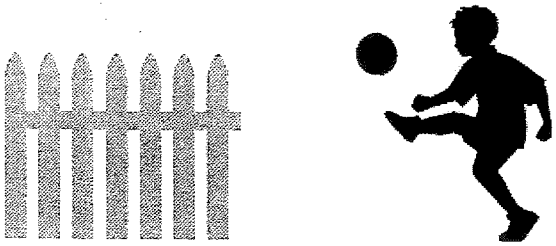
*High speed Internet service rates vary from $19.99-$39.99 based on the Neighborhood calling plan selected. The price for high speed Internet service will be displayed at the beginning of the sign-up process. Additional $9.99 Shipping & Handling charge applies.

The Neighborhood
built by MCI

▶ Consumer Home
▶ MCI Home

Home | Features & Benefits | Check Pricing & Sign Up | Spread the Word | Help & FAQ | Your Account

It's that easy.



For more information call 1-877-777-6271

Add high speed Internet service for as low as $19.99 a month!*

Enjoy the web without the wait

▶ VIEW DEMO ▶ CHECK AVAILABILITY

Your number (520) 741-2833 is part of The Neighborhood.

Now find the plan that's right for you.

If the phone number above is not the number you entered, click here to go back and re-enter your phone number.

Neighborhood Complete — $49.99 per month

Perfect for: people who want unlimited local and long distance calling and 5 features — for one low monthly price on one bill. And now add high speed Internet service too!

See list below for full details.

- Unlimited long distance calls
- Unlimited local toll calls
- Unlimited local calls
- One company, one bill
- Low rate calling card

Plus, for an additional monthly fee, you can add any of the following services:

- Add unlimited high speed Internet service (where available)
- Add unlimited calls to Canada
- Customize your service with popular calling features
- Additional phone lines

▶ JOIN NOW with Neighborhood Complete

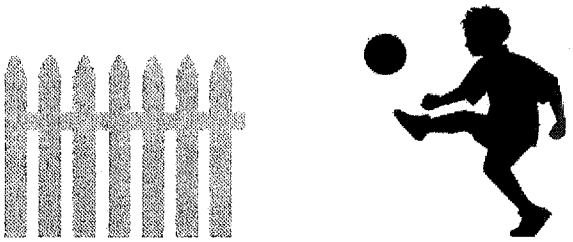
See a full list of Neighborhood Complete details

The Neighborhood built by MCI

▶ Consumer Home
▶ MCI Home

Home | Features & Benefits | Check Pricing & Sign Up | Spread the Word | Help & FAQ

It's that easy.



For more information call 1-877-777-6271

Add high speed Internet service for as low as $19.99 a month!*

Enjoy the web without the wait

▶ VIEW DEMO ▶ CHECK AVAILABILITY

Your number (602) 630-8226 is of The Neighborhood.

Now find the plan that's right for you.

If the phone number above is not the number you er here to go back and re-enter your phone number.

Neighborhood Complete

Perfect for: people who want unlimited local a distance calling and 5 features — for one low on one bill. And now add high speed Internet

See list below for full details.

- Unlimited long distance calls
- Unlimited local toll calls
- Unlimited local calls
- One company, one bill
- Low rate calling card

Plus, for an additional monthly fee, you can add an following services:

- Add unlimited high speed Internet service (wh
- Add unlimited calls to Canada
- Customize your service with popular calling fea
- Additional phone lines

▶ JOIN NOW with Neighborhood Complete

See a full list of Neighborhood Complete details

Neighborhood Advantage 200

Perfect for: people who want unlimited local c don't need unlimited long distance calling. An high speed Internet service too!

See list below for full details.

- Unlimited local calls
- 200 minutes of long distance calls
- One company, one bill
- Low rate calling card

Plus, for an additional monthly fee, you can add an following services:

- Add unlimited high speed Internet service (wh
- Customize your service with popular calling fea
- Additional phone lines

JOIN NOW with Neighborhood Advantage 200

See a full list of Neighborhood Advantage 200 det

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Additional taxes and surcharges apply. Click here for

*High speed Internet service rates vary from $19.99
on the Neighborhood calling plan selected. The price
Internet service will be displayed at the beginning of
process. Additional $9.99 Shipping & Handling charg

Privacy Policy | Legal Notices | Service Agreement & Rate Schedule

Frequently Asked Questions

Want to know more about MCI Advantage? Here is an extensive list of the most frequently asked questions. Click on the category links below.

- General
- Equipment
- Quality of Service (QoS)
- Security and Routing
- Features
- Pricing and Costs

General

What is MCI Advantage?

MCI Advantage is the industry's only true network-based IP communications product serving both enterprises and small business markets. It consolidates local and long distance for all business locations over your existing MCI data network. MCI Advantage provides robust features over a converged network. By moving voice traffic onto an existing data network, you will maximize the efficiency of your data network and simplify your overall network management. This can mean cost savings for your business's bottom line. In addition, you limit your technology risk and expense since MCI provides the service from within our network.

MCI Advantage offers the following services in the United States:

- Local, long distance, and Internet/data access all via the same access link
- Unlimited intra-company voice calling ("on-net")
- Inexpensive domestic long distance calling ("off-net")
- Support for local voice via a network-based or customer premises-based solution
- Significant voice features, including dialing plans, call forwarding, find me lists and selective call acceptance
- Voice compression, allowing you to use less bandwidth compared to traditional PSTN calling
- Administration and feature control via the MCI Customer Center

Are there service availability limitations with MCI Advantage?

MCI Advantage is available in over 90 major metropolitan service areas where MCI owns local service facilities. Please contact your account team to verify availability in your area.

How does MCI Advantage work?

Calls can be made from a Session Initiation Protocol (SIP) phone, soft phone or traditional PBX phone. If you are using a PBX phone, you will need an enterprise gateway to packetize the voice before establishing the call. Based on destination, calls may be routed entirely over your data network or converted to a circuit-switched call. You can make "on-net" calls between your own sites that are utilizing MCI Advantage, as well as "off-net" calls to any domestic U.S. phone number or any international phone number.

SIP is used for call control, making MCI Advantage an industry-leading application. SIP is the packet voice protocol of choice by major IP voice initiatives such as the G3 wireless consortium and Microsoft.

The benefits of this solution include:

- Optimal voice quality for every call
- Ability to monitor and control all traffic - voice and data
- Eliminates the need to over provision bandwidth
- Optimizes router performance by offloading QoS function

Can I use an existing PBX system with MCI Advantage?

Yes. You can originate a call via a traditional phone. The call will go to the PBX, and is then directed to a Router/Gateway where it is converted into data packets. The data packets are routed over your WAN to either 1) a distant gateway within your enterprise as an on-net call or 2) to MCI Advantage Network gateway for Public Switch Telephone Network (PSTN) terminations (off-net). Signaling for call treatment is handled in the network via SIP. After reaching the network gateway, it is routed via our long distance network to its destination.

Are the network gateways redundant?

Yes. MCI has fully redundant network gateways.

Which transport networks does MCI Advantage work with?

You may currently utilize MCI Internet for your network transport. MCI Advantage will be able to utilize other networks, such as IP VPN and Private IP, at a future date.

Does MCI currently use MCI Advantage?

Yes, we have more than 280 T-1s in use and on MCI Advantage today.

Equipment

A gateway that can be used with an existing PBX is required at each MCI Advantage site. The gateway may be configured as a separate device, or the functionality may be combined with an existing router. Depending on the make and model of the router, an upgrade may be necessary.

How are IP phones different?

IP phones enable you to make IP calls from your desktop. This enables you to remove the PBX from the site or to enable a new site with no investment in a PBX or other traditional voice equipment. These phones also have several other benefits: Moves, adds, and changes support requirements are greatly reduced due to the plug and play nature of these devices. They connect to a LAN port and can be configured via the MCI Advantage Web site. A significant benefit is the ability for any user to authenticate on a particular phone, and receive their chosen phone services, such as voicemail, call screening, or forwarding.

Is it necessary to buy the IP Phones?

No, you can use PBX phones or the soft client. However, IP Phones are available for purchase, rental or lease.

What's the process for changing features? Moving an end user from one office to another?

Features can be managed through MCI's convenient and easy-to-use Web-based interface. IP phones can be moved by simply unplugging and plugging into a new location.

What type of signaling interfaces between the PBX and customer premise router, does MCI support?

MCI supports T1 Channel Associated Signaling or Primary Rate Interface (PRI) between a customer's PBX and customer's gateway.

Quality of Service (QoS)

How would you compare the voice quality for this service with that of regular PSTN service?

The quality is comparable to regular Public Switch Telephone Network (PSTN) service. This quality is dependent on a well-engineered design that minimizes congestion. This is especially important in a converged environment and is part of the value of a managed implementation or managed router.

The benefits of this solution include:

- Excellent voice quality for every call
- Ability to monitor and control all traffic - voice and data
- Eliminates the need to over provision bandwidth
- Optimizes router performance by offloading QoS function

Does the voice prioritization used to preserve QoS ever interfere with data traffic?

It typically does not. Data packets may experience some delay under Quality of Service (QoS) voice packet prioritization, but it should not affect delivery in a noticeable way.

What happens to my MCI Advantage calling when there is a slowdown or congestion in the network?

Voice and data packets travel over MCI's dedicated IP network, not the public Internet, so congestion on the backbone is unlikely. We have found that congestion is more likely to occur on the access circuits, again reinforcing the need for a well designed network.

Are Service Level Agreements (SLAs) offered for MCI Advantage?

MCI's industry leading network SLAs apply to the underlying data network of all MCI Advantage customers.

Is there an opportunity to trial the service?

MCI is promoting a 30-day, Satisfaction Guarantee offer. This gives you a full 30 days after initial service turn-up to try out the service. If you are not satisfied, you receive credits and assistance in switching to another carrier. This guarantee is automatically included as part of your contract.

Security and Routing

What security features are in place?

Authentication and Validation are the primary security features used by the phones. Authentication validates the usernames and passwords to ensure only trusted users are on the network. For SIP Phones, authentication is performed by SIP digest user authentication. For a PBX with a router/gateway, authentication is performed via IP Sec.

Can you originate and terminate toll-free traffic with MCI Advantage?

Yes, toll-free traffic can originate and terminate with MCI Advantage. Advanced toll-free features, such as Enhanced Call Routing, are currently in development.

How does my firewall impact MCI Advantage?

Many firewall vendors have been updating their offerings to support SIP. MCI has certified several SIP enabled firewalls which can be used alongside your existing firewall and will allow SIP traffic to pass to phone users. Please contact your MCI account team to determine if your firewall is SIP enabled.

Features

Can I place and receive local calls with MCI Advantage?

MCI Advantage local service provides the ability for you to make local calls without purchasing on-site equipment/Local Gateways. This solution adds local functionality to long distance, and data across a single access circuit for a network-based solution. Customers located in many of MCI's Metropolitan Statistical Areas (MSAs) will be able to access their local service using this method. Contact your MCI Account Team to check for local availability in your area.

Dial plans in place today for existing MCI voice customers can be supported via MCI Advantage. Additionally, your PBX dial plans can also be supported. Dialing plans may be up to 32 digits in length.

Is 911 service supported?

Yes, 911 service is supported. The following conditions apply:

1. One Calling Party Number (CPN) per customer location can be supported. In states where more than one is required, we can support one CPN/per 40,000Sq Ft of office space. This is done by provisioning a unique trunk group to a MCI switch for each "block" of space. Each trunk group then has a unique CPN in the MCI switch, which is sent to the 911 public safety answering point. This will provide more information to the emergency response teams as to the caller's location.
2. Because of the mobility allowed by the use of IP phones, users must be provisioned as "fixed" or "mobile". An example of mobile user would be someone using a soft phone on a PC. Mobile users will be unable to dial 911, as their location cannot be identified.
3. We cannot support Public Safety/Automatic Location Information. This is the ability to identify the line (i.e. desktop location) from which a 911 call was made.

Is Directory Assistance available with MCI Advantage?

Yes, directory assistance is fully supported with MCI Advantage.

What calling features are offered with MCI Advantage?

MCI Advantage supports many of the traditional calling features you have grown accustomed to such as call forwarding, voicemail and call waiting. In addition to these features, MCI Advantage offers several innovative features to enhance your voice capabilities such as Find Me, call screening, instant messaging, Web-based delivery of voicemail messages, and Web-based administration.

What Management/Administrator features are available with MCI Advantage?

- Call reporting details via Web screen - Billing reports can be generated daily, weekly, or monthly for call detail and printable via Web site
- Administrative site management via Web screen - Via the MCI Customer Center, MCI Advantage provides administrator accounts on a central Web site, for setting up default feature classes for range of users.
- User self -provisioning and management via Web screen - Via the MCI Customer Center, MCI Advantage provides Web access for users to set up their phones and administer features and calling treatments.

Pricing and Costs

How can I save money by using MCI Advantage?

MCI Advantage may reduce operating expenses by leveraging your investment in your existing MCI data network for your local and long distance calling. You may see additional savings through reduced access charges, reduced move/add/change costs, simplified network and trouble management, unlimited intra-company

Voice calling + inexpensive diff. - not calling rates.

Small and Medium Business

- Local and Long Distance
- Long Distance
- Internet
- All Products
- Manage My Account
- Customer Service
- Authorized Representative Program

Business Solutions

MCI Business Solutions offers a broad portfolio of services to meet your communication requirements. Each converged solution provides you with an easy to order offering with simplified pricing. With MCI Business Solutions, you'll receive great rates and realize business efficiencies.

Local and Long Distance with IP

Now you can have all the benefits and world-class features of MCI local and long distance as well as high speed Internet access in one offering with Business Solutions Local and Long Distance with IP. You can choose a line-based solution offering unlimited local calling and unlimited long distance calling or a trunk-based solution offering unlimited local calling and 1250 minutes of long distance calling. Add Internet access to your solution by choosing high speed DSL or a full service T1. Choosing Business Solutions Local and Long Distance with IP allows you to simplify your total communications solution with one provider offering the best in Local, Long Distance, and Internet access, MCI.

Tell Me More

MCI Advantage

MCI Advantage provides local, long distance, and Internet access on a single connection to MCI's IP network. MCI Advantage replaces your existing analog local business lines, long distance service, and Internet connectivity into a single enhanced service that is flexible and expands as your business needs change.

Tell Me More

Dedicated Web Hosting

When your business requires a presence on the Internet, MCI has the hosting solutions to meet your needs. Business Solutions Dedicated Web Hosting is engineered with the small to medium business in mind offering industry leading hardware and software solutions from Microsoft Corporation, Hewlett Packard Company, and Sun Microsystems, all provided in an MCI premier data centers offering direct access to MCI's global IP network. Rest assured when hosting with MCI that your web site is available with MCI's superior service level agreements and exceptional 24x7 customer service and onsite technical support.

Contact Us

VPN

For companies focused on managing their own VPN, MCI has teamed with SmartPipes to develop the ideal solution, Business Solutions VPN. With Business Solutions VPN, you have the flexibility to utilize your expert IT staff to operate your Wide Area Network (WAN). Business Solutions VPN provides you the resources required to build your own Cisco-based VPN. With Business Solutions VPN, your solution will be connected to the MCI global IP network with a dedicated T1 and SmartPipes will provide administration through a web-based Service Administration Interface (SAI).

Contact Us

MCI Advantage

Contact Us

Now your business can get unlimited local and nationwide direct-dial long distance calling, plus high-speed Internet access, all for one low monthly fee with MCI Advantage.

In 2002, MCI Advantage (formerly The WorldCom Connection) became available as the industry's only true network-based IP Communications solution serving enterprise and small businesses. MCI has designed an innovative solution for small and medium businesses located in the U.S. that replaces your existing analog local business lines, long distance service, and Internet connectivity with a single enhanced Voice over IP service that is flexible and expands as your business needs change.

By converging voice traffic onto the Internet, MCI Advantage enables you to simplify your network management and potentially save your business time and money. Use the convenience of your Web browser to control features and call routing from a single location. At the desktop, a complete suite of network-based voice services allows everyone in your business, even multiple offices, to experience the same features and voicemail system.

Traditional voice features, inbound and outbound calling, 911 and 411 services, and local number portability are all realities with MCI Advantage.

As always, MCI continues to back our service by providing the customer with outstanding service level agreements.

Contact MCI today for availability in your area and to learn how MCI Advantage can change the way you think about your voice and data services.

For more information, please visit:

- FAQs
- Technical Diagram
- Customer Stories
- Vendors
- SIP at a Glance

Contact Us

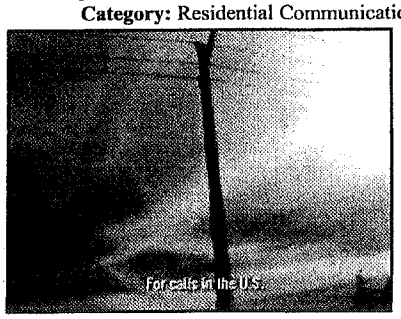
Competitrack, Inc.

7 West 22nd Street, New York, NY 10010 (212) 604-0200

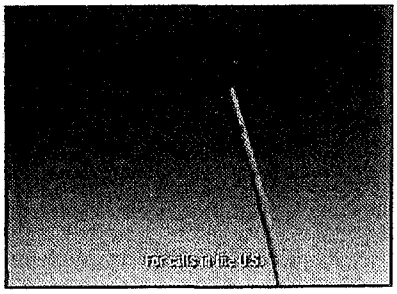
MCI: Limit Our Words

Length: 15 **First Airing:** CNN Headline News-07/01/02 **Ad Code:** MCITL-4225
Category: Residential Communications **Subcat:** Bundled Services-Residential

(Music)
VOICE OVER: We have to limit our words...

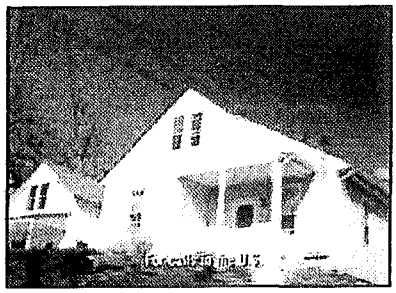


because we're...
Text: For calls in the U.S.



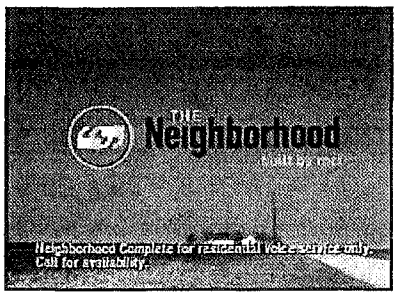
talking on the phone.

Do we really have...



freedom of...

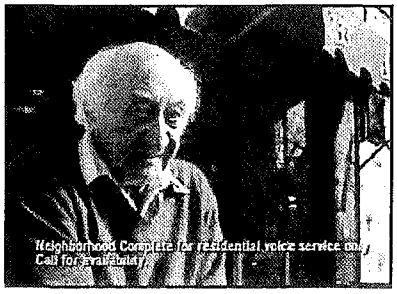
speech?



Introducing The Neighborhood...
Text: Neighborhood Complete for residential voice service only.
Call for availability.

a nationwide phone company...

where calls...



are not metered...

or measured or limited.

Set your words free.
(Music out)
Text: www.TheNeighborhood.com
set your words free

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ADD TO SHOPPING BASKET | DOWNLOAD OPTIONS

AD IDENTIFICATION

Ad Code: **MCITL-4225**
- New TV-15
- 3 occurrences

Advertiser: MCI
Ad Title: Limit Our Words
Ad Length: 15
Headline/LeadAudio: IF WE HAVE TO LIMIT
Primary Visual: TELEPHONE LINES
Tagline of campaign: Set Your Words Free
Description: Shots of telephone lines, open road and fields. If we have to limit our words because we're talking on the phone, do we have freedom of speech? Calls not metered, measrued, or limited.

CLASSIFICATION

Product/Campaign: The Neighborhood
Subcategory: Bundled Services-Residential
Category: Residential Communications
Market Segment Consumer

AIRING/INSERTION

First Run Date: Jul 01, 2002
Last Run Date: Jul 03, 2003
First Run Media: CNNH - National Cable*
TV/Print: TV

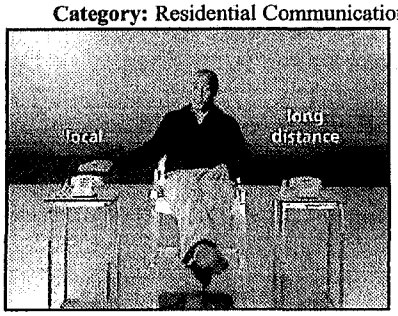
SHOPPING BASKET

Competitrack, Inc.
7 West 22nd Street, New York, NY 10010 (212) 604-0200

MCI: Danny Speaks About Neighborhood

Length: 30 **First Airing:** CNN Headline News-01/22/03 **Ad Code:** MCITL-4234
Category: Residential Communications **Subcat:** Bundled Services-Residential

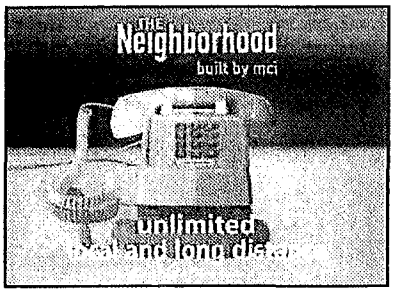
(Music)
DANNY GLOVER: Let's say one phone company provides...



your long distance and a completely different one has your local service.

Now your probably pay too much for both of them, but you let it slide...

until you discover that with the Neighborhood you can get unlimited...



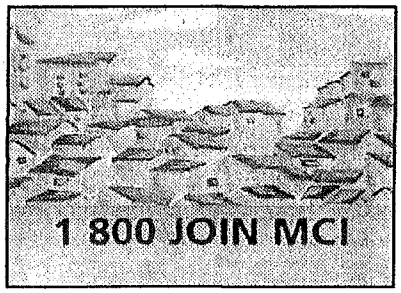
local and long distance together...

for one low monthly price.

Text: Neighborhood Complete plan for domestic residential voice service only. Call for availability.

(Phone ringing...
That...

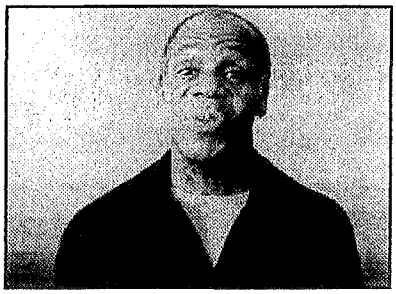
as it comes into view)
has a happy ring to it.



VOICE OVER: Call 1 800 JOIN MCI today...

the Neighborhood. Where local and long distance come together.

Over a million have joined.



DANNY GLOVER: How about you?
(Fade out)

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ADD TO SHOPPING BASKET | DOWNLOAD OPTIONS

AD IDENTIFICATION

Ad Code: **MCITL-4234**
- New TV-30
- 1027 occurrences

Advertiser: MCI
Ad Title: Danny Speaks About Neighborhood
Ad Length: 30
Headline/LeadAudio: LET'S SAY ONE PHONE COMPANY
Primary Visual: DANNY GLOVER
Tagline of campaign: Join MCI
Description: Danny Glover sitting & speaking about phone service,shows & points to phones,Two color phone,discover The Neighborhood built by MCI,unlimited local & Long Distance,happy ring to it,over million joined

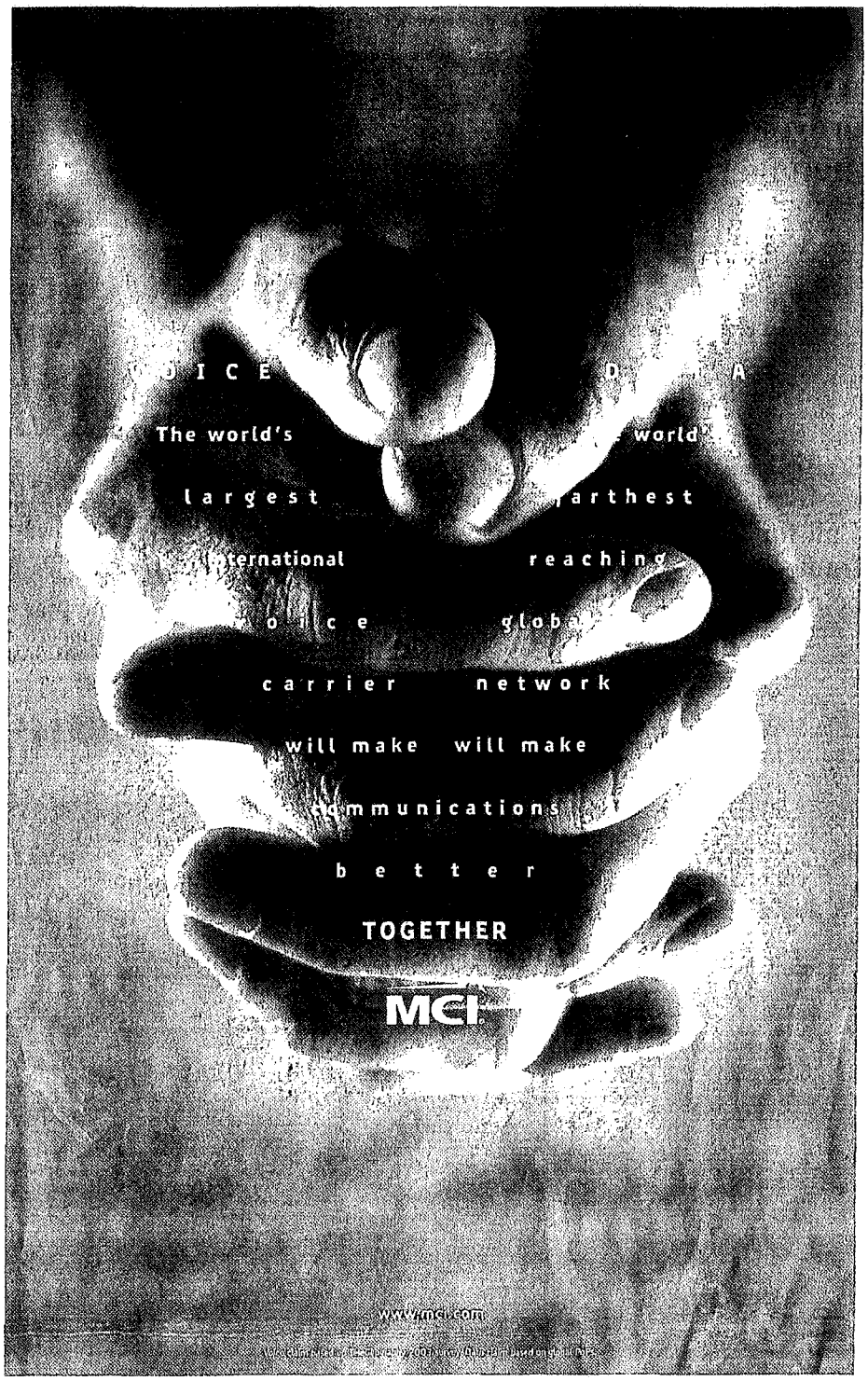
CLASSIFICATION

Product/Campaign: The Neighborhood
Subcategory: Bundled Services-Residential
Category: Residential Communications
Market Segment Consumer

AIRING/INSERTION

First Run Date: Jan 21, 2003
Last Run Date: May 13, 2003
First Run Media: CNN - National Cable*
TV/Print: TV

SHOPPING BASKET



AD CODE: MCITL-4245 SOURCE: Financial Times-APR 15 03

ADD TO SHOPPING BASKET | DOWNLOAD OPTIONS

AD IDENTIFICATION

Ad Code: **MCITL-4245**
- Print
- 13 occurrences

Advertiser: MCI
Headline/LeadAudio: VOICE DATA
Primary Visual: HANDS CLASPED TOGETHER

CLASSIFICATION

Product/Campaign: Corporate Image-Business
Subcategory: Marketing Image
Category: Image
Market Segment Business

AIRING/INSERTION

First Run Date: Apr 14, 2003
Last Run Date: Oct 01, 2003
First Run Media: Financial Times
TV/Print: Print

SHOPPING BASKET

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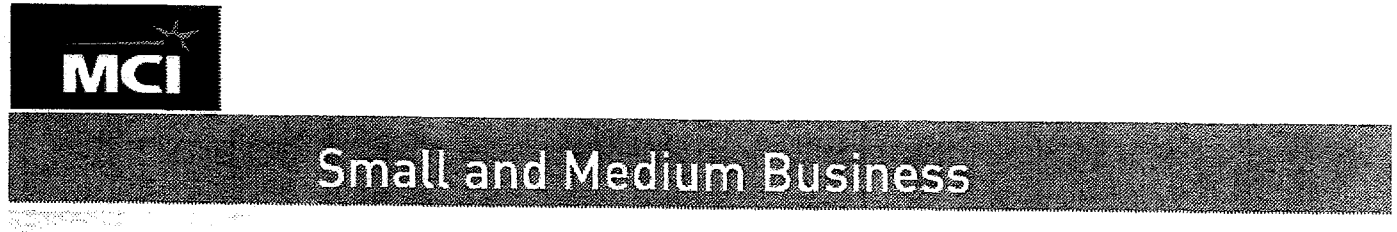
Certain material on this page was previously located on page 6.



- Business Home
- Local and Long Distance
- MCI Business Complete
  - Check Pricing & Availability
  - Features & Benefits
  - FAQs
  - Message Center

For more information call
1-800-MCI-7766
(1-800-624-7766)

Add high speed Internet service to any MCI Business Complete calling plan for only $50 a month!

CLICK TO CHECK HIGH SPEED AVAILABILITY

Your Phone Number (520) 741-2833 is Available for MCI Business Complete

MCI Business Complete offers plans to fit every business need. Whether you make a lot of long distance calls, need high speed Internet access, or just want the convenience of one bill for everything, we have something for every business.

If the phone number above is not the correct number, click here to go back and re-enter a different phone number.

Choose the Plan that is Right For Your Business

MCI Business Complete Unlimited $59.99 per month

Perfect for businesses that want unlimited local and long distance calling, and popular calling features — for one low monthly price on one bill.

This plan gives you the freedom of:

- Unlimited long distance calls
- Unlimited local toll calls
- Unlimited local calls
- Popular features at no extra charge
- Hunting/rollover for all your business lines
- Low rate calling cards
- One company for your communication needs

Plus, for an additional monthly fee, you can add any of the following services:

- Unlimited high speed Internet service (where available)
- Business enhanced voicemail
- MCI International Calling Plan
- Additional phone lines

GET IT

Additional taxes and surcharges apply. Click here for details.

MCI Business Complete Advantage $34.99

per month

Perfect for businesses that want unlimited local calling and popular calling features, but make less long distance calls — for one low monthly price on one bill.

This plan gives you the freedom of:

- Unlimited local calls
- Low rate on all long distance calls
- Popular features at no extra charge
- Hunting/rollover for all your business lines
- Low rate calling cards
- One company for your communication needs

Plus, for an additional monthly fee, you can add any of the following services:

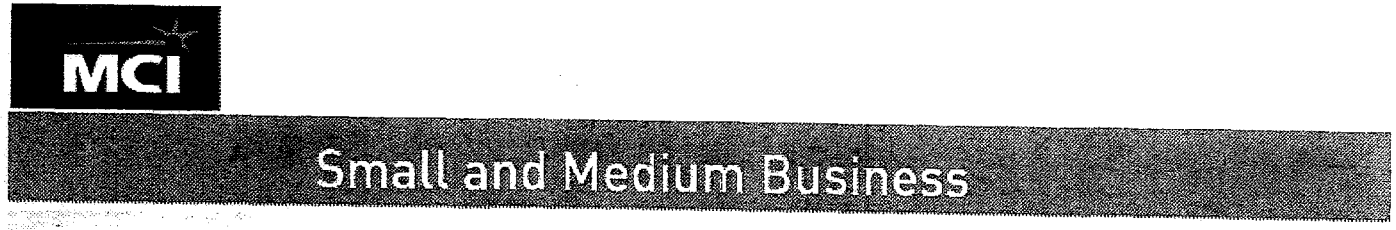
- Unlimited high speed Internet service (where available)
- Business enhanced voicemail
- MCI International Calling Plan
- Additional phone lines

GET IT

Additional taxes and surcharges apply. Click here for details.

Service cannot be used with autodialer, call center or certain automated switching equipment. Complete terms are provided when ordering.

Additional Network Access Charge of up to $9.20 per month, per line, Carrier Cost Recovery Charge of 1.4%, Carrier Access Charge of $0.53 per month, per line, Federal Universal Service fee, in-state fees, and taxes apply.



Small and Medium Business

- Business Home
- Local and Long Distance
- MCI Business Complete
  - Check Pricing & Availability
  - Features & Benefits
  - FAQs
  - Message Center

For more information call
1-800-MCI-7766
(1-800-624-7766)

Add high speed Internet service to any MCI Business Complete calling plan for only $50 a month!

CLICK TO CHECK HIGH SPEED AVAILABILITY

Your Phone Number (602) 630-8226 is Available for MCI Business Complete

MCI Business Complete offers plans to fit every business need. Whether you make a lot of long distance calls, need high speed Internet access, or just want the convenience of one bill for everything, we have something for every business.

If the phone number above is not the correct number, click here to go back and re-enter a different phone number.

Choose the Plan that is Right For Your Business

MCI Business Complete Unlimited $59.99 per month

Perfect for businesses that want unlimited local and long distance calling, and popular calling features — for one low monthly price on one bill.

This plan gives you the freedom of:

- Unlimited long distance calls
- Unlimited local toll calls
- Unlimited local calls
- Popular features at no extra charge
- Hunting/rollover for all your business lines
- Low rate calling cards
- One company for your communication needs

Plus, for an additional monthly fee, you can add any of the following services:

- Unlimited high speed Internet service (where available)
- Business enhanced voicemail
- MCI International Calling Plan
- Additional phone lines

GET IT

Additional taxes and surcharges apply. Click here for details.

MCI Business Complete Advantage $34.99

per month

Perfect for businesses that want unlimited local calling and popular calling features, but make less long distance calls — for one low monthly price on one bill.

This plan gives you the freedom of:

- Unlimited local calls
- Low rate on all long distance calls
- Popular features at no extra charge
- Hunting/rollover for all your business lines
- Low rate calling cards
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- MCI International Calling Plan
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GET IT

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Arizona Corporation Commission
Docket No. T-01051B-03-0454
Docket No. T-00000D-00-0672
Qwest Corporation – DLT-9
Exhibits of David L. Teitzel
Pages 1-14, May 20, 2004

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SBC Unveils New Strategic Campaign to Address Small Business Priorities

New "SBC Connections" Offerings Feature One Bill, Single Point of Contact And Choice of Local, Long Distance, Broadband, Web Hosting, Wireless Services
Offers More Savings the More a Business Spends, With Savings of Up to 25 Percent Off Monthly Bills

, , San Antonio, Texas, March 3, 2003

SBC Communications Inc. (NYSE: SBC) today announced a fundamentally new approach in its small business service strategy, focused on delivering enhanced customer service and support, fully customizable service options, and substantially discounted pricing to retain and gain customers in this highly competitive market.

The new strategy focuses on SBC Connections service offerings, options designed with the flexibility to meet the specific telecommunications needs of smaller companies, ranging from one to 50 employees or more, while at the same time offering substantial savings, a single bill for all telecom services, and improved, personalized customer service and support from a single point of contact.

With SBC Connections offerings, small business customers can literally build their own bundles, selecting from local service, long-distance where available, call management services, broadband options such as SBC Yahoo! DSL and Dedicated Internet Access, SBC Yahoo! Dial, Cingular Wireless plans and Web hosting options. The ability to tailor communications services based on customer needs and budgets is a significant departure from the "one-size-fits-all" offerings that many competitors offer small businesses.

Additionally, small businesses now can benefit from discounts typically offered only to larger businesses, which tend to buy in greater volumes. Smaller companies can save up to 25 percent on average compared with standard "a la carte" retail prices for telecommunications services, with discounts as high as 40 percent for some service options.

"Small business fuels the economic growth engine of our country, but it is also a sector with widely varying challenges and needs," said Ray Wilkins, president, SBC Marketing and Sales. "What every small business wants is the discounted pricing and personalized service that a Fortune 1000 company may receive, but at the same time, these companies also need to be in control - to choose the service options that best meet their specific, individual needs. SBC Connections offerings were designed with these priorities in mind."

As part of the SBC Connections initiative, the company has substantially realigned its sales and support resources to best fit the needs of small business customers. This effort has resulted in the assignment of personal account managers for many small business customers, as well as supplementation of the company's in-house sales force with outside service professionals. The company also will support SBC

Connections offerings with a multi-million dollar advertising campaign that kicks off in early March to communicate its new flexible offerings and compelling price points.

The new small business initiative is part of the company's comprehensive, next-generation strategy to drive revenue growth by providing a range of telecommunications service options with new levels of customization and flexibility and rewarding customers who consolidate their services with greater savings and convenience. Late last year, the company announced SBC Total Connections service offerings for consumers, and in January, the company introduced SBC PremierSERV managed services, which combines data transport, equipment and network design, management and maintenance, for medium and large businesses.

Independent industry research indicates that businesses choose their telecommunications services primarily based on price and customer service. Also, they prefer flexible offerings of communications services and the ability to customize those offerings, as opposed to fixed service offerings. SBC Connections offerings directly address each of these preferences, offering small businesses with competitive prices, enhanced customer service, and offerings that they can tailor to their individual needs.

"We were fed up with too many cooks in the kitchen, and we only wanted to deal with one contact," said Kimberly Schuster of Falcon Research, a financial research firm based in Palo Alto, CA. "Now that we have SBC local and long distance services, we go to one person, and we pay one bill. The rates are great and you can't beat the service."

The SBC Connections offerings provide compelling new and attractively priced choices in the highly competitive small business market. Today, a significant number of small businesses obtain telecommunications services from multiple providers. The ability to aggregate some or all of these services and receive significant price discounts, a single bill and a single point of contact represents a substantial opportunity for these businesses to consolidate, simplify and save.

Offerings include long distance, Internet, Web hosting and wireless options. Customers that take advantage of the most comprehensive offerings may receive the following discounted service options:

- SBC Yahoo! DSL starting at $29.95 per month for a 12-month term -- a **40 percent discount** over standard rates.
- DSL Productivity Pack - SBC Yahoo! DSL and Shared Web Hosting starting at $44.95 for a 12-month term - a **40 percent discount** over standard rates.
- Dedicated Internet access options as low as $699 per month - as much as a **38 percent discount** over standard rates.
- International long-distance savings (where available) up to **14 percent** over standard rates.
- SBC Connections customers can add Cingular Wireless service options (where available) -- at discounts of *10 percent* off the wireless monthly rate portion of their bills for Cingular local plans, or a **5 percent** discount for Cingular national plans.

(See SBC Connections initiative fact sheet for additional service and pricing details.)

In addition to providing tailored, bundled offerings to small businesses, similar SBC offerings are available to mid-sized businesses. Additional offerings, also available at discounted prices and designed for both business segments, will be added to the SBC Connections initiatives in the next month.

SBC affiliates have traditionally been strong in the small business market but this move is designed to shore up the company's leadership amid an increasingly competitive marketplace. Through its affiliates, the company serves nearly 2 million small business customers today.

SBC Communications Inc. *(www.sbc.com) is one of the world's leading data, voice and Internet services providers. Through its world-class networks, SBC companies provide a full range of voice, data, networking and e-business services, as well as directory advertising and publishing. A Fortune 30 company, SBC is America's leading provider of high-speed DSL Internet Access services and one of the nation's leading Internet Service Providers. SBC companies currently serve 57 million access lines nationwide. In addition, SBC companies own 60 percent of America's second-largest wireless company, Cingular Wireless, which serves 22 million wireless customers. Internationally, SBC companies have telecommunications investments in 27 countries.*

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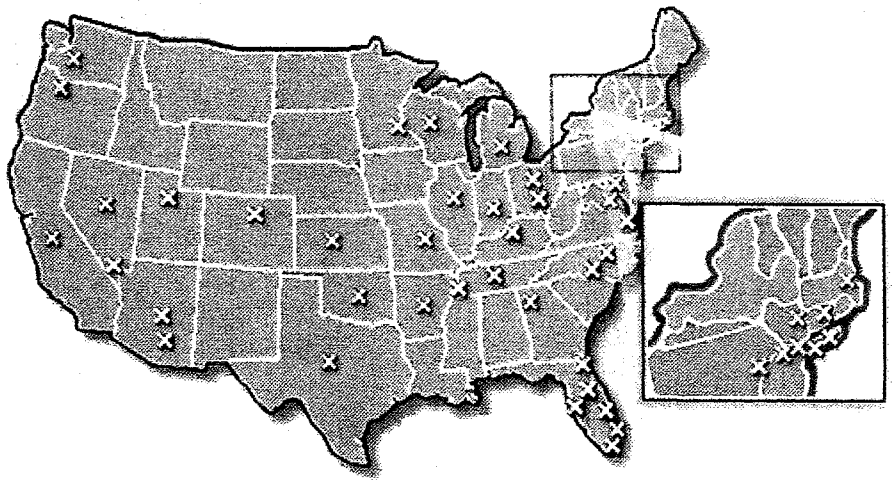
Service Territories

Directions: Move your mouse over the map to navigate to SBC's new service areas. The yellow x's represent areas in which SBC Telecom or affiliates of SBC Communications, Inc. currently offer services.



= Where we are now = Where we're going

New Markets
Currently, SBC provides local, voice, and data service in 20 of the nation's top markets located in Arkansas, California, Connecticut, Illinois, Indiana, Kansas, Michigan, Missouri, Nevada, Ohio, Oklahoma, Texas and Wisconsin. SBC provides over 60 million access lines in these states alone.

SBC Telecom provides local services in 30 more top metropolitan markets. The 30 cities are listed by state:

SBC Telecom currently offers services in the following cities, listed by state:		SBC Telecom plans to offer services in the following cities, listed by state:
Arizona • Phoenix • Tucson **Colorado** • Denver **District of Columbia** • Washington **Florida** • Ft. Lauderdale • Jacksonville • Miami • Orlando • Tampa • West Palm Beach **Georgia** • Atlanta **Kentucky** • Louisville **Maryland**	**New Jersey** • Bergen-Passaic • Middlesex • Newark **New York** • Nassau-Suffolk • New York **North Carolina** • Charlotte • Raleigh **Ohio** • Cheshire Center • Delaware **Oregon** • Portland **Pennsylvania** • Philadelphia **Tennessee** • Memphis	**Ohio** • Cincinnati • Hudson • Lebanon • Mason • Northfield • Twinsburg

• **Baltimore** **Massachusetts** • **Boston** **Minnesota** • **Minneapolis** **Nevada** • **Las Vegas**	• **Nashville** **Utah** • **Salt Lake City** **Virginia** • **Norfolk** **Washington** • **Seattle**	

Do you have questions?
If you have a question about future areas or want more information on our residential or business products and services, fill out the form in the **Contact Us** section. We will get back to you as soon as possible.

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Service Territories
Products and Services
Repair
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Public Affairs
Contact Us
Site Search
SEARCH
Site Map
FAQs

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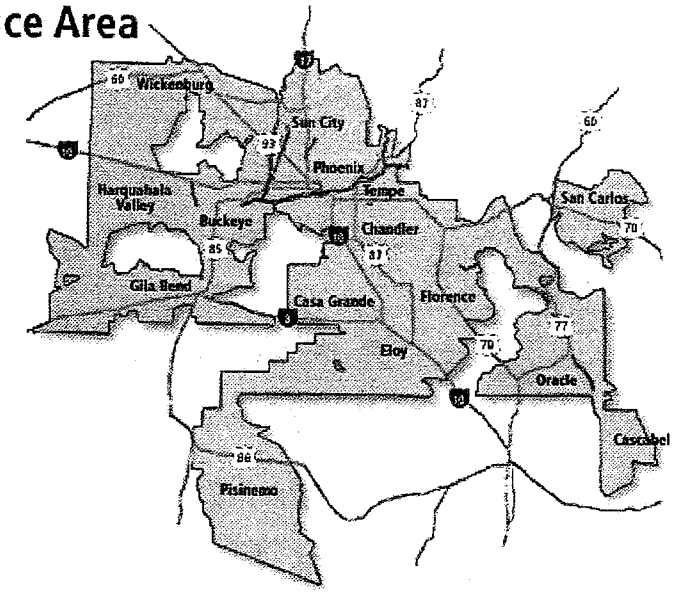
Service Territories

Below are some of the areas where our products and services are available.

Phoenix Service Area



Buckeye	Casa Grande
Cascabel	Chandler
Eloy	Florence
Gila Bend	Harquahala Valley
Oracle	Phoenix
Pisinemo	San Carlos

Sun City Tempe

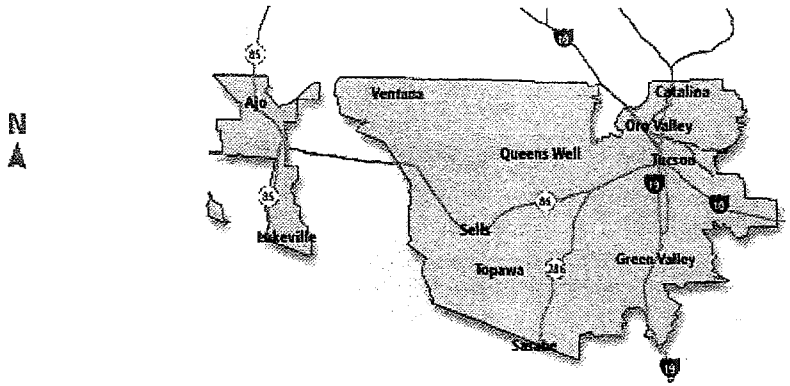
Wickenburg

Note: Some products and services are not available in all locations.

Service Territories

Below are some of the areas where our products and services are available.

Tucson Service Area



— = major highways
= service area

Ajo	Santa Rosa
Catalina	Sasabe
Green Valley	Sells
Lukeville	Topawa
Oro Valley	Ventana
Queens Well	

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Local service with enhanced calling and messaging features, at competitive prices in 30 top metropolitan markets.

- Residential
- Business

SBC Phone Solution
Local service with enhanced features — not including voice messaging — at competitive prices in 30 top metropolitan markets.

- Residential
- Business

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- SBC PremierSERV(SM) Long Distance Frame Relay Service
- SBC PremierSERV(SM) T1 Integrated Access Solutions
- ISDN Primary Rate Interface (ISDN PRI)

Business
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SmartPages	Search our Yellow Pages online, have SmartPages design and host your small business Web site, and advertise your business with the largest Yellow Pages operation in the world. - Find a phone number - Find a person - Advertise your business online - Advertise your business in the phone book
SBC Affiliate Network	Earn commissions by using SBC links on your website. Learn how to apply.

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Arizona Corporation Commission
Docket No. T-01051B-03-0454
Docket No. T-00000D-00-0672
Qwest Corporation – DLT-10
Exhibits of David L. Teitzel
Pages 1-16, May 20, 2004

Sprint Expands Local Service to Small Businesses across the Country

New bundled offers to include local, long-distance and wireless service

Media Contact:
Catherine Goodson, 913-794-3607
catherine.goodson@mail.sprint.com

For more information or to sign up for Sprint Complete Sense for Business, click here.

OVERLAND PARK, Kan. — September 09, 2003

Small businesses around the country have a new choice for their local telephone service with Sprint Complete Sense for Business[SM], a new portfolio of calling bundles from Sprint (NYSE: FON, PCS) that offers local and domestic long-distance service with a flat rate. Wireless options will be added to the portfolio beginning in October.

Sprint is uniquely positioned to meet small business needs with its own nationwide wireless and long-distance networks. With this offer, Sprint can provide local service to small businesses in nearly 80 percent of the country, complementing the five percent of the country where Sprint currently operates as the incumbent local phone company.

Two weeks ago, the company nationally launched Sprint Complete Sense – a powerful bundle of local, long-distance and wireless services – initially offered to consumers, following the Unbundled Network Elements Platform (UNE-P) order issued by the Federal Communications Commission. This ruling, which cleared the way for telecommunications companies such as Sprint to compete with incumbent local phone companies such as the Regional Bell Operating Companies, enables Sprint to bring choice and value to consumers and small business customers.

"Sprint is offering small businesses a choice for their local telephone service, eliminating the need for multiple plans and providers," said Howard Janzen, president, Global Markets Group, Sprint. "Small business owners want stability in their monthly expenses. Sprint Complete Sense for Business allows them the predictability of a flat monthly rate with the flexibility of selecting a plan that best suits the needs of their business."

Small businesses can receive unlimited local and domestic long-distance service with enhanced features such as voicemail, call forwarding and caller ID starting at prices as low as $69.95, in certain states.

"Small businesses need to make the most of all their telecommunications services, whether they are local, long-distance or wireless," said Len Lauer, president, PCS Division, Sprint. "Sprint's combination of wireline and wireless services helps businesses be productive in the office and on the go. Sprint has an integrated communications portfolio –ranging from local to long-distance, wireline to wireless, voice to data – for businesses of all sizes."

The Sprint Complete Sense for Business portfolio includes a number of variations to meet the diverse needs of small businesses. Current offerings include:

- Sprint Complete Sense for Business Premium – unlimited local and domestic long-distance service plus enhanced features, starting at $69.95 in certain states
- Sprint Complete Sense for Business Unlimited – unlimited local and domestic long-distance service, starting at $54.95 in certain states
- Sprint Complete Sense for Business Basic – unlimited local service and low per-minute domestic long-distance rates, starting at $34.95 in certain states

Each bundle can be combined with optional toll-free and international business calling plans. Prices vary by state.

Sprint has been providing local phone service to thousands of communities for over 100 years through its Local Telecommunications Division, and has been bundling communications services since 1998. Currently, nearly 43 percent of business customers in Sprint's local franchise territory also have Sprint long-distance service.

The Sprint Complete Sense for Business portfolio of bundled products will initially be offered in 34 states and the District of Columbia. For more information or to sign up for service, call 800-827-0569 or visit http://www.sprint.com/smallbusiness.

Sprint Complete Sense[SM]
Product Overview

Sprint Complete Sense Unlimited with PCS
- Unlimited local and local toll calling
- Unlimited LD (domestic state-to-state calling, does not include International)
- Calling features: Voicemail, Call Waiting, Caller ID, Call Forwarding, Notify Me, Three-Way calling and Speed Dial 8
- Unlimited nationwide PCS for $130 + Sprint Complete Sense residential monthly recurring charge
- Sprint Complete Sense residential has three unlimited price points that can be combined with the $130 unlimited PCS plan, depending on the state:
    - $49.99 + $130= $179.99
    - $55.99 + $130= $185.99
    - $59.99 + $130= $189.99

Sprint Complete Sense Unlimited
- Unlimited local and local toll calling
- Unlimited LD (domestic state-to-state calling, does not include International)
- Calling features: Voicemail, Call Waiting, Caller ID, Call Forwarding, Notify Me, Three-Way calling and Speed Dial 8
- Sprint Complete Sense residential has three unlimited price points, depending on the state:
    - $49.99
    - $55.99
    - $59.99

*Sprint PCS customers who prefer to stay on their existing plan will receive a five percent discount when they subscribe to Sprint Complete Sense Unlimited.

Sprint Complete Sense 250
- Unlimited local calling
- 250 block of time (7-cents per minute after 250; in-state, and domestic state-to-state calling standard International fees apply)
- Calling features: Call Waiting, Caller ID, Three-Way calling and Speed Dial 8
- Voicemail can be added for $5.99 per month
    - $44.99
    - $49.99
    - $54.99

*Sprint PCS customers who prefer to stay on their existing plan will receive a five percent discount when they subscribe to Sprint Complete Sense Unlimited.

Sprint Complete Sense 50

- Unlimited local calling
- 50 block of time (7-cents per minute after 50; in-state, and domestic state-to-state calling standard International fees apply)
- Calling features: Call Waiting, Caller ID, Three-Way calling and Speed Dial 8
- *Voicemail can be added for $5.99 per month*
    - $34.99
    - $39.99
    - $44.99

*Sprint PCS customers who prefer to stay on their existing plan will receive a five percent discount when they subscribe to Sprint Complete Sense Unlimited.

	SCS Unlimited with PCS	SCS Unlimited	SCS 250	SCS 50
Local/ Local Toll	Unlimited	Unlimited	Unlimited	Unlimited
Long Distance	Unlimited	Unlimited	250 minutes	50 minutes
Wireless	Unlimited	5% discount	5% discount	N/A
Voicemail	Included	Included	$5.99/mo	$5.99/mo
Monthly Price	$179.99-189.99	$49.99-59.99	$44.99-54.99	$34.99-44.99

** Sprint Complete Sense Customers can add a $3.00 monthly recurring charge to receive discounted international rates.

Sprint Complete Sense for Business (sm)
Product Overview

Premium

- Unlimited local and local toll calling
- Unlimited domestic long distance (International option can be added for $5.95)
- Call Forwarding, Caller ID, Call Waiting, Three-Way Calling, Speed Calling, Rotary Hunting,
- One Voicemail box (additional boxes can be added for $6.95 each)
- One listing in both the Yellow Pages and White Pages
- FON Card is included ($0.90 to connect, $0.09 per minute)
- Prices in most states range from $69.95-114.95 ($164.95 in Connecticut)

Unlimited

- Unlimited local and local toll calling
- Unlimited domestic long distance (International option can be added for $5.95)
- Standard calling features included: Call Forwarding, Rotary Hunting
- Premium calling features can be added for $4.00 each, or $12.00 for all four: Caller ID, Call Waiting, Three-Way Calling and Speed Calling
- Voicemail boxes are $6.95 each
- One listing in both the Yellow Pages and White Pages is included
- FON Card is included ($0.90 to connect, $0.09 per minute)
- Prices in most states range from $54.95 - $99.95 ($149.95 in Connecticut)

Basic

- Unlimited local calling
- Local toll calling and LD calling at Sprint's All-Calls All-Day rate (International option can be added for $5.95)
- Standard calling features included: Call Forwarding, Rotary Hunting
- Premium calling features can be added for $4.00 each, or $12.00 for all four: Caller ID, Call Waiting, Three-Way Calling and Speed Calling
- Voicemail boxes are $6.95 each
- One listing in both the Yellow Pages and White Pages is included
- FON Card is included ($0.90 to connect, $0.09 per minute)
- Prices in most states range from $34.95 - $54.95 ($74.95 in Connecticut)

Wireless

Available in October, the following wireless components can be added to any bundle:

- Unlimited nationwide PCS
- Additional PCS handsets purchased through a corporate plan can be added
- Customers can choose a discount off an existing PCS plan instead of the unlimited option

	Premium	Unlimited	Basic
Local/Local Toll	Unlimited	Unlimited	Unlimited
Long Distance	Unlimited	Unlimited	All-Calls All-Day rate
Voicemail Box	One Included	$6.95/ea.	$6.95/ea.
Features	All Included	$4.00/ea. or $12.00/all	$4.00/ea. or $12.00/all
Monthly Price*	$69.95 - $114.95	$54.95 - $99.95	$34.95 - $54.95
Wireless	Unlimited calling or discount off a service plan	Unlimited calling or discount off a service plan	Unlimited calling or discount off a service plan

* - Excludes Connecticut

ORIGINAL

TARIFF SCHEDULE
APPLICABLE TO
LOCAL EXCHANGE SERVICES
WITHIN
THE STATE OF ARIZONA
ISSUED BY
SPRINT COMMUNICATIONS COMPANY L.P.

Arizona Corporation Commission
Arizona C.C. Local Exchange Tariff No. 4

This Tariff Sprint Communications Company L.P. Arizona C.C. Local Exchange Tariff No. 4 replaces Arizona C.C. Local Exchange Tariff No. 1 in its entirety, effective February 1,2003.

This Tariff contains the regulations and rates applicable for the furnishing of Local Exchange telecommunications services provided by Sprint Communications Company. L.P. ("Sprint") within the State of Arizona. This Tariff is on file with the Arizona Corporation Commission.

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LOCAL EXCHANGE SERVICES

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Rs.7 VPN
Rs.8 Sprint Premiere
Rs.9 Real Solutions
Rs.10 Business Sense
Rs.11 Resale Solutions
Rs.12 Sprint Business Flex
Rs.13 Sprint Real Solutions VPN Services
Rs.14 Sprint Voice VPN Solutions
Rs.15 Sprint Voice Solutions
Rs.16 Business Adjustable Rates Plan
Rs.18 Sprint Block of Time for Small Business
Rs.19 Sprint Complete Sense for Business
Rs.VDP Volume Discount Plans

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10	Reserved for Future Use
11	Reserved For Future Use
12	Reserved For Future Use
13	Additional Labor and Miscellaneous Services

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Exhibit A
Arizona
Loop Rate Groups by Wire Center

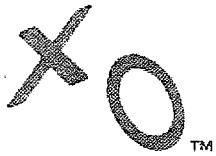
Rate Group	Wire Center	CLLI
1	CATALINA	TCSNAZCA
1	CHANDLER MAIN	CHNDAZMA
1	CHANDLER WEST	CHNDAZWE
1	DEER VALLEY NORTH	DRVYAZNO
1	FLOWING WELLS	TCSNAZFW
1	GILBERT	MESAAZGI
1	GLENDALE MAIN	GLDLAZMA
1	MCCLINTOCK	TEMPAZMC
1	MESA	MESAAZMA
1	PHNX PEORIA	PHNXAZPR
1	PHNX SOUTHEAST CAP	PHNXAZSE
1	PHNX-MAYVALE CAP	PHNXAZMY
1	PHOENIX WEST CAP	PHNXAZWE
1	PHOENIX-BETHANY WEST	PHNXAZBW
1	PHOENIX-CACTUS	PHNXAZCA
1	PHOENIX-EAST	PHNXAZEA
1	PHOENIX-FOOTHILLS	PHNXAZ81
1	PHOENIX-GREENWAY	PHNXAZGR
1	PHOENIX-MAIN	PHNXAZMA
1	PHOENIX-MID RIVERS	PHNXAZMR
1	PHOENIX-NORTH	PHNXAZNO
1	PHOENIX-NORTHEAST	PHNXAZNE
1	PHOENIX-NORTHWEST	PHNXAZNW
1	PHOENIX-PECOS	PHNXAZPP
1	PHOENIX-SOUTH	PHNXAZSO
1	PHOENIX-SUNNYSLOPE	PHNXAZSY
1	RINCON	TCSNAZRN
1	SCOTTSDALE MAIN	SCDLAZMA
1	SHEA	SCDLAZSH
1	SUNRISE	AGFIAZSR
1	SUPERSTITION WEST	SPRSAZWE
1	TCSN CRAYCROFT	TCSNAZCR
1	TCSN SOUTH CAP	TCSNAZSO
1	TEMPE MAIN	TEMPAZMA
1	THUNDERBIRD	SCDLAZTH
1	TUCSON EAST	TCSNAZEA
1	TUCSON MAIN	TCSNAZMA
1	TUCSON NORTH-1A CAP	TCSNAZNO
1	YUMA	YUMAAZMA
2	BEARDSLEY	BRDSAZMA
2	CASA GRANDE	CSGRAZMA
2	CAVE CREEK	CVCKAZMA
2	CHANDLER SOUTH	CHNDAZSO
2	COLDWATER	GDYRAZCW
2	CORONADO	CRNDAZMA
2	CORTARO	TCSNAZCO
2	COTTONWOOD-MAIN	CTWDAZMA
2	COTTONWOOD-SOUTH	CTWDAZSO
2	FLAGSTAFF EAST	FLGSAZEA
2	FLAGSTAFF MAIN	FLGSAZMA

Exhibit A
Arizona
Loop Rate Groups by Wire Center

2	FORT MCDOWELL	FTMDAZMA
2	GLOBE	GLOBAZMA
2	GREEN VALLEY	GNVYAZMA
2	LITCHFIELD PARK	LTPKAZMA
2	NOGALES	NGLSAZMA
2	NOGALES MIDWAY	NGLSAZMW
2	PAGE	PAGEAZMA
2	PAYSON	PYSNAZMA
2	PINNACLE PEAK	PRVYAZPP
2	PRESCOTT EAST	PRSCAZEA
2	PRESCOTT MAIN	PRSCAZMA
2	SEDONA	SEDNAZMA
2	SEDONA SOUTH	SEDNAZSO
2	SIERRA VISTA MAIN	SRVSAZMA
2	SUPERSTITION EAST	SPRSAZEA
2	SUPERSTITION MAIN	SPRSAZMA
2	TANQUE VERDE	TCSNAZTV
2	TOLLESON	TLSNAZMA
2	TUCSON SOUTHEAST	TCSNAZSE
2	TUCSON WEST	TCSNAZWE
2	YUMA FORTUNA	YUMAAZFT
2	YUMA SOUTHEAST	YUMAAZSE
3	ASHFORK	ASFKAZMA
3	BENSON	BNSNAZMA
3	BISBEE	BISBAZMA
3	BLACK CANYON	BLCNAZMA
3	BUCKEYE	BCKYAZMA
3	CAMP VERDE	CMVRAZMA
3	CHINO VALLEY	CHVYAZMA
3	CIRCLE CITY	CRCYAZMA
3	COOLIDGE	CLDGAZMA
3	DOUGLAS	DGLSAZMA
3	DUDLEYVILLE	DDVLAZNM
3	ELOY	ELOYAZ01
3	FLAGSTAFF SOUTH	FLGSAZSO
3	FLORENCE	FLRNAZMA
3	GILA BEND	GLBNAZMA
3	GRAND CANYON	GRCNAZMA
3	HAYDEN	HYDNAZMA
3	HIGLEY	HGLYAZMA
3	HUMBOLDT	HMBLAZMA
3	JOSEPH CITY	JSCYAZMA
3	KEARNY	KRNYAZMA
3	MAMMOTH	MMTHAZMA
3	MARANA	MARNAZMA
3	MARANA WEST	MARNAZ02
3	MARICOPA	MRCPAZMA
3	MAYER	MAYRAZMA
3	MIAMI	MIAMAZMA
3	MOUNT LEMMON	TCSNAZML
3	MUNDS PARK	MSPKAZMA

Exhibit A
Arizona
Loop Rate Groups by Wire Center

3	NEW RIVER	NWRVAZMA
3	NOGALES RIO RICO	NGLSAZ03
3	ORACLE	ORCLAZMA
3	PALOMINAS	PLMNAZMA
3	PATAGONIA	PTGNAZMA
3	PATOGONIA ELGIN	PTGNAZEL
3	PHOENIX-LAVEEN	PHNXAZLV
3	PIMA	PIMAAZMA
3	PINE	PINEAZMA
3	QUEEN CREEK	HGLYAZQC
3	RIMROCK	CMVRAZRR
3	RIO VERDE	FTMDAZNO
3	SAFFORD	SFFRAZMA
3	SAINT DAVID	BNSNAZSD
3	SAN MANUEL	SNMNAZMA
3	SIERRA VISTA NO	SRVSAZNO
3	SIERRA VISTA SO	SRVSAZSO
3	SOMERTON	SMTNAZMA
3	STANFIELD	STFDAZMA
3	SUPERIOR	SPRRAZMA
3	TOMBSTONE	TMBSAZMA
3	TONTO CREEK	TNCKAZMA
3	TUBAC	TUBCAZMA
3	TUCSON SOUTHWEST	TCSNAZSW
3	VAIL NORTH	VAILAZNO
3	VAIL SOUTH	VAILAZSO
3	WELLTON	WLTNAZMA
3	WHITE TANKS	WHTKAZMA
3	WHITLOW	WHTLAZMA
3	WICKENBURG	WCBGAZMA
3	WILLCOX	WLCXAZMA
3	WILLIAMS	WLMSAZMA
3	WINSLOW	WNSLAZMA
3	WINTERSBURG	WNBGAZ01
3	YARNELL	YRNLAZMA



XO™ Fact Sheet

Contact XO

Corporate Headquarters

1.703.547.2000

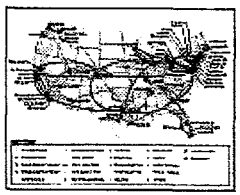
Contact us online

About XO Communications

XO™ is a full-service provider of communications solutions designed exclusively for businesses, from growing companies to Fortune 500 enterprises. In addition to owning an award-winning Internet backbone network reaching over 60 U.S. major metropolitan markets, XO delivers product solutions that address the entire range of business communication needs, from voice to Web hosting, from Internet access and private data networking solutions, in any combination that suits the way your business works. All backed by a 24 x 7 Customer Care organization and a 3-month service guarantee on all of our standard products.

XO™ Network

XO™ has a wealth of network assets that ensure we can handle your current needs and that we're well positioned for the convergence of voice and data IP services. XO has an OC-192 IP backbone with OC-12 uplinks in our markets and data centers; that means we have one of the highest capacity and scalable IP backbones in the industry, along with the highest levels of performance and reliability. A suite of world-class tools that facilitate the communication of customer information and continuous network monitoring set the XO network apart from its rivals.



- View Network Maps
- View Network Details

Product Solutions Built for Business

With the breadth of our product portfolio, XO simplifies business communications-delivering the benefit of one vendor, one contract and one bill for your service needs across multiple locations. With a heritage in voice and our in-depth understanding of IP-centric technologies, XO provides

Arizona Corporation Commission
Docket No. T-01051B-03-0454
Docket No. T-00000D-00-0672
Qwest Corporation – DLT-11
Exhibits of David L. Teitzel
Pages 1-13, May 20, 2004

solutions to meet your communication needs today and into the future. Our flat-rate bundles and à la carte offerings make it easy for businesses of all sizes to implement the solutions they want, when they want them. While your choice of telecommunications providers has narrowed in the last year, XO continues to offer you a solid alternative vs. the big long distance carriers, legacy Bell companies and the small-time resellers.

XO™ Products and Services

The XO product suite offers businesses of every size flexible and powerful communications solutions. From local and long distance voice, to VPNs and Web hosting, XO delivers a breadth of product choices.

- Voice Services - The XO portfolio includes a broad portfolio of voice services from local and long distance to conferencing
- Internet Access - Offerings from dial up to DSL to Dedicated Internet Access, XO has you covered.
- Private Data Networking - Scalable transport solutions to ensure secure and reliable network connectivity.
- Hosting Services- Establish, maintain and build a Web presence with hosting services that meet your business needs.
- Integrated Services - XOptions™ bundled solutions were created especially for businesses looking for a one-stop shop communications approach.

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Home

About XO

Our Story

Proven Leadership and Innovation

Network Assets

Customer Centric

Extensive Portfolio

Our Story

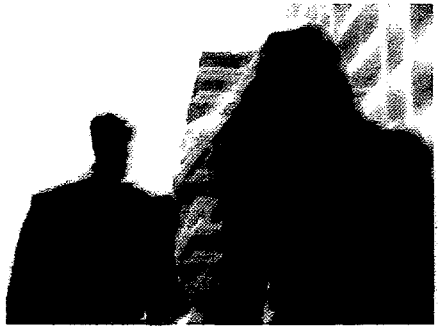
Extensive Product Portfolio

The XO™ product suite offers businesses of every size flexible and powerful communications solutions. From local and long distance voice, to High-Speed Dedicated Internet Access and Firewalls, XO delivers a breadth of product choices.

- Voice Services - The XO portfolio includes a broad portfolio of voice services from local and long distance to conferencing
- Internet Access - Offerings from dial up to DSL to Dedicated Internet Access, XO has you covered.
- Private Data Networking - Scalable transport solutions to ensure secure and reliable network connectivity.
- Hosting Services- Establish, maintain and build a Web presence with hosting services that meet your business needs.
- Integrated Services - XOptions™ bundled solutions were created especially for businesses looking for a one-stop shop communications approach.

View all XO Products and Services...

END: Back to Our Story



Popular products that we offer

- Firewall
- XOptions™ (bundled XO solutions)

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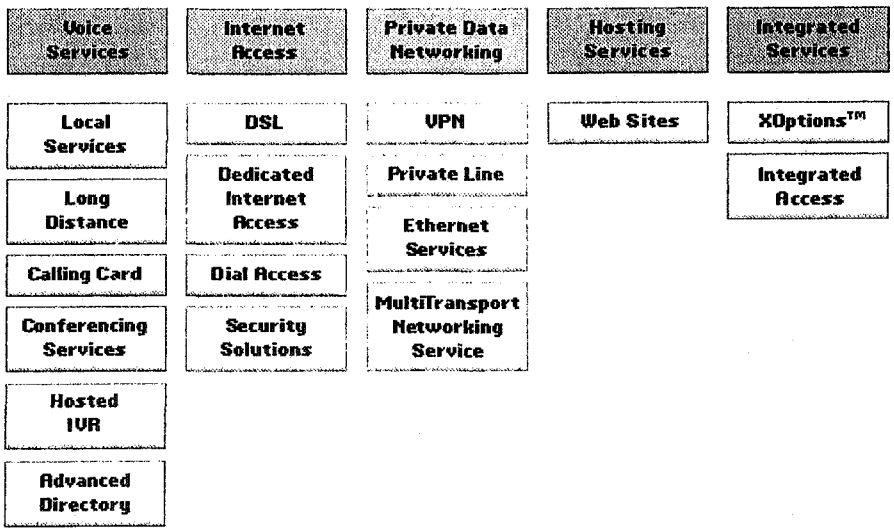
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Local Services
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Conferencing Services
Hosted IVR
Advanced Directory
DSL
Dedicated Internet Access
Dial Access
Security Solutions
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Ethernet Services
MultiTransport Networking Service
Web Sites
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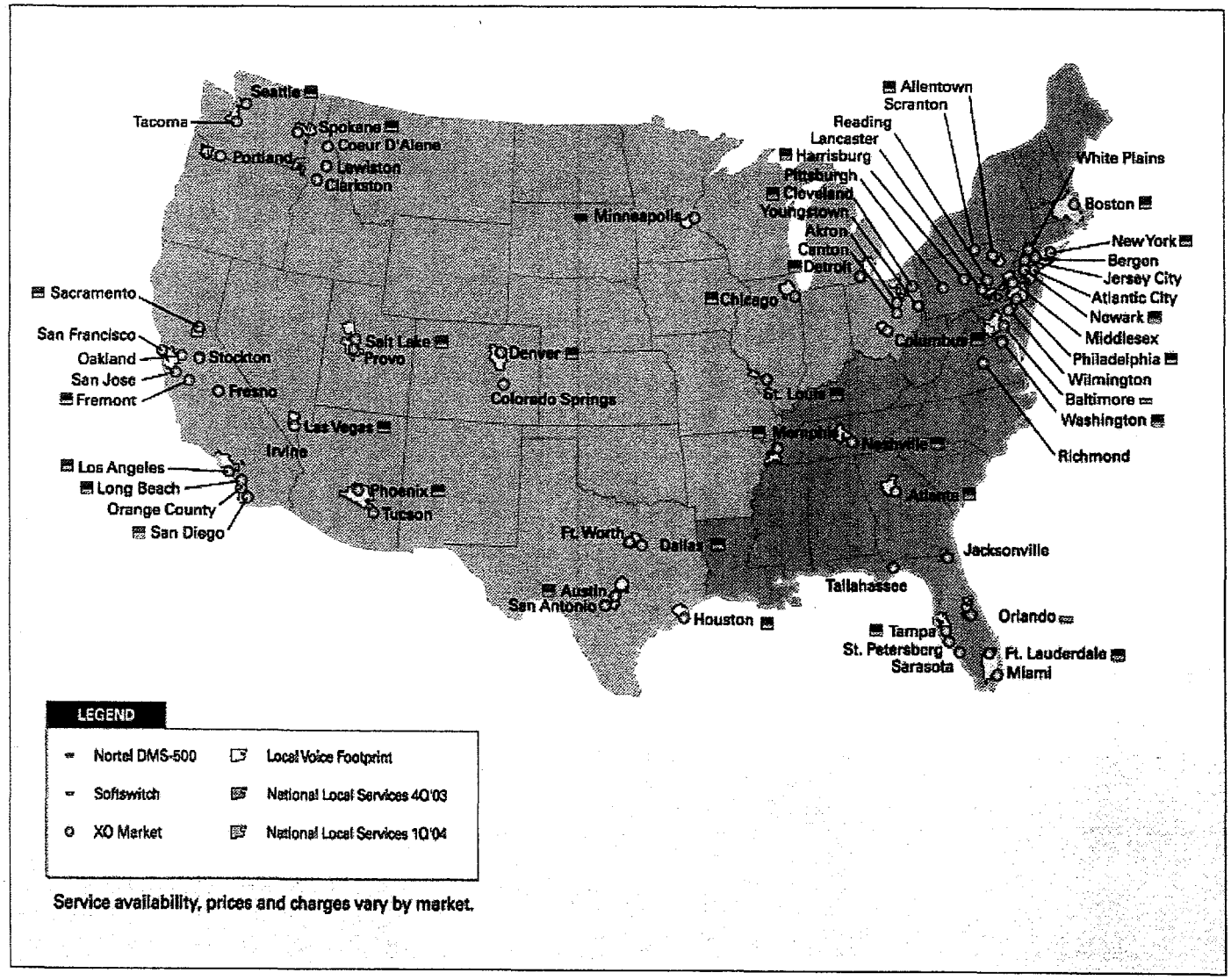
Integrated Access

Voice Assets

Network Maps Home: **Normal View** | Large View



Service availability, prices and charges vary by market.

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Local Services

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Centrex

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Remote Call Forwarding (RCF)

Virtual Foreign Exchange (VFX)

Local Volume Discounts

TeleBlock®

Looking for a product?
Try the A-Z Product Index

XO™ Local Services

Overview

Your local voice services are probably your most heavily used communications services. Local services provide for everything from basic phone service to voice mail and directory assistance. At XO, reliability and competitive pricing backed with feature-rich offerings form the foundation for all of our local services. Whatever your local service needs, XO has them covered.

Whether your business has one location in a single market or many offices across the nation, XO makes it simple for you to buy local services. That's because XO offers standard product features across all of our markets, along with standard product names and functionality. Imagine that - local services available in over 70 markets nationwide from one supplier with one simple invoice.

Your business needs...	XO Product Solution	Product Description
Basic phone service with fax, modem and other features	Basic Business Lines	Low-cost, flexible telephone service that can be set up quickly without a great deal of technical expertise
Dedicated bandwidth to carry heavy voice traffic	Business Trunks	Trunks offer shared access from your PBX or Hybrid System to the Public Switched Telephone Network. Trunks can be analog or digital and can carry inbound, outbound or two-way traffic.
A turnkey solution for your voice services	Centrex	Fully managed service that offers PBX-like capabilities and standard feature sets, including three-way calling, forwarding and speed dialing along with productivity-enhancing optional features.
Flexible voicemail solution to take incoming calls when you are not available.	Voice Messaging	Lets businesses capture and manage important messages via standard, enhanced or advanced voicemail options
A high-capacity method of transmitting voice and data	ISDN PRI	ISDN PRI offers simultaneous, integrated voice and data transmission via a digital trunking interface.
Access to directory information.	Directory Assistance and Operator Services	Directory Assistance connects to a live operator and offers nationwide traditional and reverse look-up capabilities. Operators Services offer a choice of live operator or auto-attendant assistance with

Contact XO

Sales

Call toll-free 1.

Contact us onl

Support

Call toll-free 1.

Contact us onl

Manage your a

What's Hot

- Volume availabl Service
- Service obligati custom

		calling card/credit card, third number billing, collect calling, person-to-person, station-to-station, busy line verification and busy line interrupt services.
To ensure that specific employee or tenant location information - rather than only the office or building address - can be transmitted to local emergency response officials	Private Switch/Automatic Location Identification (PS/ALI)	PS/ALI provides the E911 system with current, specific employee or tenant location information to expedite emergency response times.
To provide a local market presence in an area where the company does not have a physical location	Remote Call Forwarding (RCF)	Remote Call Forwarding is an inbound only call service that allows incoming calls to be forwarded to a local or long distance telephone number – providing a seamless view to the caller that the business is located within their local area.
Local telephone number(s) from an exchange (rate center) other than the exchange in which your location is physically situated	Virtual Foreign Exchange (VFX)	With VFX, multiple rate centers are being served from the same XO switching platform to maintain a local presence in a nearby area and increase customer accessibility
To combine expenses from all your locations and receive deep discounts on your local services	Local Volume Discounts	Local Volume Discounts are beneficial for companies with large telecom expenses and multiple locations. For qualifying accounts, Local Volume Discounts can be paired with National Local Services.
An automated solution to help comply with state and federal Do-Not-Call regulations	TeleBlock®	Available with XO Local and Long Distance services, TeleBlock® automatically screens and blocks outbound calls in real time against centrally administered federal, state, third party and proprietary DNC lists.

* SERVICE AVAILABILITY, PRICES AND CHARGES VARY BY MARKET. MINIMUM TERM COMMITMENT APPLIES.

XO™ VOICE SERVICES TERMS & CONDITIONS

See Also

- Service availability for XO™ Local Services
- Long Distance Service

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Business Trunks

Centrex

Voice Messaging

ISDN PRI

Directory Assistance and Operator Services

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Remote Call Forwarding (RCF)

Virtual Foreign Exchange (VFX)

Local Volume Discounts

TeleBlock®

Looking for a product?
Try the A-Z Product Index

XO™ Basic Business Lines

Overview

XO™ Basic Business Lines, often called "Plain Old Telephone Service" or POTS lines, supply a single, voice-grade communication channel for telephones, key systems, modems and other devices that need access to the Public Switched Telephone Network (PSTN). Basic Business Lines provide small, growing and large businesses with low-cost, flexible telephone service. XO Basic Business Lines offer:

- Quick and easy set-up that requires no special technical expertise
- Competitive pricing and a range of discount packages
- Consistent naming, functionality and features across all XO markets.

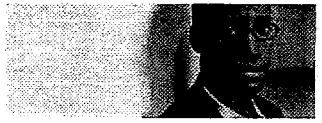
Features

- Touchtone Dialing
- Directory Listing
- 911 Access
- Caller ID Blocking (per call)
- **Optional Features:**
  - See Complete Specifications
  - See Feature Packages

Pricing and Availability

XO Basic Business Lines are available in all XO Markets with competitive pricing and discount packages. Call your XO Sales Representative today to put together a proposal based on the features, packages and length of contract that suit your business **1.866.963.9696.**

See Also



Contact XO

Sales

Call toll-free **1.866.963.9696**

Contact us online

Support

Call toll-free **1.888.575.6398**

Contact us online

Manage your account online

What's Hot

- Volume Discounts available for Local Services
- Service installation obligations for Illinois customers

- XO™ Business Trunks
- Basic Business Lines User Guide (PDF)
- View XO™ Local Service footprint

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XO™ Local Volume Discounts

Overview

XO™ Local Volume Discounts are especially beneficial for companies with large telecom expenses and multiple locations. With Local Volume Discounts you can combine expenses from all your locations and receive deep discounts on your local services.

Local Volume Discount Structures

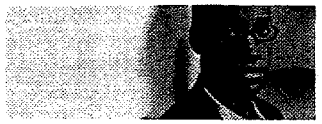
Local Volume Discounts are ideally paired with XO National Local Services. Based on your total XO™ Local Services expenditures for contracts of two (2) or more years, you can earn discounts **between 10% and 25%** off our already competitive Local Services base rates.

Choose from the two Local Volume Discount Plans:

Plan #1	Plan #2
Provides a discount on local services based on **actual monthly telecom spending** for businesses that submit one remittance for all of their locations. The key benefit is that spending for all locations is aggregated on one invoice, with the availability of call detail for any or all locations.	Provides a discount applied to **annual volume commitments** and is advantageous for businesses that require branch locations to remit their individual telecom expenses. Total company expenses are aggregated so that each location receives savings based on annual commitment levels.

See Also

- Service availability for XO™ Local Services
- Local Volume Discount Summary (PDF)



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XO™ Directory Assistance and Operator Services

Overview

All Directory Assistance and Operator Services provide live operator and auto-attendant assistance with placing calls or with obtaining directory assistance information. Local Services customers automatically receive access to Directory Assistance and Operator Services.

Operator Services Features

Choose either a live operator or auto-attendant to receive help with these services:

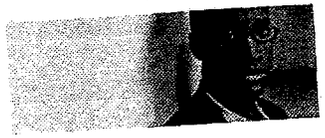
- Calling Card / Credit Card Calls
- Third Number Billed Calls
- Collect Calls
- Person-to-Person Calls
- Station-to-Station Calls
- Busy Line Verification
- Busy Line Interrupt

Directory Assistance Features

A live operator provides local, national and international directory assistance at low per call rates.

Pricing and Availability

Local and National Directory Assistance is available for $0.75 per call. This rate includes three lookups or reverse lookups per call, for anywhere in the domestic U.S., Puerto Rico, U.S. Virgin Islands and Canada, as well as call completion. International directory service is available at the rate of $5.95 per call and includes one lookup. For more information about XO Local Services, please contact the sales office nearest you, **1.866.963.9696**.



Contact XO

Sales
Call toll-free **1.866.963.9696**
Contact us online

Support
Call toll-free **1.888.575.6398**
Contact us online
Manage your account online

What's Hot

- Volume Discounts available for Local Services
- Service installation obligations for Illinois customers

XO. Directory Assistance and Operator Services

See Also

- XO™ Long Distance Service
- XO™ Advanced Directory (online directory assistance)

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XO, L.L.C.
AZ - ACC #1 - Local Telephone Exchange Services
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X Current Rates and Charges

Y Obsolete or Discontinued Rates and Charges

For information on other products, or help e-mail CCMI at : sale@ccmi.com

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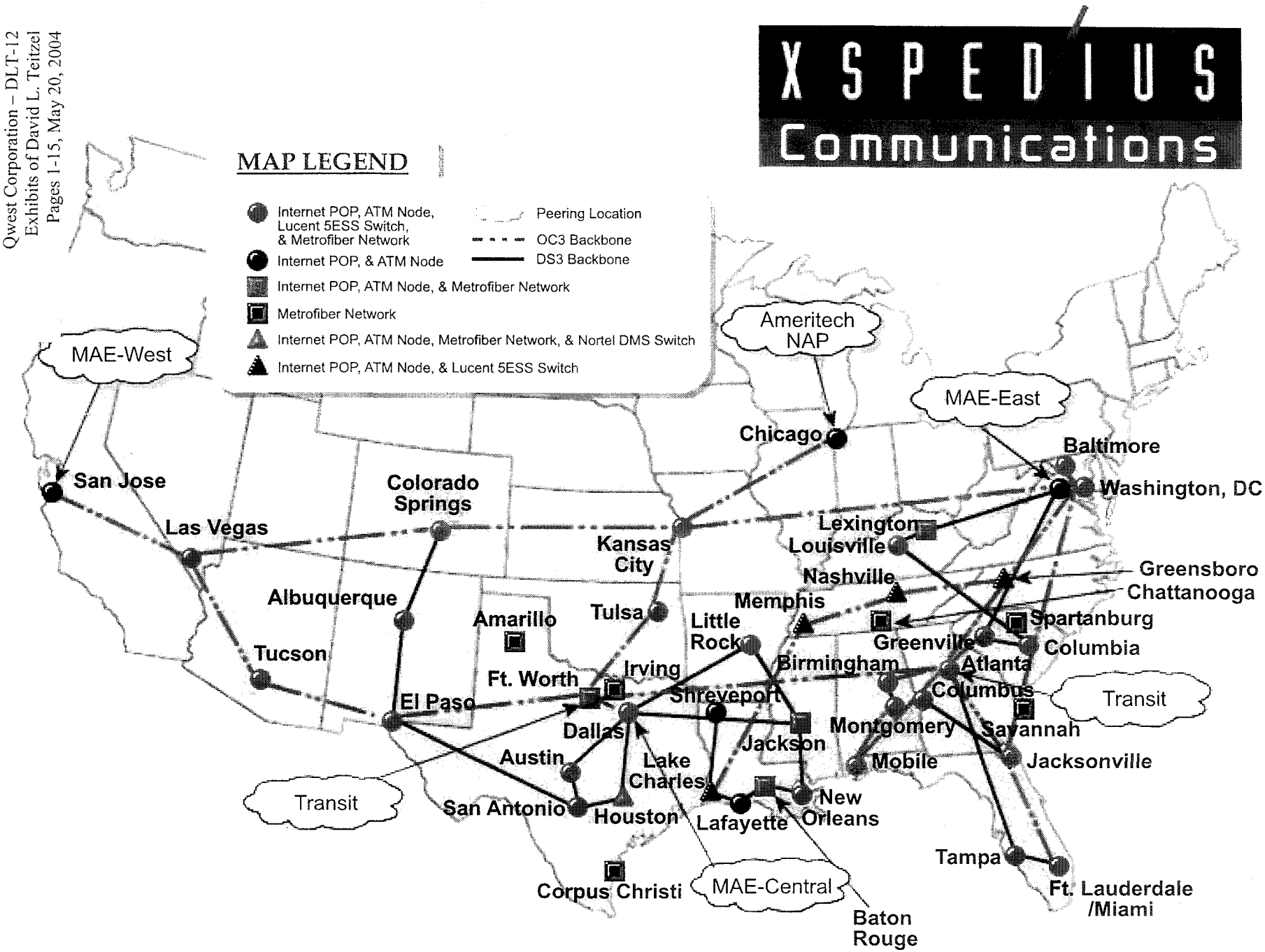

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Business Solutions

- Lead Broker Program
- Managed Services
- Messaging Services
- Internet ConneXions
- Complete Integrated
- Data ConneXions
- Complete Xchange™
- Cities Served

Local Calling

Dependable and always there, Xspedius Communications Complete Xchange™ products provide essential voice dial-tone service you can count on. Xspedius offers you a comprehensive portfolio of local calling services which satisfy basic as well as complex voice calling needs.

We currently offer three local calling service options to simplify your buying decision. Complete T is our flat-rated, all-in-one service, which provides 24 lines/trunks delivered over DS1 or PRI facility, which includes many enhanced local calling features for one low monthly fee. And if our Complete T DS1 or PRI service options don't suit your needs, we provide Complete Lines - Lines, Trunks, or Partial PRI - our unbundled local calling service. With Complete Lines - Lines, Trunks, or Partial PRI you select the number of lines and calling features that are best suited to your business needs. Also, in select markets Xspedius offers local service to businesses that do not need a T1 - Complete Xpress™ service is a fully featured line or trunk designed to give you flexibility and convenience for your business needs.

Digital Trunk Service

No matter what your telecommunication needs for trunks are, they can be configured to accept outgoing calls only, incoming calls or to handle both incoming and outgoing call traffic. Also, certain Calling Features can be assigned to your trunks that help your business efficiently manage the call flow. Digital Trunk Service is ideal for businesses that have complex business systems such as PBXs or hybrid key systems.

Enhanced DID Trunk Service

View-N-Pay

Pay your Xspedius Residential bill on-line!

Want Free Long Distance for your business?
▸▸ Click Here!

Enhanced DID Trunk Service allows you to provide individual telephone numbers for each of your employees that will improve the efficiency of your day-to-day business operations by reducing administrative and business system costs.

If you are interested in any Xspedius Communications Voice Service, please email our Product Marketing Department or call 1.877.962.1900.

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Complete T
Complete T PRI
Complete Lines - Lines, Trunks or Partial PRI
Complete Xpress™
Local ISDN for ISP

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Business Solutions

- Lead Broker Program
- Managed Services
- Messaging Services
- Internet ConneXions
- Complete Integrated
- Data ConneXions
- Complete Xchange™
- Cities Served

Complete Lines - Lines, Trunks or Partial PRI

Simplification is paramount in today's business environment. Xspedius Communications has taken the guess work out of solving your telecommunications needs. ***Complete Lines*** provides small- to medium-sized businesses with essential dial-tone service, in addition to the most commonly requested voice features, all for one low price.

With the flexibility of ***Complete Lines***, we can customize your telecommunications services based upon your business needs. ***Complete Lines*** service also includes the option of integrating local and long distance, toll free and Internet services.

Complete Lines **service includes:**

- Choice of business lines, PBX trunks or Partial PRI facilities.
- 3 standard features: Hunting, Toll Restriction & Call Block
- Access to feature rich packages
- Ability to customize your communications services based upon your requirements
- Ability to add High Speed Internet access
- Economic bundles of Long Distance minutes to fit your company's needs.

Complete Lines services come with additional optional custom calling features. Voice communications are further enhanced with our voice mail, voice mail pager plus, and fax overflow service.

Cost Saving Solutions Small and midsize businesses alike benefit from the flexibility of Xspedius Complete Lines. By enabling you to select the combination of lines or trunks you need, your service is easily configured to conform to your business communication patterns for all voice communication services.

View-N-Pay

Pay your Xspedius Residential bill on-line!

Want *Free Long Distance* for your business?

▸▸ Click Here!

***Complete Lines* service means:**

- Simplification
- Flexibility
- Customer Support
- Easy, worry-free installation
- Reduced communications expenses

Optional Internet access via our robust Tier 1 network And, since we consolidate all service expenses on one simple easy-to-read invoice, tracking and accounting procedures are streamlined.

One Stop Shop Because all services are delivered through a single point of contact, you benefit from:

- Dedicated local account team
- Easy, hassle free installation
- Proactive monitoring
- 24x7x365 toll-free Customer Care
- Efficient problem tracking and escalation processes

If you are ready for a single provider for your communication services, and an effective way to manage your telecommunication costs, then you are ready for Xspedius Complete Lines.

- Business Exchange Line Service
- PBX Service
  - Direct Inward Dial (DID)
  - Direct Outward Dial (DOD)
  - Combination Trunks
- Partial PRI Service
- Customer Calling Features

If you are interested in any Xspedius Voice Service, please email Product Marketing Department or call 1.877.962.1900.

Business Solutions

About Xspedius • Business • Carrier • Agent • Support

- Lead Broker Program
- Managed Services
- Messaging Services
- Internet ConneXions
- Complete Integrated
- Data ConneXions
- Complete Xchange™
- Cities Served

Voice Services - Complete Xchange™

Xspedius Communications believes that first class voice communication services are a critical ingredient to developing a winning formula in today's networked economy. It's pretty simple. The networked economy is about much more than merely linking companies and computers, it's also about connecting people. Your customers, partners, and vendors aren't companies; they are people. And when people critically need to communicate they choose to speak with one another personally. If your voice services don't deliver you won't win.

Traditionally, small and midsize businesses that wanted first class voice services had no choice -- the big network providers were the only game in town. With big network providers, size matters. Big corporations get the best rates, the best products, and the best service. Fortunately for small and midsize businesses, Xspedius offers Complete Xchange™. Developed and designed especially for you, Complete Xchange™ services enable small and midsize companies to compete and win in the networked economy. Choice without compromise -- first class voice communications services unbeatable at any price.

Xspedius Complete Xchange™ services offer convenience and flexibility. Xspedius Complete Xchange™ services are convenient because they integrate local, long distance, and toll-free on a single T-1. Xspedius Complete Xchange™ services are flexible because you can choose from either one of our pre-packaged service bundles or select the enhanced calling options and features that best suit your business. Plus, with our Integrated Services you can easily add dedicated internet access or high speed data services.

View-N-Pay

Pay your Xspedius Residential bill on-line!

Want Free Long Distance for your business?
▸▸ Click Here!

The only way to provide first class voice service is to build a first-rate network. Xspedius Complete Xchange™ services are delivered over our state-of-the-art fiber optic network using a combination of Lucent 5ESS and Nortel EMS digital switches. Our network is engineered to deliver "five-9s" performance. That means that our network is virtually certain to connect your call 24 hours a day, 365 days a year.

We know technology is not enough. Xspedius makes it easy to do business with us. One bill, one customer number all delivered by one provider. To see if Xspedius provides Complete Xchange™ services in your city, please click on the link below. For more information about specific product availability, please call 1.877.962.1900.

Local Offerings
Local With Long Distance Offerings

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Business Solutions

- Lead Broker Program
- Managed Services
- Messaging Services
- Internet ConneXions
- Complete Integrated
- Data ConneXions
- Complete Xchange™
- Cities Served

Complete Xpress™

Complete Xpress™ is a feature-rich local service designed to provide your business with a customized solution for your voice communications needs. The service can be configured as lines or trunks and come standard with 27 features that can be activated to your specific telecommunications needs.

Lines - A line that is used for incoming and outgoing calls and comes with a telephone number.
Trunks - Trunks are used to connect your Key or PBX system to the local telephone company switch. The trunk may be configured as Incoming Only, Outgoing Only, or Combination.

- Combination trunks are two-way trunks that allow incoming and outgoing calls to be process over the same channel.
- Outgoing Only trunks provide the ability to control the number of trunks available for outbound calls.
- Incoming Only trunks is a trunk arrangement in which only incoming calls are allowed.

DID Trunk Service - Direct Inward Dial (DID) Trunk Service allow your callers to connect directly with employees within a PBX or phone-system.

Complete Xpress™ consists of

- Lines, trunks and/or DID Trunks
  - Comes standard with 27 popular and time saving features that can be activated according to your specific telecommunications needs.
  - Trunks can be configured as Combination, Outgoing or Incoming.
- 100 minutes of Long Distance service per line.

View-N-Pay

Pay your Xspedius Residential bill on-line!

Want *Free Long Distance* for your business?
▸▸ Click Here!

- All Toll Free calls
- 1+ IntraLATA and InterLATA calls
- Pay only a single LD rate no matter where you call in the continental US after minutes are used
- Multi-line Discount for more than 5 lines
- No conversion/installation charges
- One year contract

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Complete Xpress™ - Standard Features
Complete Xpress™ - Optional Services

If you are interested in any Xspedius Communications Voice Service, please email our Product Marketing Department or call 1.877.962.1900.

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Business Solutions

- Lead Broker Program
- Managed Services
- Messaging Services
- Internet ConneXions
- Complete Integrated
- Data ConneXions
- Complete Xchange™
- Cities Served

Complete Dynamic

Xspedius Communications Complete Dynamic benefits include integrated local and long distance voice lines, toll-free, and Internet services all supported by our outstanding customer support -- billed on one consolidated and easy-to-read invoice. As a Complete Dynamic customer you will be able to select a solution that fits your business today while knowing we can service your needs of tomorrow. Simply select the plan that suits your needs, from 4 to 70 lines, and grow your services as you grow your business. Xspedius offers you the option to select from business exchange lines, analog or digital PBX trunks, or ISDN PRI service.

Complete Dynamic service includes:

- **Dynamic Allocations - the ability to automatically use your voice line bandwidth, when not on the phone.**
- 4 to 70 voice lines or trunks (PBX trunks or ISDN PRI channels)
- 128k tier-1 Internet access with upgrade options to 1544kbps
- Allowance of Xspedius EZ Long Distance (LD) minutes at 100 minutes per voice line or trunk
- Includes interstate and intrastate, includes 1+ and toll-free, low per minute for any overage

Cost Saving Solutions

Small and large businesses alike will recognize the benefits of Complete Dynamic. Whether it is scalability, ease of configuration, the simplicity of working with one provider or just being able to maintain a budget based on a fixed price for all your telecom services, Complete Dynamic is the right choice.

Complete Dynamic means:

View-N-Pay

Pay your Xspedius Residential bill on-line!

Want *Free Long Distance* for your business?

▸▸ Click Here!

- Flat monthly rate for local, Internet, and long distance up to your Xspedius EZ LD allowance
- Dedicated local account team to act as your single point of contact
- Easy, hassle free installation
- 24 x 7 toll-free customer support
- Proactive network monitoring
- Efficient problem tracking and escalation processes
- Reduced communications and network expenses
- Internet access from a Tier-1 provider

If you are ready for a single provider of voice and data solutions, reduced network expenses, and an effective way to manage your telecommunication costs, then you are ready for Complete Dynamic. Make the most of your T-1 investment. Use dynamic allocation to increase your Internet bandwidth by using the voice lines for IP when your employees are not on the phone!

Internet Network

At Xspedius Communications we know that interconnections to the global Internet are an essential aspect of the engineering of our network, in fact Xspedius has the distinction of being classified as a Tier-1 Internet Provider. As such, we have established extensive public and private peering relationships to ensure robust connectivity to all Internet destinations. The Xspedius Tier-1 backbone reaches nearly 40 points of presence (POPs) nationwide. Our fully redundant, meshed network is designed for maximum throughput, availability and reliability. The underlying transport medium is ATM, allowing for proactive capacity management and dynamic circuit re-routing.

For more information on Complete Dynamic, or any of our other voice, data or Internet services, please email our Product Marketing Department or call 1.877.962.1900.

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Business Solutions

Complete Integrated

- Lead Broker Program
- Managed Services
- Messaging Services
- Internet ConneXions
- Complete Integrated
- Data ConneXions
- Complete Xchange™
- Cities Served

A Complete ConneXions Service, Delivering Integrated Solutions

Xspedius Communications Complete Integrated Services provide small to large businesses with a complete communications solution that will scale as your business needs grow and provides the ease of one flat monthly rate. By integrating voice and data services over multi-purpose T-1 connections, Xspedius Communications Integrated Services make it easy to get the ideal communication services for your business at a compelling value. In addition, you'll also be able to take advantage of free long distance minutes, a rich package of voice and Internet features and industry leading equipment.

Complete Access
Complete Dynamic

View-N-Pay

Pay your Xspedius Residential bill on-line!

Want Free Long Distance for your business?
▸▸ Click Here!

Home
Careers
News & Events
Contact Us
Site Map

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Columbia, MD 21046

Issue Date: September 20, 2002
Effective Date August 23, 2002
Docket No.
APPROVED FOR FILING
DECISION #: 65124

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Arizona Corporation Commission
Docket No. T-01051B-03-0454
Docket No. T-00000D-00-0672
Qwest Corporation – DLT-13
Exhibits of David L. Teitzel
Pages 1-19, May 20, 2004

Z-LineHOME® Unlimited

f

Note: packages and prices vary, if this is not the state you want click here

$59.99
per month

Experience the freedom of unlimited home phone service.

Feature Descriptions:
Local/Long Distance
Enhanced Phone Features
Web Enabled Features
Find Me
Voicemail
Notify Me
TeleMail
PVA Directory Assistance
InfoStream
One Bill
Z-LineHOME Access Card

Optional:
Personal Toll Free number

Package Includes:
- Unlimited Local Calling
- Unlimited Domestic Long Distance
- *Personal Voice Assistant*
- Call Waiting
- Caller ID
- 3-Way Calling
- Speed Calling
- Enhanced Voice Mail
- Find Me Call Forwarding
- Notify Me
- Z-LineHOME Access Card
- Conference Calling

Web Based Features
- Listen To Voicemail or Web
- Set up Notify Me Optio
- Set up Find Me Option
- Access Live Customer Service
- Make Payments Onlin

With **Z-LineHOME Unlimited™** from **Z-Tel**, you can call across the street or across tl country as much as you like without watching the clock. All your local and nationwide distance calls, plus Caller ID, Call Waiting and many more popular calling features, ar included on one *convenient bill*, for one low price every month

.**Z-LineHOME** customers can also enjoy other enhanced features no other provider of including Web-accessible voicemail and many more. **Click here** to learn about all the great features and how they can help keep you and your entire household connected.
~ Z-LineHOME Unlimited is intended for Person to Person, Residential Voice Service Onl

Configure Your Service:
To convert your existing phone number(s) to Z-Tel service, enter the number(s) in the fields below and choose a corresponding Z-Tel product, then click the Buy Now buttoı below.

Please Note: If you have Multiple Lines, DSL, , Distinctive Ring or Local or LD PIC Fr here is some important information you will want to review before proceeding.

Primary Line:	602	- 630	- 8226	Z-LineHOME Unlimited ($59.99/mo)
Second Line:		-	-	
Third Line:		-	-	

Additional Voicemail costs $4.95 for 1 to 4. Additional Voicemail Boxes 5 to 8 costs $4.95. How many Voicemail Boxes would you like?

Primary Line:	No Additional Voicemail Boxes
Second Line:	No Additional Voicemail Boxes
Third Line:	No Additional Voicemail Boxes

Long Distance Rates	From Your Home	Z-LineHOME Access Card (800 Acc
State-to-State	Included In Unlimited Plan	20 cents per minute
In-State	Included In Unlimited Plan	20 cents per minute

Telecommunications Services provided by Z-Tel Communications, Inc. ® 2000-2003 Z-Tel Technologies, Inc. All rigl

Wednesda

Learn ▸ | Purchase ▸ | Manage ▸ | Troubles

Z-LineHOME® Basic

for Arizon

$19.99
per month

Home Phone Service The Way You Want It !

Feature Descriptions:
Local/Long Distance
Enhanced Phone Features
Web Enabled Features
Find Me
Voicemail
Notify Me
TeleMail
PVA Directory Assistance
InfoStream
One Bill
Z-LineHOME Access Card

Optional:
Personal Toll Free numbe

Product Includes:

- Unlimited local calling
- Call Waiting included
- **PVA included**
- Calling feature package - Caller ID, 3-Way Calling, Speed Calling, Call Forwarding - available at $4.95 per month per line
- Voicemail and enhanced features package availabl at $4.95 per month per line
- Long distance available for 4.9¢ per minute state-to state/7¢ per minute in-state
- Inside Wire Maintenance available at $4.95 per mo
- Keep the same telephone number(s)

Switching is FREE and seamless, with no interrupti in service

Z-LineHOME® Basic gives you unlimited local calling, with your choice of features fo additional, nominal monthly fee. Nationwide long distance calling is also available, wi rates starting at just 4.9¢ per minute. There's no cost to switch, and you can even ke your current phone number!

Z-LineHOME customers can also enjoy other enhanced features no other provider o including Web-accessible voicemail and many more. Click here to learn about all the great features and how they can help keep you and your entire household connected.

Configure Your Service:
To convert your existing phone number(s) to Z-Tel service, enter the number(s) in the fields be and choose a corresponding Z-Tel product, then click the Buy Now button below.

Please Note: If you have Multiple Lines, DSL, or Distinctive Ring here is some important inform you will want to review before proceeding.

Primary Line:	602	- 630	- 8226	Z-LineHOME Select ($19.99/mo)
Second Line:		-	-	
Third Line:		-	-	

Additional Voicemail costs $4.95 for 1 to 4. Additional Voicemail Boxes 5 to 8 costs $4.95. Hov many Voicemail Boxes would you like?

Primary Line: No Additional Voicemail Boxes

Second Line:	No Additional Voicemail Boxes
Third Line:	No Additional Voicemail Boxes

Buy Now

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Tel # 602-630-8226 (Phx)
520-884-3219 (Tucson)

Friday, March 05, 2004

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Consumer Services

Here is what we found for you. Click on the name of the product to learn more about that product,and you are on your way to an exciting new experience with your phone service.

Z-LinePVA™

Personal Voice Assistant (PVA™), featuring "virtual" Address Book, voice emails, voice dialing and more. $4.95 per month plus 6.9¢ per minute for all PVA calls.

Z-LineLONG DISTANCE™

Long distance service for your home, with PVA included. $4.95 per month plus 4.9¢ per minute for all calls made through PVA. State-to-state calls cost 4.9¢ per minute, in state rates vary by state.

Z-LineLONG DISTANCE 500™

Long distance service for your home, with PVA included. $19.95 per month with 500 minutes of free nationwide long distance and PVA calling. Additional state-to-state calls are 4.9¢ per minute, in-state rates vary by state. Additional calls made through PVA are billed at 4.9¢ per minute.

Z-Line800™

Take the unequaled benefits of Personal Voice Assistant (PVA) and add your own personal 800 number, and you've got true connectivity. Introducing Z-Line800!

Z-LineHOME™ Unlimited

Unlimited local and unlimited nationwide long distance for your home, with PVA included. Starting at $59.99 per month.

Z-LineHOME™ Select

Unlimited local and 50 minutes of nationwide long distance for your home, with PVA included. Starting at $29.99 per month.

Z-LineHOME® Basic

Unlimited local service for your home, with PVA included. Starting at $19.99 per month, state-to-state long distance available for 4.9¢ per minute/in-state long distance available for 7¢ per minute.

By continuing, I authorize Z-Tel to view my customer service record with my current local provider to assist in sssdetermining my eligibility for Z-Tel service.

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Friday, March 05, 2004

About Z-Tel

Z-Tel Communications, Inc. was founded in the wake of the Telecommunications Act of 1996. The establishment of the Unbundled Network Element-Platform (UNE-P) enabled competitive telecommunications companies to provide telephone service to end-users over incumbent local telephone service provider networks for the first time.

With the promise of UNE-P before them, telecom industry veterans Gregg Smith and James Kitchen envisioned a new kind of integrated, affordable communications service. In January 1998, they founded Z-Tel Communications, Inc., a unique communications provider focused on bringing the power of the Internet to traditional telephone service.

Z-Tel's flagship residential service, Z-LineHOME™, bundles local and long distance telephone service with popular calling features and proprietary features such as Find Me, a multiple-number call forwarding feature. The Z-LineHOME Unlimited plan adds even greater value to the bundle, with both unlimited local calling and unlimited nationwide long distance in a single plan.

Z-LineHOME Unlimited includes Personal Voice Assistant (PVA™), a new voice-activated feature offered exclusively by Z-Tel. PVA enables customers to store contact information in a "virtual" address book, then make calls, send voice emails and look up contact information - all using only simple voice commands - from any phone, anytime.

Our groundbreaking business telephone service, Z-LineBUSINESS™, provides local and long distance telephone service, popular calling features, plus a host of enhanced communications features designed specifically for the needs of today's business.

Z-Tel was the first national local telephone service provider in the U.S. We offer service to residential and business customers in most states, and cover a larger geographic area than any regional Bell company.

Locations

Corporate Headquarters

Z-Tel Communications Inc.
601 S. Harbour Island Blvd.

Friday, March 05, 2004

Member Services
- ▸Z-LineHOME
  - Getting Started
  - Calling Features Guide
    - Voicemail
    - Caller ID
    - No Features
    - Call Waiting
    - 3-Way Calling
    - Speed Calling
  - Troubleshooting Guide
    - No Dial Tone
    - Can't Call Out
    - Can't Call Long Distance
    - Can't Be Called
    - Line Problems
    - Customer Care
  - Service FAQ's
  - Understanding Your Bill

Click & Chat!
LIVE HELP
Monday - Friday
8:00am to 8:00pm CST
Closed Saturday & Sunday

Z-LineBUSINESS
Z-LinePVA
Talk To Us

Z-LineHOME® FAQs

Q: How many states does Z-Tel currently service?
A: 46 and growing!

back to top

Q: Are Z-Tel's local calling areas the same as my old provider`s?
A: Yes. They either mirror the local phone provider`s coverage areas or exceed them.

back to top

Q: How can I find out which calls are local to me? (local calling area)
A: On the Z-Tel website, select "Learn" from the main navigation bar, then select "Local Calling Area." Enter your phone number in the "from" box. Either press enter to see the area codes and pre-fixes that are local to you or enter a phone number in the "to" box to see if a particular phone number is local to you.

back to top

Q: What are Z-Line features?
A: A suite of web and phone features available only through Z-Tel. Some of these would be: "Notify Me" - a feature that automatically notifies you via pager, cell phone, or ICQ online chat when you have a voicemail message. "Find Me" Call Forwarding which allows your calls to find you -- no matter where you are. Voicemail, plus the capability to manager your account online

back to top

Q: Where can I see how many local minutes I have used each month?
A: Log onto www.z-tel.com. From there sign in with your Login ID and PIN. The next page you view will have links for you to view your current statement and minutes used as well as past statements.

back to top

Q: Does a local call to another Z-Tel subscriber count as M2M or a local call?
A: It counts as a local call. Only domestic long distance calls to other Z-Tel subscribers count as M2M calls.

back to top

Q: Can I change my calling plan or features whenever I want?
A: Yes. Just call Customer Care at 800-511-4572 and they can do it for you right over the phone.

back to top

Q: How many lines can I have?
A: Up to three providing one of them is a bundled line with features.

back to top

Q: Can I pay by phone or online?
A: Yes! There are three different ways to pay your bill by phone or online.

#1 Log onto www.z-tel.com

#2 Dial [00] + [0] from your home phone and be automatically connected to Customer Care. From there, follow the prompts to make a payment over the phone. (have credit card or blank check ready)

#3 Dial Customer Care at 800-511-4572. Then just allow the prompts to make a payment over the phone.

back to top

Q: Can I use ZLineHOME Unlimited for my small home office?
A: No. ZLineHOME Unlimited is intended for person to person residential voice services only.

back to top

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Z-LineBUSINESS®

Communications Services That Let You Take Care Of Business

As your lifeline to customers, suppliers and everyone else within your network, your telephone service is one of the most essential components of your business. That's why you can't trust it to just anyone. Z-Tel can provide you with reliable and innovative, *integrated communications solutions* to accommodate your business' specific needs and preferences—whether you are a small business with five employees or a major enterprise with hundreds of locations throughout the US.

Z-LineBUSINESS, Your Communications Briefcase™, will save you time and hassles by streamlining your communications through innovative, value-added voice and data solutions.

A single source is the way to go
You can receive all your local and long distance services, enhanced features, broadband and Web hosting services from a single provider, on one simple bill.

Full service nationwide
Z-Tel offers service nationwide, so, whether you have a single location or many locations spread out across the country, you can look to Z-Tel to be the sole provider for your entire company's communications needs. With managed services, Z-Tel will consolidate, control and monitor all aspects of your communications services for all your US locations.

Positively impact your bottom line
Z-LineBUSINESS' highly competitive, simplified and consistent rates can save you an average of 20% over your

Check Rates and Availability

Or call **1-800-371-3818** to speak with a sales specialist.

At a Glance:

- **One provider and one bill for all your services and locations nationwide**
- **Dedicated account management—*one point of contact for all inquiries***
- **Savings on average of 20%* over your current local service provider—*increase your savings by bundling your communications services***
- **Same low per-minute rates all day long and you only pay for what you use—*no surprises or hidden charges***
- **Easy-to-understand rate structure and easy-to-read invoices**
- **Seamless switchover—*you don't have to change phone numbers or reinstall any equipment.***

current local service provider—increase your savings by bundling your communications services.* Our low per-minute rates apply all day, every day, and optional term contracts are also available for even further discounted per-minute rates.

Increase your productivity with exclusive features
The Business Communication Center with Personal Voice Assistant™ (PVA) offers advanced, proprietary features that provide you with unrivaled connectivity, productivity and power.

Get your business up to speed
Boost your Web connectivity and presence with our broadband and Web hosting services.

You can depend on us
Customer Care representatives are available to assist you 7 am to 9 pm Central, weekdays. We also provide a toll-free 24-hour Customer Repair line to ensure your phone service is always running properly, whether your business runs from 9 to 5, or around the clock.

*Rates and savings vary by state and services selected.

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Z-TEL

Friday, March 05, 2004

Learn ▸ | Purchase ▸ | Manage ▸ | Troubleshoot ▸

Local Business Line
Custom Calling Features
Business Communication Center
Rotary Hunting
Toll-Free Services
Regulatory Fees and Other Misc. Charges

Note: packages and prices vary, if this is not your state click here

Z-LineBUSINESS® for Arizona (Qwest)

Put your Z-LineBUSINESS package together today!

	PER MONTH	PER MINUTE (except where noted)
Local Business Line	$29.00 each	
Long Distance (and Access Card usage)		
Domestic (in-state)	---	11.0¢
Domestic (state-to-state)	---	4.9¢
Domestic (state-to-state 1-year term rate)	---	4.4¢
Domestic (state-to-state 2-year term rate)	---	3.9¢
International	---	varies by country
International (discounted rate)	$2.95 per line	varies by country
Custom Calling Features		
Caller ID	$3.00 each	
Call Waiting	$3.00 each	
3-Way Calling	$3.00 each	
Speed Calling	$3.00 each	
Call Forwarding-Variable	FREE	
Business Communication Center		
Single Mailbox	$9.99	
Additional Mailboxes	$4.95 each	
Rotary Hunting	FREE	
Toll-Free Services		
Toll-free number	$3.00 each	
Per-minute usage	---	4.9¢
Per-minute usage(1-year term rate)	---	4.4¢
Per-minute usage(2-year term rate)	---	3.9¢
Directory Listing	$15.00 each	
Regulatory Fees and Other Misc. Charges		
Subscriber Line Charge (per line)	$6.12 per line	
Local Number Portability (per line)	$0.43 per line	
Carrier Line Charge (per line)	$1.50 per line	

If you are interested in signing up for Z-LineBUSINESS or would like to find out more contact us at **1-800-371-3794**.

Rates and savings vary by state and services selected. Monthly rate does not include applicable taxes and regulatory surcharges. Terms and conditions apply. If you do not currently have service, a one-time installation fee of $49.99 may apply for each business line and a $20.00 fee for each new toll-free number established.

Email Us | **Talk to Us** | About Z-Tel | Consumer | Business | Wholesale | Tell the CEO

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Friday, March 12, 2004

Learn About Us
Consumer Services
Business Services
Business Services
Local Calling Area
Great International Rates
Area Code Changes
Tariffs
About Z-Tel
Investor Relations
Careers
Talk to Us

Click & Chat!
LIVE HELP
Monday - Friday
8:00am to 8:00pm CST
Closed Saturday & Sunday

New Features

Z-Tel is always providing new and better reasons to get and use our products and services. To learn more about our latest offerings click on one of the features below:

Inside Wiring	Family Communication Center	VIP Alert
Call Blocking	Conference Calls	PVA Directory Assistance
TeleMail	InfoStream	Personal Toll Free Numbers
Intellisync for Z-Tel		

Inside Wiring:Get the protection you need!

Now you can enjoy peace of mind for less than $5 a month, with Z-Tel's Inside Wire Maintenance program. That's right! Pay just $4.95 per month and most telephone jack and inside wiring-related repairs you may need are covered for as long as you stay with the program. Stop worrying about your inside wiring! Get the full details.

Keep the everyone connected, with the Family Communication Center.

For a small fee, you can add a voicemail box for each person in your home, allowing greater privacy and convenience for everyone. And, each voicemail box owner receives a suite of unique Z-Tel features, including Find Me, Notify Me and their very own, Personal Voice Assistant. Get the full details.

VIP Alert:Answer only when it really matters!

With **VIP Alert**, now available from Z-Tel, designated callers are announced by a short-long-short ring, so you can answer the phone only when family, friends and other important people are calling. The ring will tell you someone important is on the line!

You can program between six and 15 different numbers as VIP Alert numbers.† This service even works with Call Waiting!††

VIP Alert is just $3.00 per month!

Call 1-877-ASK-ZTEL (275-9835) to add this feature to your account today.

†Varies by state.
††Call Forwarding takes precedence. In some areas, if you have Call Waiting, your programmed VIP Alert numbers will be identified by a special tone when you're on another call. In some areas, VIP Alert callers outside your local calling area or calls made from the operator will not ring uniquely. VIP Alert is not available in Ameritech territories and has limited availability in Verizon East territories.

Call Blocking: Want to avoid calls from a specific number?

Call Blocking allows you to block between six and 15 numbers*. Screened callers will hear a special announcement that says you're not taking calls and your phone won't even ring. You can add numbers individually or, in some locations, you are able to add the last number that called you.

Call Blocking is just $3.00 per month!

Call 1-877-ASK-ZTEL (275-9835) to add this feature to your account today.

* Varies by state
Note: Customers in Qwest territory (WA, OR, MT, ID, UT, AZ, WY, CO, NM, NE, SD, ND, IA or MN): Call Blocking cannot reject numbers from wireless phones and some business numbers.

Conference calls: Not just for business anymore!

Getting together face-to-face is great, but with everyone's busy schedules, it's not always easy. So, imagine being able to connect with your entire alumni association board, PTA fundraising committee or social organization – or even holding a monthly "telephone family reunion" with family members across the country – with just one call!

With **Z-Tel Conferencing** you can now hold a conference call with any group of important people in your life! Set up on-demand conference calls for up to 15 people, quickly and conveniently.

Z-Tel Conferencing is included with all Z-LineHOME® plans at no extra cost! There is a charge for usage though at 6.9 cents per minute per participant caller for residential products and 8.9 cents per minute per participant caller for business products. To access Z-Tel Conferencing, simply press "00" from your home phone, then press "4." There are no setup fees for Z-Tel Conferencing, and only a nominal charge based on the number of participants and number of minutes each is on the line.

Get the full details on how to use Conferencing.

PVA Directory Assistance: Cheaper than dialing 411 or 555-1212.

You are familiar with dialing 411 or 555-1212 to get Directory Assistance. Now with PVA you can say "Directory Assistance" and get the same information. But with PVA Directory Assistance its much less expensive. Prices vary based on the state your product is registered in but typical savings are a minimum of 15% on local directory assistance and up to 82% savings on national directory assistance.

TeleMail: Send a voice message to multiple phone numbers all at the same time.

A TeleMail is a message that is sent to a telephone number. The recipients' phone will ring, and when they answer they will hear the message played back to them in your voice. It is a great way to get a personal message to a group of people, especially when your message is time-sensitive or you have recipients who do not have email or do not check their email regularly. For Z-LineHome Unlimited customers sending a TeleMail is included at no additional cost, however for all other residential products TeleMails are priced at 2.9 cents per minute per message.

Get the full details of TeleMail here

InfoStream: A "Virtual Concierge" to provide information you need!

InfoStream is a service designed to give you access to information that's important to you, especially when you're on the go. Here's the list of InfoStream categories: Driving Directions, Search by Address, Search by Telephone Number, Horoscopes, Weather Conditions, Lottery, Movie Listings, Sports Scores, Stock Quotes, Flight Times, Category Search, and Directory Assistance. You can access InfoStream from within PVA just by saying "InfoStream". There is a charge of 99¢ for each request

---

Personal Toll Free Numbers - Get you own toll free number.

Now you can purchase a personal toll free number as an add-on for any product and have it ring your telephone number or access your PVA or voicemail directly. For $4.95 per month which includes 60 inbound minutes of call you can have a personal toll free number. You can provide it to anyone so they can call you toll free or you can use it too to check messages or use PVA.

Intellisync for Z-Tel : Keep your contacts in synch with Outlook, Yahoo or Palm

If you have a Palm handheld or use Outlook you can keep you contacts in synch with PVA by

using PUMA's Intellisync software. After downloading and setting up the software you are just a few clicks away from being able to use your contacts with your PVA. And you can keep everything up to date by a simple click of the mouse.

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Friday, March 12, 2004

Click & Chat!
LIVE HELP
Monday - Friday
8:00am to 8:00pm CST
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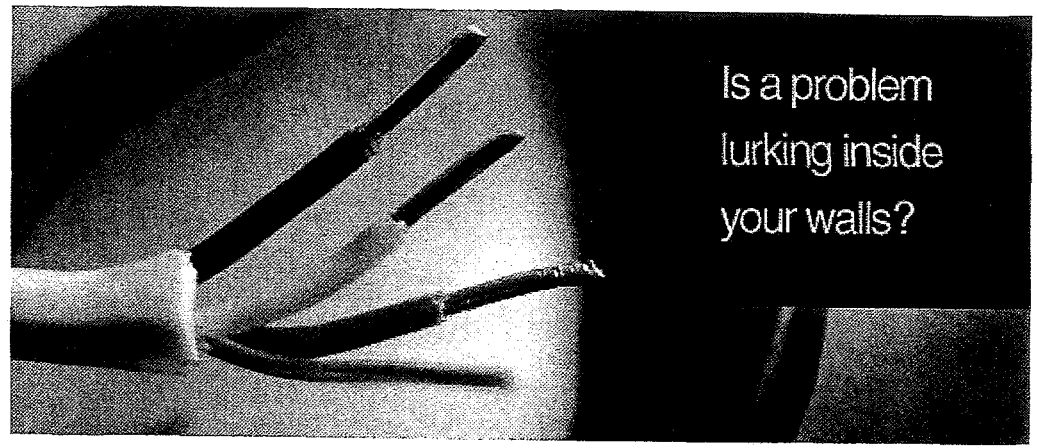
Inside Wire Maintenance Plan Now Available



Once your telephone line wiring enters your home, it becomes your responsibility to maintain it. And if you've ever had a phone jack go bad or problems with inside wiring, you know how expensive these problems can be to repair – unless you have an Inside Wire Maintenance service plan.

With Z-Tel's Inside Wire Maintenance plan, you can protect yourself against these unexpected repair costs for a small monthly fee – just $4.95 per month. And, you won't ever have to deal with these problems again!

Z-Tel's Inside Wire Maintenance plan provides you with reliable protection against unexpected or expensive repairs to telephone jacks or wires inside your home and includes:

- In-home service visit by a trained technician
- Diagnosis and repair or replacement of inside telephone wiring and phone jacks
- Quality, timely repair service

That's true peace of mind for just a few dollars a month!

Once you are on Z-Tel's Inside Wire Maintenance plan, just contact Customer Care at 1-877-ASK-ZTEL (9835) to make a service request. Our qualified independent contractors will contact you directly to

coordinate a convenient time to come out to your home to complete the diagnostic work and necessary repairs.

So don't wait for problems to arise.

Get Inside Wire Maintenance and stop worrying about inside wire and jack problems. Just $4.95 a month!

Z-Tel Customers: Call **1-866-445-9941** today to sign up for Inside Wire Maintenance. Our automated order line is available anytime, 24 hours a day.

Not a Z-Tel Customer Yet? Call **1-877-BE-SMART** today and ask for the Inside Wire Maintenance plan when you sign up for Z-LineHOME. Or just click here to sign up online.

NOTE: Protection under the Inside Wire Maintenance plan begins 30 days after enrollment. The plan will cover the cost to repair or replace your phone wiring, between the network interface point (which is usually a gray box attached to the outside of your residence) up to and including your jacks inside the house, if damage is caused by normal wear and tear. Z-Tel's Inside Wire Maintenance plan is currently not available in the following states: CA, FL, IL, MA, OK, TX, and VA. Other restrictions apply. Call 1-877-ASK-ZTEL (9835) for details.

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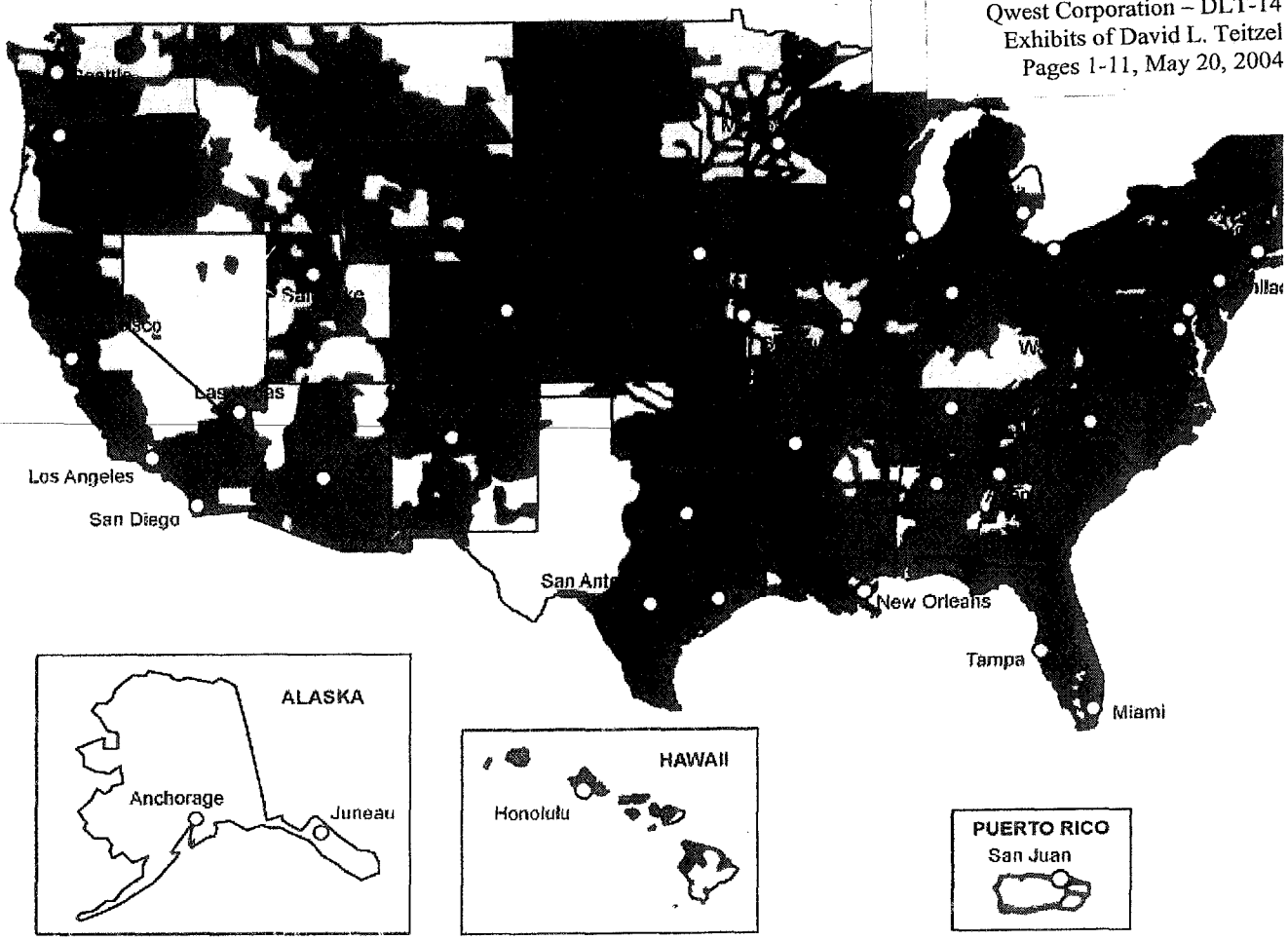
Arizona Corporation Commission
Docket No. T-01051B-03-0454
Docket No. T-00000D-00-0672
Qwest Corporation – DLT-14
Exhibits of David L. Teitzel
Pages 1-11, May 20, 2004



National Freedom Coverage Area

Nationwide Roaming at 59¢ per minute

Alltel

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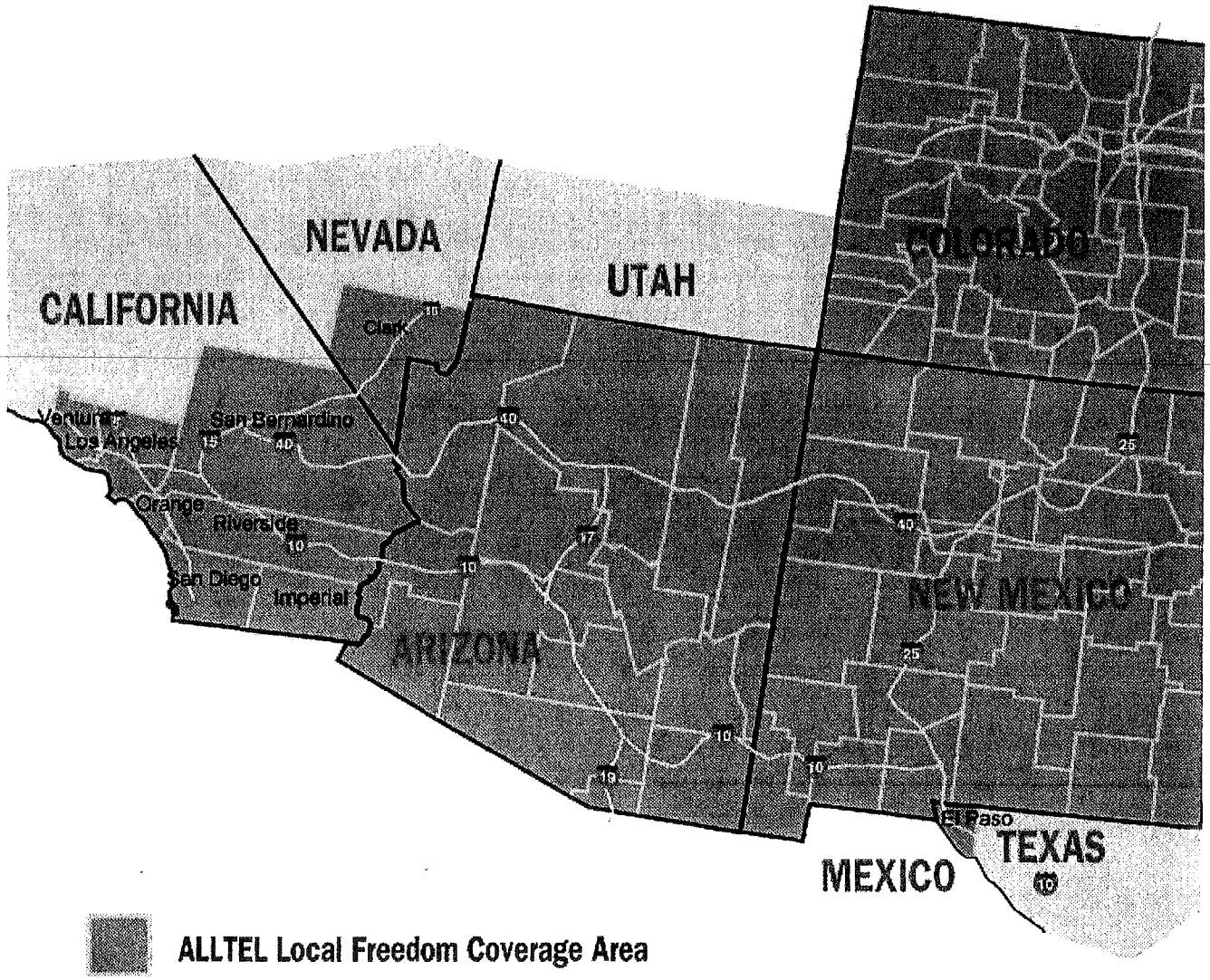


ALLTEL Local Freedom Coverage Area

Nationwide Roaming at 59¢ per minute

NB-WFRPL

AT&T Wireless

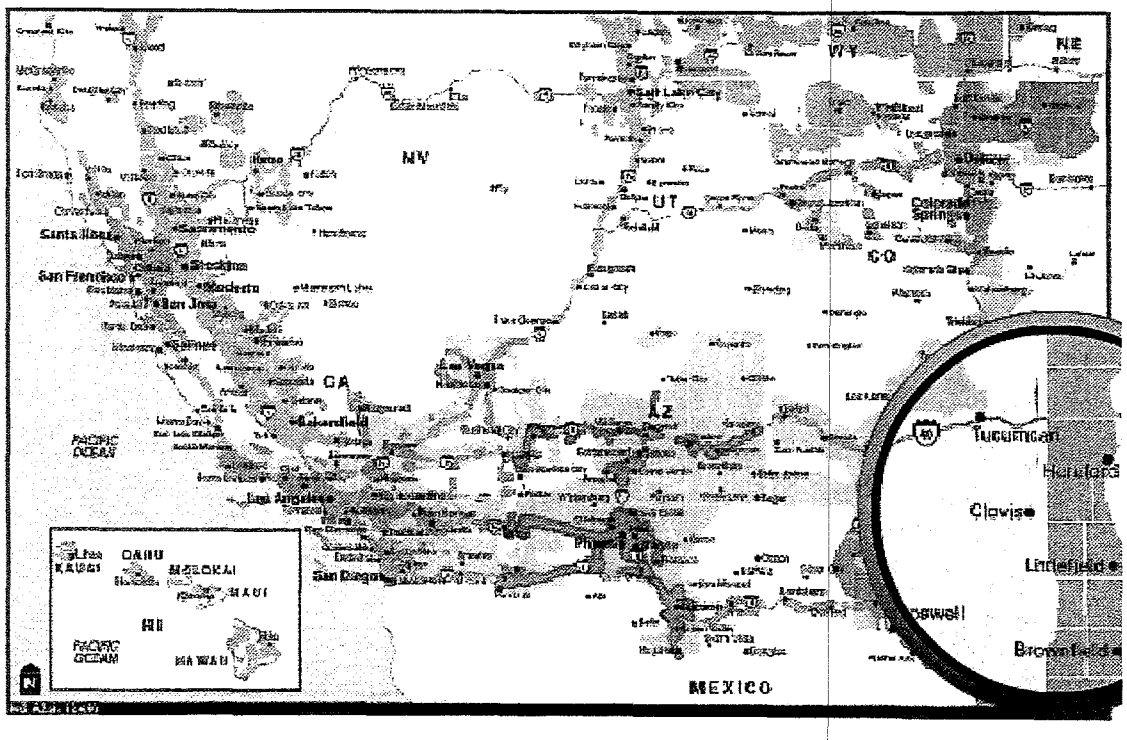
> Close

Coverage Maps

Next Generation Local Plan

- > Digital(TDMA) Local Plan
- v Next Generation Local Plan
- > Digital(TDMA) National Plan
- > Next Generation National Plan
- > Next Generation National Plan (GSM/GPRS/EDGE)
- > Digital(TDMA) One Rate Plan
- > Digital(GSM/GPRS) One Rate Plan
- > Shared Plan
- > Family Local Plan
- > Family National Plan
- > GoPhone Plan

Click and drag the magnifying glass to see a specific area



Service Area
Voice usage in this area will be applied to any included minutes in your plan. Where available, data usage in this area will be applied to any megabytes in your plan. All next Generation features will be available.

Roaming Area
Charge of 69¢ per minute would be applied if phone is used in this area. Where available, data usage in this area will be applied to any megabytes in your

Additional Roaming Area
Voice and data usage in this area will be billed according to the roaming rate listed for your plan. Data as well as Next Generation and other features may be available.

Canada Roaming Area
Voice and data usage in this area will be billed according to the roaming rates listed for your plan. Next Generation and other features may be

Mobile-to Mobile Service Area

Service Not Available

plan. All next Generation features will be available.

Additional Service Area
Voice usage in this area will be applied to any included minutes in your plan. Where available, data ussate in this area will be billed according to the roaming rate listed for your plan. Features may function differenlty in this area.

available. For customers with the North America Package, this area will be considered part of your Next Generation Service Area.

Customers with multi-band phones receive these additional expanded calling areas:

Expanded Service Area
Voice usage in this area will be applied to any included minutes in your plan where compatible service is available. Data not available in this area. Other features may be available.

Expanded Roaming Area
Voice usage in this area will be billed according to the roaming rate listed for your plan where compatible service is available. Data not available in this area. Other features may be available.

This map is a general representation of wireless coverage and the areas shown are approximate. Actual coverage depends on system availability and capacity, system repairs and modifications, customer equipment, terrain, signal strength, weather and other conditions. This map is not representative of where service can be purchased. Long-distance charges may apply. Roaming rate may apply whenever a non-AT&T Wireless network is used to place or receive the call regardless of location.

AT&T Wireless

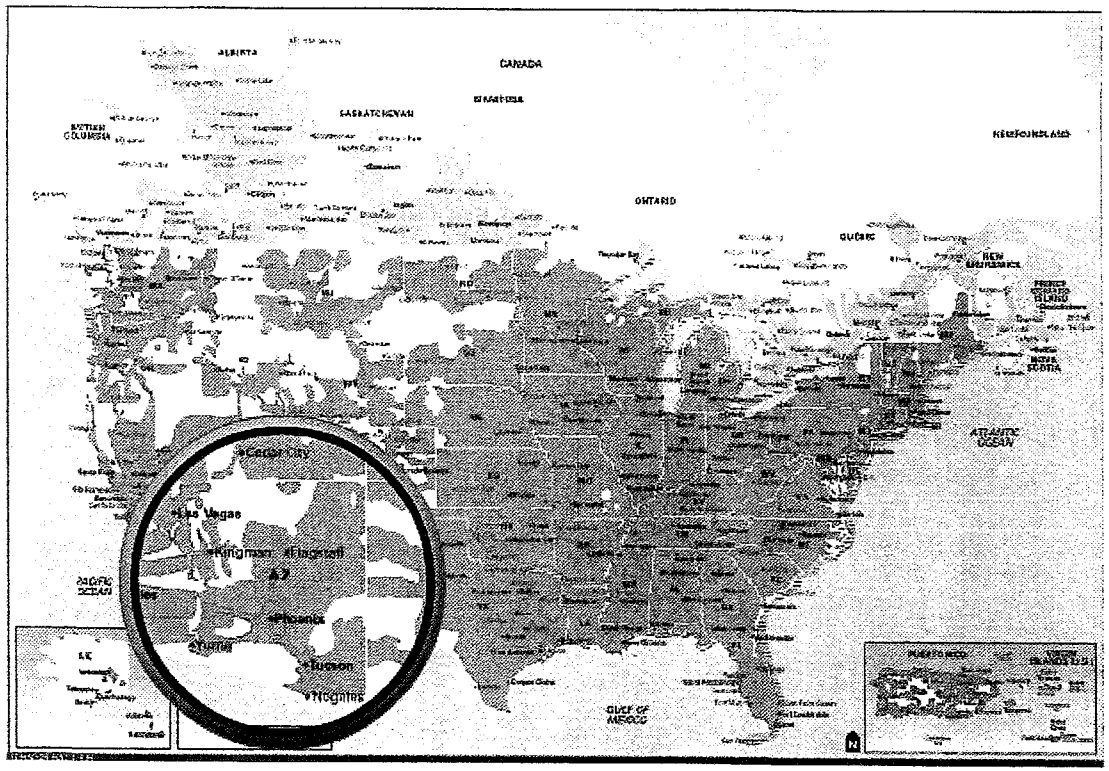
> Close

Coverage Maps

Digital(TDMA) One Rate Plan

- > Digital(TDMA) Local Plan
- > Next Generation Local Plan
- > Digital(TDMA) National Plan
- > Next Generation National Plan
- > Next Generation National Plan (GSM/GPRS/EDGE)
- ⌄ Digital(TDMA) One Rate Plan
- > Digital(GSM/GPRS) One Rate Plan
- > Shared Plan
- > Family Local Plan
- > Family National Plan
- > GoPhone Plan

Click and drag the magnifying glass to see a specific area



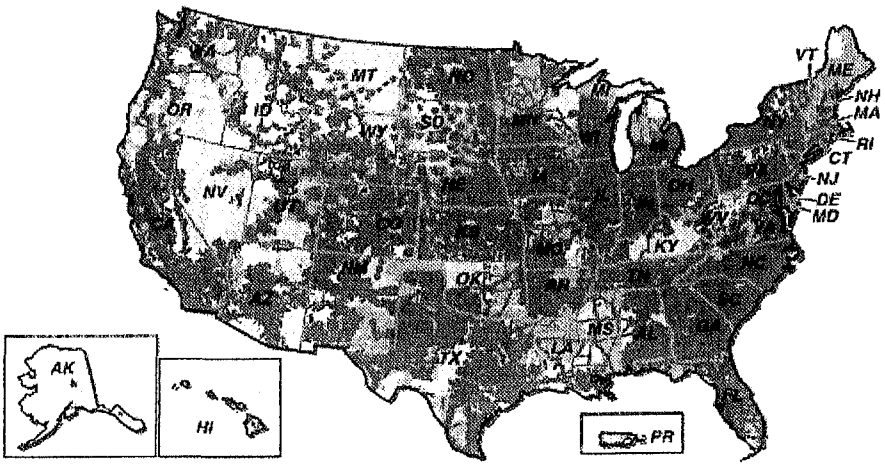
AT&T Wireless Digital One Rate Service Area
Voice usage in this area will be applied to any included minutes in your plan.

Roaming Area
Voice and data usage in this area will be billed according to the roaming rates listed for your plan. Add Canada as part of your Home Service Area with Canada Connect.

Mobile-to Mobile Service Area

Service Not Available

This map is a general representation of wireless coverage and the areas shown are approximate. Actual coverage depends on system availability and capacity, system repairs and modifications, customer equipment, terrain, signal strength, weather and other conditions.



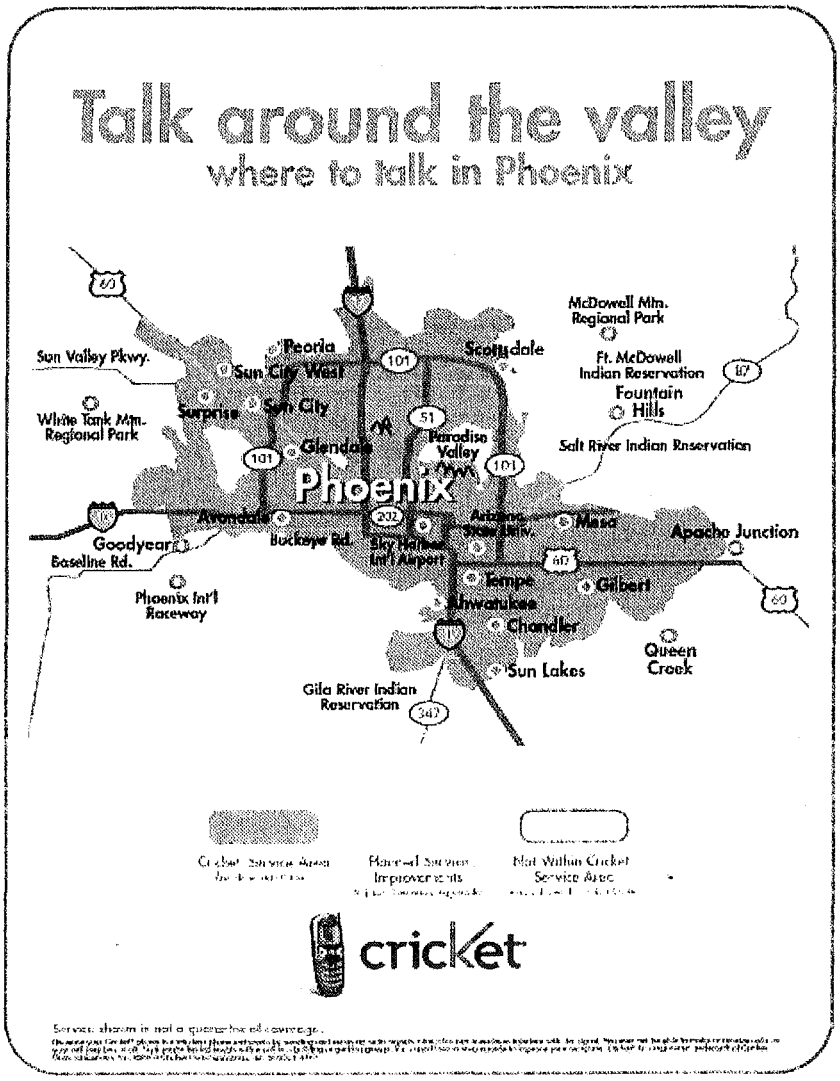
America's Choice® All-Digital Home Airtime Rate and Coverage Area

America's Choice® Home Airtime Rate and Coverage Area

Roaming Rate and Coverage Area

No Coverage Area

Verizon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Sun City West
Scottsdale
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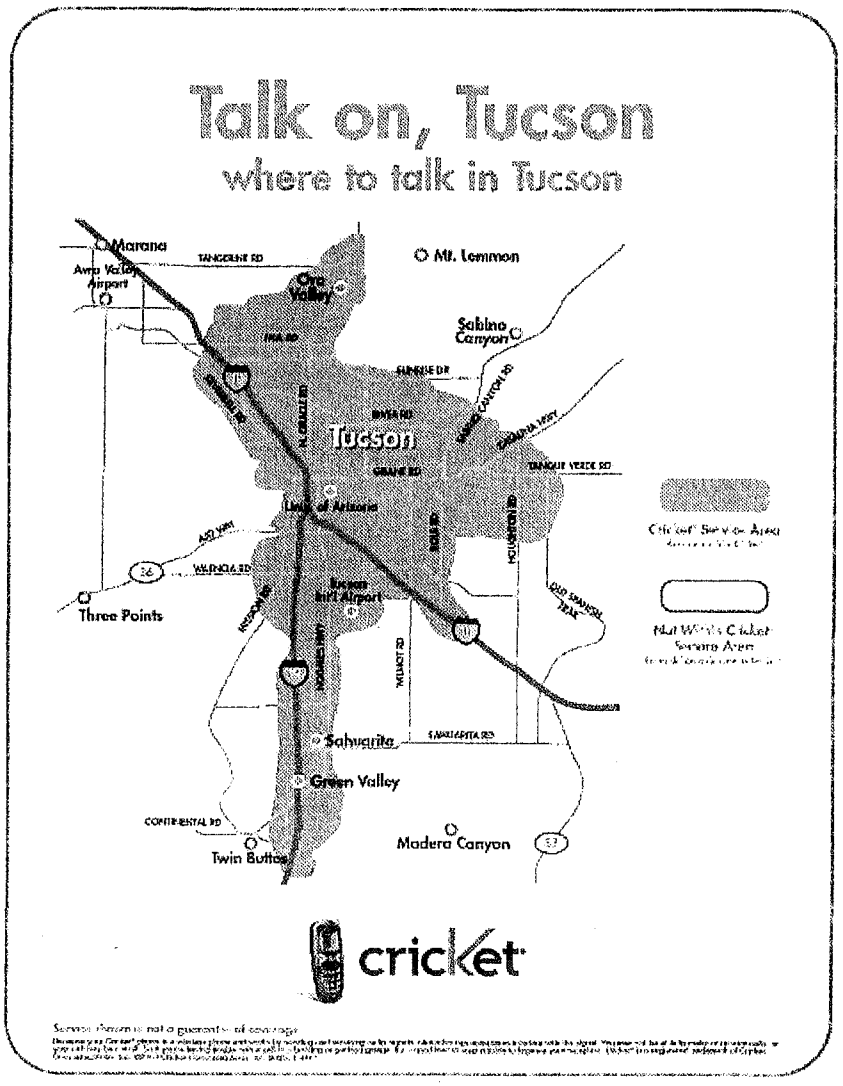
Fountain Hills
White Tank Mtn. Regional Park
Surprise
Sun City
Glendale
Paradise Valley
Salt River Indian Reservation
Phoenix
Avondale
Goodyear
Baseline Rd.
Buckeye Rd.
Sky Harbor Int'l Airport
Mesa
Apache Junction
Tempe
Gilbert
Phoenix Int'l Raceway
Chandler
Queen Creek
Sun Lakes
Gila River Indian Reservation
Not Within Cricket Service Area
cricket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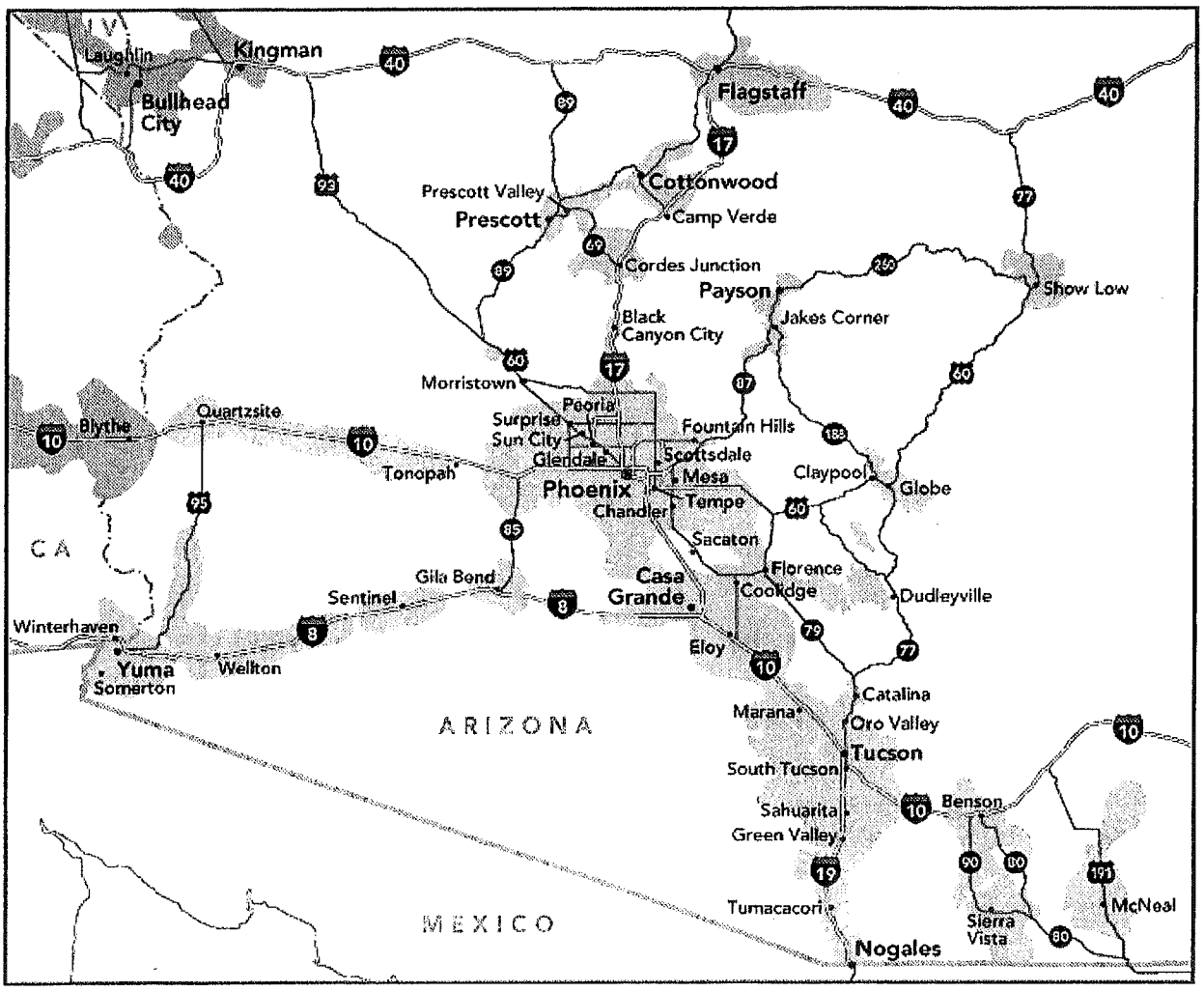
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Tempe
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Claypool
Globe
Blythe
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Tonopah
Sacaton
Florence
Casa Grande
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Dudleyville
Gila Bend
Sentinel
Winterhaven
Yuma
Somerton
Wellton
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Catalina
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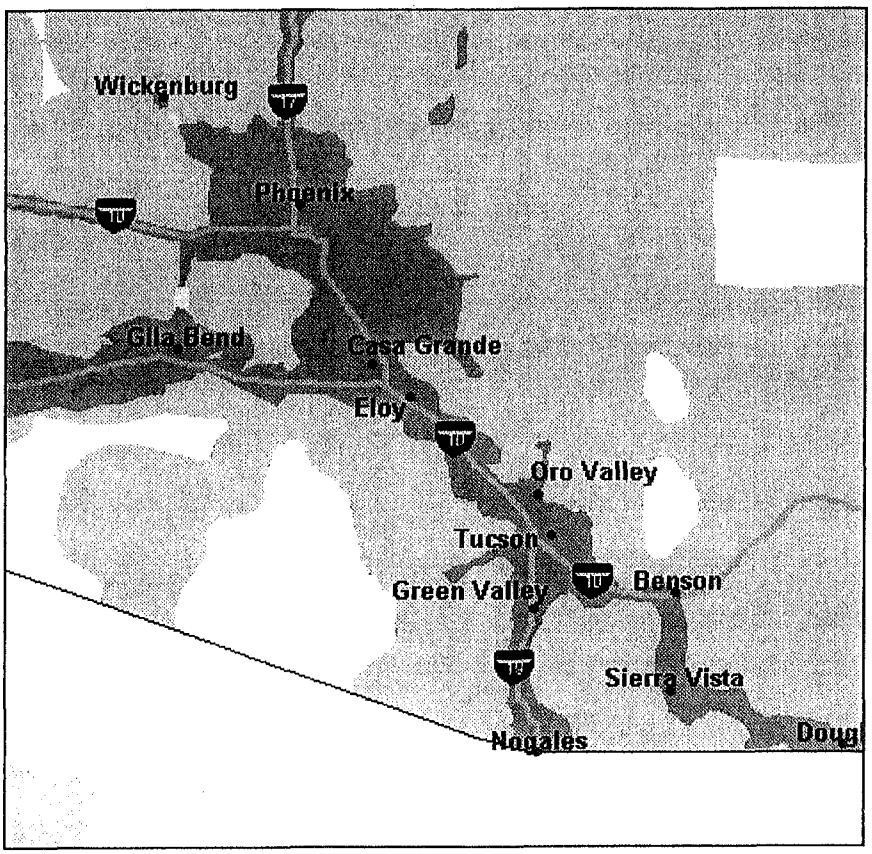
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Press Release

Source: Level 3 Communications, Inc.

Level 3 Announces Wholesale VoIP Customer Agreement With 8x8

Tuesday March 30, 7:02 am ET

Broadband VoIP and Video Communications Company Purchases Level 3's Local Inbound and Voice Termination Services

SANTA CLARA, Calif., March 30 /PRNewswire-FirstCall/ -- Level 3 Communications, Inc. (Nasdaq: LVLT - News) today announced at the Spring 2004 VON Conference & Expo that 8x8 (Nasdaq: EGHT - News), a broadband VoIP and video communications service provider, has purchased wholesale VoIP services from Level 3.

8x8 (www.8x8.com) purchased (3)VoIP(SM) Local Inbound and (3)Voice® Termination services from Level 3. 8x8 serves residential and business customers through a suite of offerings under the Packet8 and Packet8 Virtual Office brands that include broadband telephone service for residential customers, consumer videophones and virtual office PBX solutions for small businesses.

"Packet8 is a worldwide communications service available today to anyone with broadband Internet access," said Barry Andrews, president of 8x8. "The quality and broad market coverage of Level 3's advanced VoIP solutions are enabling us to quickly deliver feature-rich, cost-effective voice and video services to our growing base of business and residential customers."

"We're pleased that 8x8 has selected Level 3 as its primary provider of wholesale VoIP solutions," said Sureel Choksi, president of Softswitch Services for Level 3. "Level 3 has a full set of wholesale VoIP offerings that give 8x8 and other customers the control they need to develop and quickly roll-out new products and services."

- (3)VoIP Local Inbound service significantly reduces communications costs for call center operators, conferencing providers, and other enhanced service providers that require a reliable local-calling infrastructure. The service complements both (3)VoIP Toll Free(SM), Level 3's new toll-free, nationwide calling solution, and its worldwide (3)Voice Termination service.

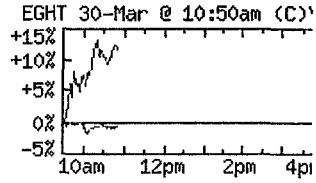
"Level 3's wholesale VoIP solutions enable our customers to develop new services at significantly lower cost and with traditional phone quality," said Kevin Dundon, senior vice president of Wholesale Voice Services for Level 3. "Customers can create their own products using multiple Level 3 wholesale VoIP services as building blocks."

The (3)VoIP Local Inbound service rides Level 3's patented softswitch platform, which has successfully processed more than 300 billion minutes in voice and data calls since 1999. The service also utilizes Level 3's extensive local networks, offering industry-leading geographic coverage.

The (3)VoIP Local Inbound service enables customers to:

Related Quotes

EGHT 30-Mar @ 10:50am (C)



EGHT	3.69	+0.51
LVLT	4.05	-0.06

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* Establish local presence in 73 markets across the United States;
* Design and deliver new applications quickly and cost-effectively;
* Streamline call flows;
* Deploy and maintain application servers at a single location.

• (3)Voice Termination service, originally launched in December 1999, enables PTTs, inter-exchange carriers, enhanced service providers, cable operators and other companies to terminate calls in the U.S. and abroad. (3)Voice Termination was the world's first long-distance voice service that offered customers voice quality indistinguishable from traditional telephone networks, but with the efficiencies and inherent cost advantages of IP.

In December 2003, Level 3 significantly expanded its softswitch-based (3)Voice Termination service by enabling customers to hand off traffic directly to Level 3 using an IP interface, further lowering their fixed network costs and capital expenses. Level 3's expanded voice capability allows IP-to-IP interconnection with the Level 3 network at the high levels of security required for voice traffic.

Level 3 is an industry pioneer in the development of VoIP technology and services. Today the company offers a broad suite of wholesale, business and residential IP-based voice solutions over a robust softswitch-based network platform that carries more than 30 billion minutes of IP-based voice and data calls every month.

For more information about Level 3's portfolio of VoIP services, please stop by VON booth #615, or visit www.Level3.com.

About Level 3 Communications

Level 3 (Nasdaq: LVLT - News) is an international communications and information services company. The company operates one of the largest Internet backbones in the world, is one of the largest providers of wholesale dial-up service to ISPs in North America and is the primary provider of Internet connectivity for millions of broadband subscribers, through its cable and DSL partners. The company offers a wide range of communications services over its 22,500 mile broadband fiber optic network including Internet Protocol (IP) services, broadband transport and infrastructure services, colocation services, and patented Softswitch managed modem and voice services. Its Web address is www.Level3.com.

The company offers information services through its subsidiaries, Software Spectrum and (i)Structure. For additional information, visit their respective Web sites at www.softwarespectrum.com and www.i-structure.com.

The Level 3 logo and (3)Voice are registered service marks and (3)VoIP and (3)VoIP Toll Free are service marks of Level 3 Communications, Inc. in the United States and/or other countries. 8x8, Packet8 and Packet8 Virtual Office are trademarks of 8x8, Inc.

Forward Looking Statement

Some of the statements made by Level 3 in this press release are forward- looking in nature. Actual results may differ materially from those projected in forward-looking statements. Level 3 believes that its primary risk factors include, but are not limited to: changes in the overall economy relating to, among other things, the September 11 attacks and subsequent events, substantial capital requirements; development of effective internal processes and systems; the ability to attract and retain high quality employees; technology; the number and size of competitors in its markets; law and regulatory policy; and the mix of products and services offered in the company's target markets. Additional information concerning these and other important factors can be found within Level 3's filings with the Securities and Exchange Commission. Statements in this release should be evaluated in light of these important factors.

Source: Level 3 Communications, Inc.

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Press Release Source: Level 3 Communications, Inc.

Level 3 Announces Residential VoIP Phone Services

Monday March 29, 7:01 am ET

New Services to be Offered in More than 300 of the Largest U.S. Markets by End of 2004 through Cable Operators, ISPs and Enhanced Service Providers

New Services to be Made Available in Second Quarter

SANTA CLARA, Calif., March 29 /PRNewswire-FirstCall/ -- Level 3 Communications, Inc. (Nasdaq: LVLT - News) today announced that it is launching two new residential VoIP services to more than 300 of the largest markets in the U.S. by the end of 2004, with service availability beginning during the second quarter.

The new services, (3)VoIP(SM) Enhanced Local service and HomeTone(SM), will enable cable operators, ISPs, enhanced service providers, IXCs and others to offer IP-based local and long-distance voice service to consumers via any broadband connection to the home. Level 3 formally unveiled the services at the Spring 2004 VON Conference & Expo.

"The U.S. consumer voice market, which is valued at over $65 billion per year, is on the verge of fundamental change," said Sureel Choksi, president of Softswitch Services for Level 3. "The growth of residential broadband access, coupled with the increasing adoption of VoIP technology, is allowing a wide variety of companies to pursue the consumer voice market. We believe Level 3, with its extensive softswitch platform and local network infrastructure, is in a strong position to capitalize on this trend via these new complementary offerings.

"Our new residential VoIP offerings are designed to enable new entrants and established broadband and communications companies to cost-effectively accelerate their deployment of carrier-quality VoIP services to millions of U.S. households," said Choksi.

- (3)VoIP Enhanced Local service essentially provides building blocks for "do-it-yourself" companies that want to manage their own residential telephone service. HomeTone is a complete turnkey solution for companies that prefer the ease and convenience that a "plug-and-play" service provides. HomeTone also gives providers of consumer VoIP services the ability to offer their own innovative and customized value-added features and applications to meet the specialized requirements of their end customers.
- (3)VoIP Enhanced Local Service
- (3)VoIP Enhanced Local Service, which Level 3 expects to begin offering during the second quarter of 2004, is ideally suited for cable operators, enhanced service providers, IXCs and others who are seeking to offer residential voice services but prefer to operate their own switching infrastructure.
- (3)VoIP Enhanced Local service allows companies to develop voice services using Level 3 provided building blocks, including local phone numbers, interconnection with the traditional telephone network for local and long distance services, local number portability and E911 emergency services. The service provides these essential components while enabling the voice service provider to retain the flexibility to manage

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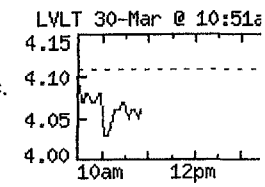

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and control the features offered to the residential market.

"(3)VoIP Enhanced Local Service provides customers operating their own switching infrastructure the ability to deploy consumer VoIP services cost effectively with maximum control over the end-user experience and minimal involvement in complex interconnection issues," said Jack Waters, CTO and president of Voice Technologies for Level 3. "Customers are able to accelerate their time to market by leveraging Level 3's CLEC status in 48 states, local calling capability covering more than 93 percent of the U.S. population, and long-distance calling service worldwide."

"We're encouraged by the level of interest we're seeing from cable operators, IXCs, and enhanced service providers," said Waters. "Level 3's IP backbone and softswitch platform allow us to offer superior cost and performance advantages with high quality of service."

Key Features of (3)VoIP Enhanced Local Service

* Local and long distance calling including access to the traditional telephone network
* Local phone numbers
* Operator assistance
* Directory listings and assistance
* E911 emergency services
* Local number portability

HomeTone

HomeTone, which Level 3 expects to begin offering during the second quarter of 2004, is a turnkey, hosted VoIP alternative to traditional residential local and long distance phone service. It offers the benefits and functionality of (3)VoIP Enhanced Local service, plus calling features such as voice mail, call waiting, and three-way conferencing. In addition, HomeTone includes advanced calling features such as unified messaging, and a personal locator function that forwards the call until it reaches the designated party.

HomeTone service gives channel partners, such as ISPs, cable operators, ILECs and enhanced service providers the ability offer a cost-effective, high-quality local and long distance telephone service to consumers with minimal upfront costs and accelerated time to market. Channel partners can develop unique calling features and functionality with HomeTone to differentiate their voice offerings to consumers.

Key Features of HomeTone

All of the (3)VoIP Enhanced Local service features noted above, plus many others including:

* Voice mail
* Call waiting
* Three-way conferencing
* Caller ID
* Call forwarding
* Enhanced features including unified messaging and personal locator
* End-user, Web-based account management

In addition to residential VoIP services, Level 3 offers a full range of wholesale and business voice services. For more information about Level 3's portfolio of VoIP services, please stop by VON booth #615, or visit www.Level3.com .

About Level 3 Communications

Level 3 (Nasdaq: LVLT - News) is an international communications and information services company. The company operates one of the largest Internet backbones in the world, is one of the largest providers of wholesale dial-up service to ISPs in North America and is the primary provider of Internet connectivity for millions of broadband subscribers, through its cable and DSL partners. The company offers a wide range of communications services over its 22,500 mile broadband fiber optic network including Internet Protocol (IP) services, broadband

transport and infrastructure services, colocation services, and patented Softswitch managed modem and voice services. Its Web address is www.Level3.com.

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The Level 3 logo and (3)Voice are registered service marks and (3)VoIP Enhanced and HomeTone are service marks of Level 3 Communications, Inc. in the United States and/or other countries.

Forward Looking Statement

Some of the statements made by Level 3 in this press release are forward-looking in nature. Actual results may differ materially from those projected in forward-looking statements. Level 3 believes that its primary risk factors include, but are not limited to: changes in the overall economy relating to, among other things, the September 11 attacks and subsequent events, substantial capital requirements; development of effective internal processes and systems; the ability to attract and retain high quality employees; technology; the number and size of competitors in its markets; law and regulatory policy; and the mix of products and services offered in the company's target markets. Additional information concerning these and other important factors can be found within Level 3's filings with the Securities and Exchange Commission. Statements in this release should be evaluated in light of these important factors.

Source: Level 3 Communications, Inc.

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www.lendersinteractive.com

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VONAGE
THE BROADBAND PHONE COMPANY

Username:
Password: GO
Forget Your Password?

HOME | RATE PLANS | AREA CODES | FEATURES | LEARNING CENTER | SIGN UP | E-Mail This Page | Search

Local / Regional Calling | Calls to Canada | International Rates | FAQs

Residential Plans

Premium Unlimited Plan
Unlimited calls to Anywhere in the USA & Canada plus everything you see at right!
FREE Calls to Canada!

Unlimited Local Plan
Unlimited Local and Regional Calling plus 500 Long Distance minutes!
FREE Calls to Canada!

Basic 500 Plan
500 Minutes Anywhere in the USA & Canada. Anytime.
FREE Calls to Canada!

All These Great Features available in every plan!

- FREE Voicemail
- FREE Caller ID with Name
- FREE Call Waiting
- FREE Call Forwarding
- FREE Call Transfer
- FREE Three Way Calling
- Free Calling to Vonage Users
- Any area code of your choice
- Keep your current number
- Virtual Phone Numbers
- Toll Free Plus
- Great International Rates
- Int'l Fees to Canada Waived!
- Money-Back guarantee

SIGN UP NOW!

GREAT INTERNATIONAL RATES!

Hong Kong	5¢ /min	London	5¢ /min	Mexico City	6¢ /min	Canada	Waived
Moscow	5¢ /min	New Delhi	19¢ /min	Paris	5¢ /min	Puerto Rico	12¢ /min
Sydney	6¢ /min	Tel Aviv	6¢ /min	Tokyo	6¢ /min	Rome	6¢ /min

See all of our great international rates

Rate Plan Finder

Select an area code: 602

Unlimited calling to 480, 602, and 623 for only $24.99 per month. Plus 500 domestic long distance minutes!

Or unlimited calling anywhere in the US and Canada for only $34.99!

Additional Charges:

- One-time Activation Fee of $29.99
- State and FET tax may apply
- Regulatory Recovery Fee of $1.50 per line
- For further information please review the Terms of Service.

$34.99 month **Unlimited Local and Long Distance Calling!** *Start Saving Today...* SIGN UP NOW!

$24.99 month **UNLIMITED Local/Regional Calling** *Plus 500 long distance minutes*

VONAGE
THE BROADBAND PHONE COMPANY™

Thank you for choosing Vonage

Take 3 easy steps to get **BIG SAVINGS!**

Premium Unlimited Plan

Unlimited Local/Regional Calling
Plus 500 long distance minutes

FREE Call Waiting
FREE Voicemail
FREE Call Forwarding
FREE Repeat Dialing
FREE Call Transfer
FREE Caller ID
FREE Caller ID Block

Choose a plan:

◉ **$34.99**/month **Premium Unlimited Plan**
Unlimited local, regional, US nationwide long distance, and calls to Canada.

○ **$24.99**/month **Unlimited Local/Regional Plus Plan**.
Unlimited local and regional calling plus 500 minutes of US nationwide long distance and calls to Canada every month. Only 3.9¢ per minute after the first 500 monthly minutes.

○ **$14.99**/month **Vonage Basic 500 Plan**.
500 minutes of US nationwide long distance, local, regional, plus calls to Canada every month. Only 3.9¢ per minute after the first 500 monthly minutes.

Please select one of the following options:

Assign me a new DigitalVoice phone number with the area code of my choice.

Choose the area code for your new phone number- *no matter where you are!*

Keep my existing number

Transfer your existing phone number from your current telephone service provider to Vonage DigitalVoice. (Available within selected Vonage service areas)

CONTINUE

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Username:
Password: GO
Forget Your Password?

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Local Number Portability | Wireless Local Number Portability | FAQs

Available Area Codes

With Vonage, you are no longer tied to your "local area code". You can select any Area Code you want from our list of available area codes. This means even if you live in New York, you can have a California area code.

Even if we don't offer an area code in your city or town you can get exceptional Vonage service and savings today. Then, when we do add your area code, we'll switch your Vonage phone number for free.

Select a state to see a list of available area codes.

Arizona

Available Area Codes

480	Phoenix
602	Phoenix
623	Phoenix

See what is coming soon.

Select a State

Rate Plan Finder

Select an area code:

Area Code Notification

Please email me when the area code I want becomes available.

Area Code

Email Address

Submit

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Using the Vonage® mark and other Vonage Holdings Corp.. intellectual property such as logos, slogans, trade dress, and graphic symbols

VONAGE
redefining communications™

FOR IMMEDIATE RELEASE

For more information, contact:
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Vonage
732.528.2627
brooke.schulz@vonage.com

Michele Husak
Connors Communications
212.798.1414
michele@connors.com

Vonage Digital Voice™ Launches Service in Phoenix

Residents and Small Businesses From Scottsdale to Tempe Can Get Unlimited Local and Long Distance Calling for a Flat Monthly Rate

Edison, NJ, February 4, 2003 – Vonage, a leading provider of digital telephone service, today announced the availability of Vonage Digital Voice™ service in Phoenix.

Broadband users from Scottsdale to Tempe can take advantage of Vonage Digital Voice telephone service offering free unlimited local and long distance calling, including the most popular features like voicemail, caller ID and call waiting for one low, flat monthly rate. Vonage Digital Voice customers in the Phoenix metro area and its surrounding suburbs area can keep their current numbers or choose telephone numbers within the following popular area codes: **(480) (623) (602).**

"As Vonage expands its presence into the Southwest, we're giving consumers and small businesses an alternative to Qwest," said Jeffrey A. Citron, chairman & CEO of Vonage. "We're giving people in Phoenix a great deal: free unlimited local and long distance calling, including all of the features, for an attractive price – all things they cannot get from their local or long distance phone companies."

Using the latest technology, Vonage Digital Voice sets the standard for the new generation of phone service with residential and business calling plans:

- Residential Premium Unlimited Plan - $39.99/month for unlimited nationwide calling.
- Residential Unlimited Local Plan - $25.99/month for unlimited local and regional calling plus 500 minutes of long distance calling.
- Small Business Unlimited Plan - $69.99/month for unlimited nationwide calling.
- Small Business Basic Plan - $39.99/month for 1500 minutes of nationwide calling.

-more-

- Services and hardware included for free in all Vonage Digital Voice plans:
  - Voicemail
  - Caller ID
  - Call waiting
  - Call forwarding
  - Call transfer
  - Call return (*69)
  - Caller ID block (*67)
  - Repeat dialing
  - Area code selection
  - International call block
  - Bandwidth saver
  - Change your phone number
  - Web-based account management, voicemail retrieval and real-time inbound/outbound calling activity
  - International calling at significantly reduced rates
    - **London 5 cents a minute**
    - **Toronto 5 cents a minute**
    - **Sydney 6 cents a minute**

About Vonage

Vonage is redefining communications by offering consumers and small businesses an affordable alternative to traditional telephone service. Offering over 115 area codes in 28 of the top 50 media markets nationwide, Vonage offers an easy-to-use product with the most popular features and unlimited local and long distance calling for a flat rate. With nearly 50 cities and over 750 active rate centers, Vonage is the fastest growing digital telephony company in the US. Utilizing proprietary technology, subscribers use a high-speed Internet connection and a standard telephone to make calls anywhere in the world. Vonage is headquartered in Edison, New Jersey. For more information about Vonage's products and services, please visit www.vonage.com or call 1-VONAGE-HELP.

###

VONAGE

THE BROADBAND PHONE COMPANY

For more information, contact:

Mitchell Slepian
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732.528.2677
mitchell.slepian@vonage.com

Rob Imig
Nike Communications
646.654.3416
rimig@nikecomm.com

"KEEP YOUR PHONE, LOSE YOUR OLD PHONE COMPANY"
Vonage®, the Broadband Phone Company℠,
Launches Revolutionary Television Advertising Campaign

Edison, NJ, October 13---Vonage®, the fastest growing broadband phone company in the United States, announces the launch of a new multi-million dollar television advertising campaign. "The Vonage Movement" depicts a consumer revolution against the traditional, big phone companies, and an ultimate switch to broadband telephone service with Vonage. The campaign, which consists of 30-second, 60-second and 1:20 spots, was developed for Vonage by The Gardner-Nelson Project in New York, and will break on national cable television stations in late September.

Tapping into consumer resentment of hidden charges and fees in their phone bills, the campaign opens with a man who declares, "I didn't want to be controversial, but I just couldn't take it anymore." A voice-over follows: "Like all great movements, it started small ... but it was based on a big idea ... Later a consumer says, "It was Vonage's idea to use the power of broadband to improve phone service for everyone." The campaign continues with a sociologist giving behavioral observations of those involved in the movement: "Vonage is creating change. And change can be very disruptive to the status quo." Others extol Vonage service benefits, such as: "unlimited calls to all 50 states and Canada for $34.99 a month...Voicemail, free, Call Waiting, free, Caller ID, free." A 60-something man declares that Vonage is "such a good idea. No wonder the big phone companies want to kill it." Each spot ends with crowds furthering the revolution by carrying picket signs and chanting, "Vonage," and with a voice-over telling viewers to "Get Vonage. The Broadband Phone Company."

Consider the economic savings Vonage provides to the individual household alone and this grassroots consumer movement goes beyond a metaphor for an advertising campaign. In theory, the movement to Vonage seems inevitable. The average U.S. phone bill is $72 per month. Even

-more-

the new "unlimited" plans from the big phone companies, which start out at about $50 per month, end up at close to $80 per month with taxes, fees, and other hidden charges. Vonage offers unlimited national and local calling, and free features, all for a fixed low rate of $34.99 a month, less than half the national average.

According to Dean Harris, chief marketing officer at Vonage, "Conventional phone service offers only a fraction of the services we can provide through the power of broadband. With the big phone companies, consumers often pay dearly for extra services that Vonage provides for free. Our campaign is a humorous illustration of how we believe consumers will behave once made aware of the economic and tangible benefits of Vonage. We know our consumers are leaving conventional telephone service providers for good and they become evangelists for Vonage."

Vonage allows the consumer to select his or her own area code, regardless of where he or she may live in the United States, and to retrieve Voicemail and monitor his/her entire account online through the Vonage Dashboard. Consumers can change features easily and handle all billing directly through the Internet.

Non-technical people have nothing to fear, as Prudential Financial Equity Research (May 21, 2003) concluded Vonage is "not some geeky, PC-based service. Let us be very clear, the service once connected, works just like any other home phone – to the customer – no software to run, no new phones to buy, no bypass numbers to dial, just pick it up and dial (or answer)."

Currently, there are an estimated 19 million households with broadband Internet connections. That figure is already growing exponentially: Forrester Research estimates that the market will expand to approximately 60 million households by the end of 2006 – due to the benefits of higher speed Internet service for home computers.

Broadband telephony thus appears to be yet another "good call" made by Vonage's founder, Chairman and CEO – Jeffrey Citron. A technology pioneer and visionary, Mr. Citron has already gained renown for shaking up the financial services industry. In 1995, Mr. Citron founded The

-more-

Island ECN, a computerized trading system designed to eliminate the problems associated with order execution. Instinet Group recently acquired The Island ECN for $503 million, and today the newly merged company is one of the largest global financial exchanges and is responsible for more than one in four NASDAQ trades.

Following on the success of The Island ECN, Mr. Citron founded and became the Chairman and CEO of Datek Online Holdings Corporation as Datek transitioned into the online brokerage industry. Under his visionary leadership, Datek grew to become the fourth largest online brokerage in the United States, and was recently acquired by Ameritrade Holdings for $1.3 billion dollars.

About Vonage®

Vonage is redefining communications by offering consumers and small businesses an affordable alternative to traditional telephone service. The fastest growing telephony company in the US, Vonage's service area encompasses more than 1800 active rate centers in over 100 US markets. Sold directly through www.vonage.com, retail partners such as Amazon.com. Wholesale partners such as EarthLink, ARMSTRONG®, Advanced Cable Communications and the Coldwater Board of Public Utilities resell the Vonage broadband phone service under their own unique brands. Vonage currently has more than 50,000 lines in service. Over 2.5 million calls per week are made using Digital Voice, the easy-to-use, feature-rich, flat rate phone service. Vonage is headquartered in Edison, New Jersey. For more information about Vonage's products and services, please visit www.vonage.com or call 1-VONAGE-HELP. Vonage®, Vonage Digital Voice℠, Toll Free Plus℠ and Virtual Phone Number℠ are trademarks of Vonage Holdings Corp.

###

The New Face of Communication

Email Address:

Password:

Log In

Password Help
If you have forgotten your password, please click here.

Residential Plans

Residential Plans are great programs to keep in touch with family, friends, and school mates. Programs include unlimited calling, caller ID, call waiting, call forwarding, voice mail and more.

Phone Service Plans

	Plan	PSTN Minutes*	Packet8 IP Minutes	International	**Monthly Service Charge**
Join Now	Freedom Plan	N/A	Unlimited	N/A	**$0.00**
Join Now	Freedom Unlimited	Unlimited	Unlimited	Rate table	**$19.95**
Learn More	Check out our great international plans				

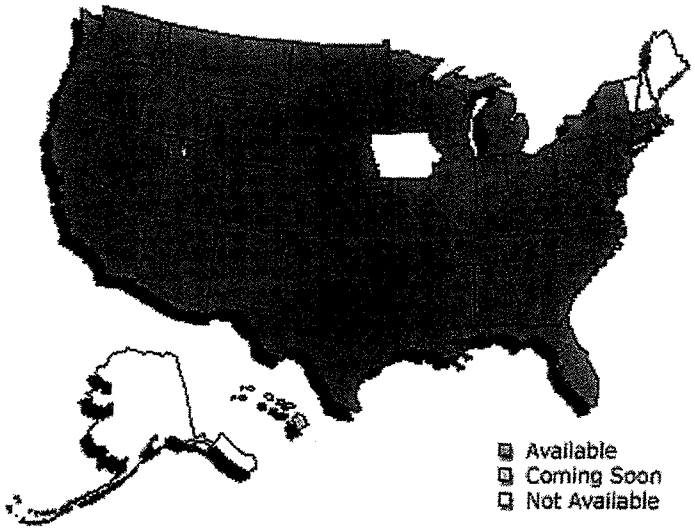
Videophone Service Plans

	Plan	PSTN Minutes*	Packet8 IP Minutes	**Monthly Service Charge**
Join Now	Freedom Unlimited	Unlimited	Unlimited	**$19.95**

** International rates apply to all outgoing calls outside of the US (including Alaska and Hawaii) and Canada. To view the entire international rate table, click here.*

Area Codes and Rate Centers

Packet8 allows you to choose a phone number from any of the available rate centers, regardless of where your Packet8 phone will be physically located.



Packet8 asks you to specify the "rate center" (calling area or city name) that you would like to have assigned to your account. There can be many rate centers within one area code. With Packet8, you can request a rate center that is local to those who call you the most.

Rate center selection does not affect your Packet8 calling rates. When you make calls from your Packet8 account, all calls within the United States and Canada are included with your flat rate Packet8 service. On all of our calling plans, calls between two Packet8 subscribers are always free and unlimited, anywhere in the world.

To see the list of rate centers that Packet8 currently has available, choose a state from the list below.

Remember!
Packet8 is available to you even if we do not have your local area code or rate center. Your Packet8 area code and phone number is only used for inbound calls. If a more desirable rate center later becomes available, Packet8 will assign a new number to your account.

Available Rate Centers

Select State

Select State

Rate Center (City)
Available Rate Center

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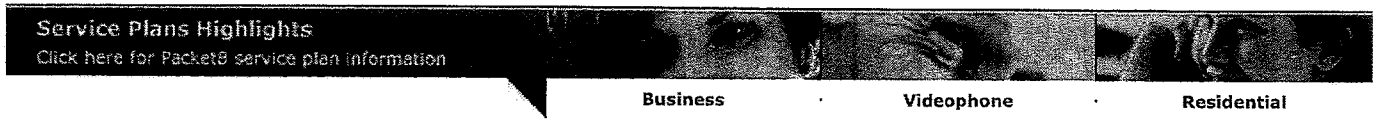

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Available Rate Centers

Select State

AZ

Rate Center (City)

PHOENIX TUCSON

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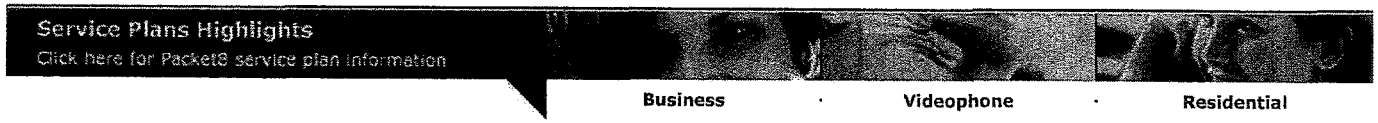

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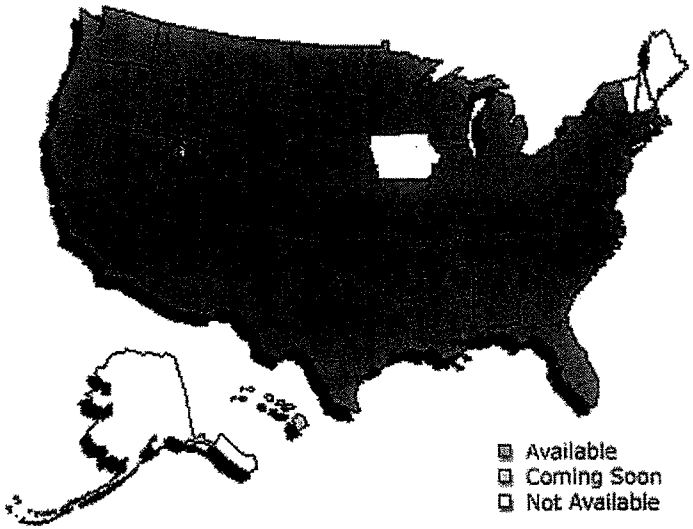

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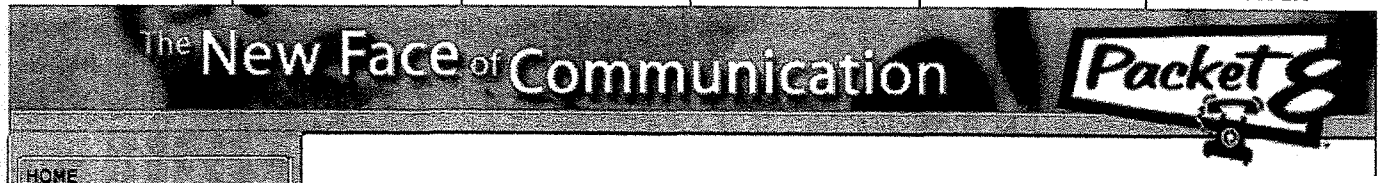


Email Address:

Password:

Log In

Password Help
If you have forgotten your password, please click here.

Business Services

Packet8 Business Service plans are perfect for businesses with heavy phone usage. With affordable per minute rates and support for multiple lines on a single account, Packet8 offers a level of flexibility and affordability that isn't found with traditional services.

These service plans include all of the great Packet8 features like personalized voice mail, call forwarding, and custom rate center selection.

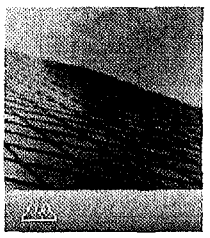
Phone Service Plans

	Plan	PSTN Minutes*	Packet8 IP Minutes	**Monthly Service Charge**	Additional Minutes*
Join Now	Basic	4,000	Unlimited	**$59.95**	$.04
Join Now	Elite	10,000	Unlimited	**$129.95**	$.04

Videophone Service Plans

	Plan	PSTN Minutes*	Packet8 IP Minutes	**Monthly Service Charge**	Additional Minutes*
Join Now	Basic	4,000	Unlimited	**$59.95**	$.04
Join Now	Elite	10,000	Unlimited	**$129.95**	$.04

** Minutes and additional minutes rates apply to calls made to non-Packet8 phone numbers in the United States, including Alaska, Hawaii, and Canada. For international and other rates, click here.*



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LISTEN TO THE VOICE QUALITY YOURSELF AND DECIDE IF THIS IS FOR YOU. Fill out the form below or use our online secure shopping cart to place your order today.

Wireless DSL-Dialup	Download (706 K) More	San Francisco - Western Australia (Near Perth)	**9155 miles (14733 km)**

The earthphone communication platform is unlike anything else available to consumers and business owners who want the power to make free calls worldwide. The system works locally and globally. Our system works with regular telephones and/or business PBX systems.

Here is the deal. When you purchase an earthphone you can make totally free calls to any other earthphone anywhere in the world. A telephone call is a voice circuit. With two earthphones you create a voice circuit that is free of monthly or per minute charges. In the USA telephone companies give callers a free local calling zone called a local lata. Calls within the local calling zone are free. Calls outside are charged. earthphone allows you to create your own Global Local Lata where and when you need it. Loved one overseas. No problem... Just connect with two earthphones and all your calling is free.

With each earthphone you buy we give you one full month of unlimited free calling into the USA. The only numbers we block in the USA are 900 and 976 numbers. Many of our international customers pay for the earthphone in savings the first month. After the first month we deliver excellent call quality at only 2.5 cents/minute USD. Our ***rates*** to other parts of the world can also save you a lot of money.

As you add more earthphones to your network of business or family you can then call more places for free. Our ***epSuperPro*** allows you to call out to a regular telephone and call in to an earthphone from a regular telephone.

To get our detailed informational guide to free calling please complete the form below. Our system will automatically send you the information and show you how to make free calls.

First Name

Last Name

Email*

Lost Password? R

::: Rel Oppo

As a re or larg you ha to purc produc discou more a great p

IPT For a Handful of Dollars

Market research co uncertainty about t for IP Telephony. F survey of one hund 40% saw no real n 28% said it was toc

Let's now imagine t entry-level solution fancy toll bypass. N moment, but no ne second switching s

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- WHAT IS AT&T CALLVANTAGE
- HOW IT WORKS
- ORDER NOW
- REFER A FRIEND
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- CONTACT US
- SUBSCRIBER AGREEMENT
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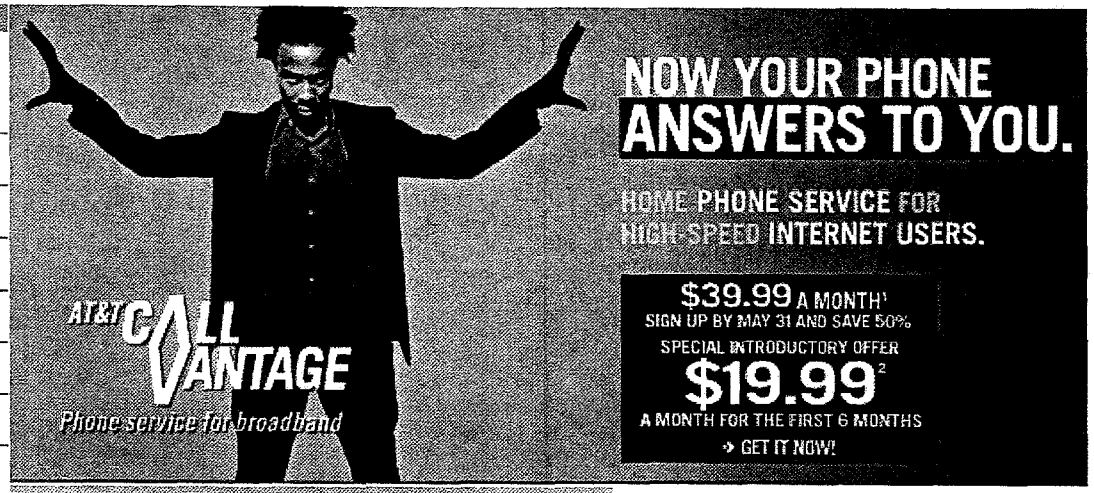

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A MONTH FOR THE FIRST 6 MONTHS
GET IT NOW!

EXPERIENCE AT&T CALLVANTAGE™ SERVICE
TAKE THE TOUR

ROLL OVER THE SELECTIONS BELOW TO LEARN MORE.

HOW DOES IT WORK?

EXPLORE THE ADVANCED FEATURES

- JUST PLUG YOUR PHONE AND COMPUTER INTO THE TELEPHONE ADAPTER AND YOU'RE READY TO GO.
- USE YOUR PHONE THE SAME WAY BUT GET MORE THAN YOU EXPECT.
- ACCESS YOUR FEATURES INSTANTLY ON ANY PHONE OR PC.

See How It Works

Already an AT&T CallVantage Customer?
Access your account here.

THE CUSTOMER BUZZ
See what people are saying.
LEARN MORE

Click here to sign up or call for service at 1-866-816-3815, ext. 64525

[1]Early termination fee of $59.99 for canceling service after 30 days and other charges may apply. AT&T CallVantage Service bills one month in advance. Your first bill will include charges for the second month of service. Automatic credit card payment via online billing is required. You can view your e-bill online at the AT&T Customer Care Center.

[2]A $20 bill credit will be applied to each of your 1st 6 months of enrollment. Full retail price of $39.99 automatically commences with 7th month of service. If you've recently accepted another offer to switch to AT&T CallVantage Service, we can fulfill only on the first response received. Offer expires 5/31/04.

[3] Minimum system requirements apply. DSL or 2 way cable Internet access required. Call Forwarding is not available outside the continental U.S. Service does not support directory-listed numbers, dial-out directory assistance, direct dial calls outside the U.S. and Canada, operator assisted, pay services or third-party billing (except calling cards or prepaid services). Other restrictions may apply. Personal conferencing is currently provided free of charge, but will become a paid feature in the future. You will be notified prior to that change occurring.

AT&T CallVantage℠ Service uses household electrical power to operate and will not function in the event of a power outage or broadband service interruption. The Service does not support home alarm and/or security systems and is not available in all areas.

AT&T CallVantage℠ Service 911 Emergency Dialing operates differently from traditional 911 Service. In order for 911 Emergency Dialing to work properly, the Service Address we have on file for you MUST correspond to the physical location of your AT&T CallVantage℠ Service phone. This will enable us to accurately identify your emergency Public Safety Answering Point and correctly route your call.

See the FAQ's for additional detail about 911 Emergency Dialing and other terms and conditions. These Terms are subject to change or discontinuation without notice.

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AT&T Managed IP Telephony Services

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Site Map

PRICING

AT&T Managed IP Telephony Services can help your business design and implement a migration path to take you from separate premises voice and data networks to a unified remotely managed platform and a gateway to future voice and data services.

With AT&T IP Telephony Services, AT&T can remotely manage equipment, such as, call manager servers, voice gateways, voice email, IP phones and IP soft phones. Optional components are IVR/ACD servers and applications, E911 capability/application, conferencing resources, and other IP Telephony related applications such as personal assistant, and call agent.

Eliminate the need to maintain separate networks for data and voice by transforming the traditional circuit switched platform into a leading edge IP-PBX . . . internal voice and data traffic merged onto a single network delivering the **latest IP telephony technology.**

KEY FEATURES & BENEFITS

- **Cost Savings:** Eliminate the need to maintain separate networks for data and voice by merging internal voice and data traffic onto a single network. Realize lower costs and increased efficiencies while preserving your existing network investment by leveraging AT&T's world-class management team and best-in-class iGEMS management platform.
- **Simplified Migration:** A migration path is developed to take you from having separate voice and data networks to a unified, remotely managed platform.
- **Investment Protection:** Utilizes best-in-class leading edge technology.
- **Single Point of Contact:** Single source to manage converged network for better management and control.

- **Increased Efficiencies and Savings:** Provides a gateway to future voice and data services, which allows lower costs and increased efficiencies, while preserving existing networks investments.

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Voice Over Internet Protocol (VoIP) is a revolutionary new digital voice service that combines the power of your phone and your high-speed Internet connection. Your voice is converted to data, enabling a variety of familiar and new phone services.

For Residential:

You can sign up for an exciting VoIP offer.

AT&T CALL VANTAGE

Phone service for broadband

LEARN MORE

For Business:

Benefit from a single, unified network delivering voice, video, and data.

AT&T Business VoIP Services

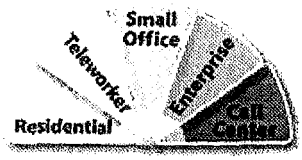
Multiple service solutions for your business

LEARN MORE

TAKE THE TOUR

Learn all about VoIP through our interactive Flash tutorial (Flash ~6MB)

Get macromedia FLASH PLAYER



VoIP offers solutions for a range of customers. Where do you fit in?

Additional Resources

How VoIP Works (JPG, 47K)

VoIP Backgrounder (PDF, 27K)

VoIP Survey (PPT, 340K)

AT&T VoIP Press Kit and Releases

VoIP Video News Release (MPEG, 5.7MB)

Arizona Corporation Commission
Docket No. T-01051B-03-0454
Docket No. T-00000D-00-0672
Qwest Corporation – DLT-16
Exhibits of David L. Teitzel
Pages 1-11, May 20, 2004

BEFORE THE ARIZONA CORPORATION COMMISSION

AZ CORP COMMISSION
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COMMISSIONER
CARL J. KUNASEK
COMMISSIONER

In the Matter of	Docket No.
Application of U S WEST COMMUNICATIONS, INC. for deregulation of its voice messaging service.	**U S WEST COMMUNICATIONS, INC.'S PETITION FOR DEREGULATION OF ITS VOICE MESSAGING SERVICE**

Pursuant to A.R.S. § 40-281(E), U S WEST Communications, Inc. ("USWC") petitions the Arizona Corporation Commission ("the Commission") to deregulate voice messaging provided by USWC in Arizona, and for the withdrawal of the filed tariffs applicable to such services. As grounds for this petition, USWC states:

1. This petition is made pursuant to A.R.S. § 40-281(E), which provides:

> When the commission determines after notice and hearing that any product or service of a telecommunications corporation is neither essential nor integral to the public service rendered by such corporation, it shall declare that such product or service is not subject to regulation by the commission.

2. In addition, the legal basis for deregulating telecommunications services in Arizona derives from Article 15, § 2 of the Arizona Constitution and the judicial decisions interpreting it. The Constitution and case law establish the principle that power of the Commission to regulate a service

depends on the answer to four questions: (1) whether the service constitutes "transmitting messages or furnishing public telegraph or telephone service" under Article 15, § 2 of the Arizona Constitution; (2) if so, whether the service is presently an essential and integral part of "transmitting messages or furnishing public telegraph or telephone service;" (3) whether the service is clothed with a public interest, such as to make the rates, charges and methods of provision a matter of public concern, and; (4) whether the service is a common-carriage operation. All four questions must be answered in the affirmative for the Commission to have the authority to regulate a service.

3. The voice messaging offered by USWC does not constitute "transmitting messages or furnishing public telegraph or telephone service" under Article 15, § 2 of the Arizona Constitution. Rather than transmit messages or furnish telephone service, voice messaging permits (1) callers to record their transmitted message and (2) recipients (subscribers) to store and retrieve the recorded message. Thus, voice messaging is totally independent of basic telephone service.

4. Even assuming voice messaging could be construed as "transmitting messages or furnishing public telegraph or telephone service," it is not an "essential and integral" concomitant of basic telephone service. That is, basic telephone service can be and is provided to residential and business customers irrespective of voice messaging. Moreover, unlike

basic telephone service, only a small percentage of the public has any interest in, let alone any need for, voice messaging.

5. Substantial competition exists in Arizona for the provision of voice messaging. There are no less than 50 companies, not including USWC, that also offer residential and business customers in Arizona voice messaging or answering services. The following is a non-inclusive list of those providers:

A Professional Image
Abbey's Answering Service
ABCom
Answering Service by Procommunications
Acction Answering Service
Actel Communications, Inc.
Action 1 Communications
Accurate Answering Services
Adventure Communications
Affordable Voice Mail
American Voice Mail, Inc.
Answer Arizona
Answer 1
Answer Phoenix
AZ Com Wireless Telcom Solutions
Aztec Answering Service
Aztec Voice Messaging Services
Basset Telecom

Basset Voice Mail

Brooks Communications, Inc.

Business Minders, Inc.

Call Dynamics, Inc.

Central Avenue Postal Center

Commworld of Phoenix-East

Copper State Communications, Inc.

Discount Voice Mail

HQ Business Centers

Insyst Inc.

Information Systems Group

Interoffice

LDDS Worldcom

Lucent Technologies

Messagelink Communications Corp.

Metrocall

Nortan Communications

One Number Connect

Partel, Inc.

Phones Plus of Arizona

Scottsdale Answering Service

Solution Masters

Southwest Automated Voicecom

Star Communications

TEB Communications, Inc.

Telephone Warehouse, Inc.

The Answer Service

Valleywide Answering Service

Valley Wide Communications

Voice Plus Inc.

Voice Solutions

Voice-Tel

Yomax

Therefore, if a company does not offer voice messaging service of adequate reliability and quality or raises its prices, a customer simply can choose among various other suppliers of voice messaging and answering services.

6. In addition to the several competitors of USWC that provide voice messaging and answering services, telephone answering devices are available to residential and small business customers through retail stores. The following is a non-inclusive sample of retail outlets that offer such devices in Arizona:

Best Buy

Circuit City

Fry's

K-Mart

Montgomery Ward

Office Max

Sears

Staples

Target

Answering machines have varying degrees of prices depending upon the specific features and quality desired by the customer. Because answering machines offer an alternative and substitute to voice messaging and answering services, there is little concern for the rates, charges and methods for providing voice messaging.

7. Voice messaging is not a common carriage service. A common carriage service involves the carrying or transporting of messages or goods of others for hire. Voice messaging does not involve any "carriage" of messages, but simply permits subscribers to store and retrieve a recorded message. See American Cable TV v. Arizona Public Service, 143 Ariz. 273, 279, 693 P.2d 928, 934 (App. 1983) (cable is not common carriage service because it does not deal with the carriage of messages; it deals with the provision of entertainment and programming). Any carrying or transporting of messages exists independent of voice messaging itself.

8. The Commission lacks authority to regulate USWC's voice messaging service in the State of Arizona because: (1) voice messaging does not constitute "transmitting messages or furnishing public telegraph or telephone service;" (2) voice messaging is not an "essential and integral" component to basic telephone service provision; (3) there is a substantial amount of competition for voice messaging and answering services, as well as an availability of alternative products, that ensure customer bargaining power; and (4) voice messaging is not a common-carriage service.

Based on the foregoing, USWC respectfully petitions the Commission to deregulate USWC's voice messaging services within the State of Arizona.

DATED this 25TH day of September, 1998.

U S WEST, INC.
Law Department
Tom Dethlefs
and
FENNEMORE CRAIG, P.C.

By _____
Timothy Berg
Theresa Dwyer
3003 North Central, Suite 2600
Phoenix, AZ 85012
Attorneys for
U S WEST Communications, Inc.

ORIGINAL AND TEN COPIES
of the foregoing hand-delivered for
filing this 25th day of September, 1998, to:

ARIZONA CORPORATION COMMISSION
DOCKET CONTROL
1200 West Washington Street
Phoenix, AZ 85007

COPIES of the foregoing
hand-delivered this 25th
day of September, 1998, to:

Ray Williamson, Acting Director
Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Paul Bullis, Chief Counsel
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

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FENNEMORE CRAIG
A PROFESSIONAL CORPORATION
PHOENIX

WILLIAM A. MUNDELL
CHAIRMAN
JIM IRVIN
COMMISSIONER
MARC SPITZER
COMMISSIONER

ARIZONA CORPORATION COMMISSION

BRIAN C. McNEIL
EXECUTIVE SECRETARY

June 24, 2002

Timothy Berg
Fennemore Craig
9201 N. Central Expressway
The Pyramids, Bldg. B
Dallas, TX 75231

VIA FACSIMILE

RE: U S West Petition for deregulation of its voice messaging service
Docket No. T-01051B-98-0575

Dear Mr. Berg:

U S West filed a petition for deregulation of its voice messaging service on October 1, 1998. This docket is still pending. Staff would like to know if Qwest would like to continue to pursue this petition. If so, then please file updated information in the docket and state your intent to pursue the petition. If not, then please file a statement that you would like to withdraw the petition.

Please file the required information with the Docket Control Center (1200 West Washington Street, Phoenix, AZ 85007) within 10 days of receipt of this letter.

If you have any questions about this matter, please contact me at (602) 542-0742.

Sincerely,

Marta Kalleberg

LAW OFFICES

FENNEMORE CRAIG

A PROFESSIONAL CORPORATION

TIMOTHY BERG
Direct Phone: (602) 916-5421
Direct Fax: (602) 916-5621
tberg@fclaw.com

OFFICES IN:
PHOENIX, TUCSON,
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3003 NORTH CENTRAL AVENUE
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PHOENIX, ARIZONA 85012-2913
PHONE: (602) 916-5000
FAX: (602) 916-5999

July 9, 2002

Marta Kalleberg
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

Re: Qwest's Petition for deregulation of its voice messaging service
Docket No. T-01051B-98-0575

Dear Ms. Kalleberg:

In response to your letter from June 24, 2002, Qwest does intend to pursue its petition for deregulation of its voice messaging service. However, before Qwest files any additional information in the matter, we believe an agreed upon schedule is needed. It would be unproductive for Qwest to update the information unless we have agreed to a schedule for the timely processing of this matter. Therefore, we would like to discuss this matter with you in order to outline a procedural schedule for both Staff and Qwest.

Sincerely,

FENNEMORE CRAIG

Timothy Berg

AUG 23 '02 16:28 FR FENNEMORE CRAIG #5 1 602 9165999 TO 395667817176602 2 P.02

Arizona Voice Messaging or Telephone Answering Service Providers

The following non-inclusive list provides the names of some of the companies who are listed in the DexOnline Yellow Pages under the headings of Telephone Answering Service and Voice Mail. The total number of companies listed as of March 23, 2004 was 195 for the two headings (Including Qwest).

3rd Wave Solutions
A B S Answering Service
AAA Discount Voicemail
A Z Voice Messaging
A Better Connection
A Better Answer of Arizona
A Professional Image Inc
A Receptionist
A Virtual Office And Support
A Virtual Receptionist
A-American Marketing Team
A-CTI AnswerConnect Teleservices
AAA Answering Service
Abby's Answering Service
Ability Answering Service
Accommodating Answering Service
Accurate Answering Services
Action Telephone Answering
Affordable Voice Mail
All Call Answering Service
American Voice Mail Inc
Answer 1 Communications
Answer Phoenix Inc
Answer Phones Inc
Arizona Voicemail
Aztec Answering Service
Beeper Paging & Answer Service
Best Price Voice Mail
Call 24 Professional Answering Service
Citizens Answering Svc
CommWorld Of Phoenix
CommWorld Of Tucson
Contact One Center
Copper State Communications
Dee's Answering Service
Discount Voice Mail
Enhanced Communications
Executive Answering Service
Free Office
Goldstar Technology Partners Inc
Intermountain Voice Exchange
Katie's Answering Svc
Looking For Voicemail
Message Link Communications
Meteor Southwest
ProLink Communications
Rincon Communications
Solaxis
Temporarily Speaking
Touch America Telecommunications
Vision Business Centers

Arizona Telephone Answering Devices

The following is a non-inclusive sample of retail outlets that offer telephone answering devices in Arizona:

Best Buy

Circuit City

Fry's Electronics

K-Mart

Office Max

Sears

Staples

Target

Wal-Mart

REDACTED

SECTION 4 - Promotional Offerings

4.1 Promotional Offerings

The Company, from time to time, may make promotional offerings of its services which may include waiving or reducing the applicable charges for the promoted service. The promotional offerings may be limited as to the duration, the date and times of the offerings and the locations where the offerings are made.

4.2 Competitive Response.

A. Residence Competitive Response Program

1. Description :

The Residence Competitive Response Program is an offering to Residential Customers who qualify under one of the three categories below. In accordance with the terms of this Residence Competitive Response Program, Cox may offer incentive(s) to such current or prior residential Customers, who: (T)

- no longer subscribe to Cox Digital Telephone (CDT), or (T)
- requests disconnection of existing service to establish service with a telecommunications provider for their local service, intraLATA MTS and/or interLATA long distance services, or (C) (C) (C)
- choose to stay with Cox after a solicitation from a competing telecommunications provider. (T)

2. Terms and Conditions:

a. Cox reserves the right to discontinue this offer, without further proceedings or approvals, upon fourteen (14) days' notice to the Arizona Corporation Commission (ACC).
b. Cox will determine periods and provisions of this offer, pending ACC approval.
c. Qualifying residential Customers are required to have a satisfactory credit rating with in accordance with Section 2.5 above.
d. Cox shall use reasonable business efforts so that similarly situated Customers are offered similar incentive credits in similar circumstances.
e. The Residence Competitive Response Program is a competitive response only and is not available for resale. (T)

(M)
↓
(M)

ADMINISTRATIVELY
APPROVED FDR FILING

Issued By: Martin Corcoran
Director, Tariff Development
Cox Communications, Inc.
1400 Lake Hearn Drive,
Atlanta, GA 30319

ORIGINAL

4. SPECIAL ARRANGEMENTS

4.1 Promotional Offerings

From time to time, the Company will introduce promotional offerings. The Company may offer services at a reduced rate, or offer incentives including gift certificates and coupons for promotional, market research or rate experimentation purposes.

4.2 Market Trials

The Company may offer service to test and evaluate service capabilities, implementation procedures, technical processes, etc., or for market research, including rate experimentation purposes. Such trials will be for a limited duration.

APPROVED FOR FILING
DECISION #: 66032

4. SPECIAL ARRANGEMENTS

4.1 Contracts

The Company may offer customized service packages under special arrangements on a case-by-case basis. Service offered under this Tariff provision will be provided to Customers pursuant to contract. Unless otherwise specified, the regulations for such arrangements are in addition to the applicable regulations and prices in other sections of this Tariff.

4.2 Promotional Offerings

From time to time, the Company will introduce promotional offerings. The Company may offer services at a reduced rate, or offer incentives including gift certificates and coupons for promotional, market research or rate experimentation purposes.

4.3 Market Trials

The Company may offer service to test and evaluate service capabilities, implementation procedures, technical processes, etc., or for market research, including rate experimentation. purposes. Such trials will be for a limited duration.

2.0 RULES AND REGULATIONS, Continued

2.15 Governmental Authorizations

The provision of Company's Services is subject to, and contingent upon, Company obtaining and retaining such approvals, consents, governmental authorizations, licenses and permits, as may be required or be deemed necessary by the Company. Company shall use reasonable efforts to obtain and keep in effect all such approvals, consents, authorizations, licenses and permits that may be required to be obtained by it. Company shall be entitled to take, and shall have no liability whatsoever for, any action necessary to bring the Services into conformance with any rules, regulations, orders, decisions or directives imposed by the Federal Communications Commission or other applicable agency, and the Customer shall fully cooperate in and take such action as may be requested by Company to comply with any such rules, regulations, orders, decisions or directives. Company's obligation to provide Service hereunder will terminate if any required governmental authorization or grant is withdrawn, revoked or otherwise terminated.

2.16 Promotions

Company may, from time to time, engage in special promotions of new or existing Service offerings of limited duration designed to attract new Customers or to increase existing Customer awareness of a particular offering. The promotional offerings are subject to the availability of the Services and may be limited to a specific geographical area, to a subset of a specific market group or to customers who sign up for such Service on or after a particular date. Prior approval for promotional offerings will be obtained from the appropriate regulatory authority when required.

3.0 Description of Services Offered (cont'd)

(M)

(Moved to Sheet No. 59.1 for space reasons.)

(M)

3.7 Promotional Offerings

McLeodUSA may from time to time engage in special promotions of limited duration. These promotions may be in the form of waiver or reduced recurring and nonrecurring fees, lowered usage charges, or other actions designed to attract new Customers or to increase existing Customer awareness of a particular service. All promotions will be offered on a non-discriminatory basis to eligible Customers.

3.8 Individual Case Basis (ICB) and Term and Volume Discounts

McLeodUSA may offer individualized arrangements on a case-by-case basis where necessary to meet prices, terms, or conditions of service offered by competitors. In such cases, the prices offered by McLeod shall not exceed the prices for similar services contained in this tariff. In addition, a Customer signing a term service agreement to purchase certain term discount eligible services from McLeodUSA are eligible for a Term and Volume Discount. The Term and Volume Discount percentage may change from month to month if the Customer's monthly volume of charges for certain eligible services increases or decreases. McLeodUSA may contract with a registered industry organization on a non-discriminatory basis that would permit members purchasing eligible services from McLeodUSA under their own Master Service Agreements to be subject to the industry's volume level in determining the relevant Term and Volume Discount Tier for each member of the organization in a given billing cycle. Only eligible services purchased under a single service agreement count towards the applicable Term and Volume Discount. Discounts do not apply to any non-recurring charges, federal, state and local use, excise, sales and privilege taxes; applicable surcharges related to universal service programs, emergency telephone service (911/E911), telecommunications relay service for the hearing impaired; payphone surcharges; and other similar surcharges for required programs.

BY: David R. Conn
Vice President and Deputy General Counsel
6400 C Street SW, P.O. Box 3177
Cedar Rapids, Iowa 52406

4. Promotional Offerings

The Company, from time to time, may make promotional offerings of its services which may include waiving or reducing the applicable charges for the promoted service. The promotional offerings may be limited as to the duration, the date and times of the offerings and the locations where the offerings are made.

(D)

(D)

10. PROMOTIONAL OFFERINGS

All Promotions are subject to availability of Service at the requested location; do not include CPE; are not assignable or transferable by the Customer; apply only so long as Company provides the subject service; and are not valid with any other promotion, unless otherwise specified. In addition, in the event that Customer terminates a Service before the expiration of the contract term for that Service, all charges waived hereunder shall be immediately due and payable to Company.

10.1 Promotion A (C)

The Company will provide to Customers having satisfactory creditworthiness with the Company, a one-time credit on their bill for every new Customer referral. The referred Customer(s) must be located in the Company's Service territory. The Customer will receive a $25 credit for each qualifying residential Customer referral and $50 for every qualifying business referral. To receive the credit, the referred Customer must maintain Service with the Company for at least one month and pay the applicable charges associated with that Service.

This promotion will commence on November 7, 2003 and end on February 5, 2004. (C)

LOCAL EXCHANGE SERVICES

7. Promotional Offerings (T)

The Company may, from time to time, engage in special promotional service offerings designed to attract new Customers or to increase existing Customers awareness of a particular Tariff offering. These offerings may be limited to certain dates, times and/or locations.

ADMINISTRATIVELY
APPROVED FOR FILING

SECTION 3 - SERVICE OFFERINGS, RATES & CHARGES

3.20 Promotional Offerings

The Company, from time to time, may make promotional offerings of its services which may include waiving or reducing the applicable charges for the promoted service. The promotional offerings may be limited as to the duration, the date and time of the offerings and the locations where the offerings are made.

Rex Knowles
Vice President, Regulatory
XO Arizona, Inc.
111 East Broadway, Suite 1000
Salt Lake City, UT 84111

SECTION 9.0 - PROMOTIONAL OFFERINGS

9.1 Special Promotions

The Company may, from time to time, offer services in this Tariff at special promotional rates and/or terms. Such promotional arrangements shall be filed with the Commission when so required. All rates and terms contained in this Tariff shall continue to apply unless specifically addressed in the promotional agreements.

DOCKET NOS. T-01051B-03-0454
T-00000D-00-0672

Q-9
Admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MARC SPITZER – CHAIRMAN
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES

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

DIRECT TESTIMONY OF

KERRY DENNIS WU

ON BEHALF OF

QWEST CORPORATION

MAY 20, 2004

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EXHIBIT KDW-1, QWEST CORPORATION – ARIZONA TECHNICAL UPDATE – DEPRECIATION STATEMENTS

EXHIBIT KDW-2, QWEST CORPORATION – ARIZONA CALCULATION OF 2003 DEPRECIATION EXPENSE

I. EXECUTIVE OVERVIEW

Starting in the early 1980's all of Qwest's regulated jurisdictions, including Arizona, adopted the remaining-life depreciation technique for purposes of regulatory accounting and rate-making. The remaining-life technique is forward looking. It is designed to depreciate plant at a rate that will cause it to be fully depreciated as close as possible to the end of its projected life. Thus, under the remaining-life technique, depreciation rates for each depreciable class of plant are set so that the balance of un-depreciated assets in each class will be fully depreciated by the end of that class' projected remaining life. The remaining-life technique formula for calculating the annual depreciation rate on a class of plant is:

$$\text{Remaining-Life Depreciation Rate} = \frac{(100\% - \text{Depreciation Reserve } \% - \text{Net Salvage } \%)}{\text{Average Remaining Life}}$$

Under the remaining-life technique, as the factors in the formula change, the depreciation rate will change. Consequently, it is appropriate to update depreciation rates periodically to reflect changes in the remaining-life depreciation rate formula factors. The FCC explained:

> If such circumstances [depreciation rate calculations] are not self balancing then the likelihood exists that either too much or too little will be

> allowed to stand in the [depreciation] reserve, perhaps for perpetuity. Such a result is not desirable.[1]

The recalculation of the remaining-life depreciation rate to reflect current factors is known as a "technical update." The depreciation rates in Qwest's unadjusted 2003 Arizona test year were approved by the Commission on May 4, 2000 in Docket No T-01051B-97-0689, Decision No. 62507. There has been no technical update of those rates since then. Qwest Arizona's depreciation reserve ratio increased from 44.4% at January 1, 1997 to 56.1% at January 1, 2003[2]. Accordingly, Qwest is proposing a technical update of Qwest's Arizona depreciation rates to reflect the significant increases in depreciation reserve ratio percentages that occurred between January 1st of 1997 and 2003.

In Arizona Docket T-1051B-99-105, Staff recommended that Qwest remove certain older vintages of plant from rate base on the presumption that plant in those vintages was retired. Qwest's technical update incorporates Staff's recommendation from that case.

---

[1] *ELG Depreciation Report and Order*, Docket No. 20188, FCC0-650 28437 (1980) at 76.
[2] The January 1, 2003 reserve ratio includes the effect of adopting plant retirements Staff recommended in the Company's last rate case.

The effect of the technical update, including the Staff's recommended retirement of old vintages yields an Arizona intrastate annual depreciation expense reduction of nearly $110 million in the 2003 test year.

Since the Commission approved new depreciation rates in May 2000, Qwest has experienced radical changes in Arizona's telecommunications environment. Between December 2000 and December 2003, Qwest lost nearly 20% of its Arizona residential access line total. Such competitive changes continue to impact the lives of Qwest's embedded investment. The Commission stated,

> "Advancements in technology, coupled with the desire to create robust competition in Arizona's telecommunications industry, warrants setting Qwest's depreciation lives within the range of competitors."[3]

History now demonstrates that the Commission was prescient when it issued its May 2000 depreciation order. Telecommunications competition in Arizona has developed to a much greater extent than was envisioned just a few years previously.

[3] Arizona Docket No T-01051B-97-0689 Decision No 62507, Conclusions of Law, May 4, 2000, Para 3, p. 14.

II. IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Kerry Dennis Wu. My title is Director - Capital Recovery for Qwest Corporation. My business address is 1600 7th Avenue, Room 3006, Seattle, Washington 98191.

Q. PLEASE GIVE A BRIEF OUTLINE OF YOUR EDUCATIONAL BACKGROUND AND TELECOMMUNICATIONS EXPERIENCE.

A. I graduated from Portland State University in 1974, where I earned Bachelor of Science degrees in both Business Administration and Science. In 1995, I received a Master of Business Administration from the University of Washington. In addition, I am a Certified Internal Auditor, a Certified Management Accountant and a Certified Public Accountant - Inactive.

I began working for Pacific Northwest Bell ("PNB") in 1974 as an internal auditor specializing in accounting and financial issues. I later managed Corporate Books, and was responsible for closing the Company's books and preparation of its Securities and Exchange Commission Filings. I subsequently managed Corporate Budget preparation. In the regulatory

area, I supported U S WEST Communications' rate of return advocacy by preparing testimony and related materials. In 1996, I worked for a London-based mobile phone company, where I was responsible for mechanizing annual regulatory filings and developing tariffs. Upon returning to the U.S., I accepted a position with AirTouch Cellular as a budget analyst. In August 1998, I was appointed the Director – Capital Recovery for U S WEST Communications. In July 2000, U S WEST merged with Qwest Communications and the successor company is referred to as Qwest Corporation ("Qwest"). Most recently, I also have been working with Qwest's Intrastate Long Distance Performance Assurance Plan ("QPAP") issues.

Q. IN WHAT JURISDICTIONS HAVE YOU EITHER APPEARED AND/OR FILED TESTIMONY?

A. In addition to Arizona's Depreciation Docket No. T-0151B-99-0105, I have either appeared in and/or filed capital recovery testimony in Minnesota, Nebraska, New Mexico and North Dakota.

III. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. Qwest's current prescribed Arizona depreciation rates were established based on depreciation reserve ratios and remaining lives as of January 1, 1997. Because Qwest is filing a 2003 test year, my testimony explains how Arizona depreciation rates should be adjusted by a "technical update" that reflects reserve ratios and remaining lives at the beginning of the test year.

Q. IF QWEST'S DEPRECIATION RATES ARE UPDATED, WHAT IS THE FINANCIAL EFFECT?

A. Because the overall depreciation reserve balance has increased from 44.4% at January 1, 1997 to 56.1% at January 1, 2003, [4] recalculated depreciation rates will decline. A technical update to reflect this change results in an annual Arizona intrastate expense reduction of nearly $110 million. A brief explanation of why this decrease occurs follows.

IV. REMAINING-LIFE TECHNIQUE

Q. IN DOCKET 20188, THE FCC ORDERED ADOPTION OF THE REMAINING-LIFE TECHNIQUE. PLEASE EXPLAIN WHEN USING THE

[4] The reserve ratio includes retirements Staff recommended in the Company's last rate case that are discussed later in this testimony.

REMAINING-LIFE TECHNIQUE, WHY RESERVE RATIOS ARE RELEVANT?

A. According to the FCC,

> The essential difference between whole-life and remaining-life depreciation rate calculations is that the former attempts to determine that annual charge that would be appropriate in the event that the current predictions of whole-life (estimated future life added to current experienced or expired life) were in fact correct. The remaining-life process proceeds on the premise that the current prediction of remaining or prospective life is correct and attempts to allocate any unrecovered or unallocated costs over that time to determine the annual future charges to expense.[5]

In other words, under remaining-life depreciation rate calculations, the amount of depreciation already taken (net of retirements) becomes a component of depreciation rate calculations. In this context, depreciation reserve ratios are relevant because they represent the amount of depreciation already taken as a percent of gross investment. Thus, remaining-life calculations capture changes in depreciation reserves between the last represcription and the new study date.

Q. IS THE REMAINING-LIFE DEPRECIATION TECHNIQUE APPROVED IN ARIZONA?

[5] *ELG Depreciation Report and Order*, Docket No. 20188, FCC 80-650 28437 (1980) at 79.

A. Yes. The Arizona Corporation Commission approved using the remaining-life technique in Opinion and Order to Docket No. 9981-E-1051-81-406, decision dated May 21, 1982.

Q. CAN YOU PROVIDE THE REMAINING-LIFE DEPRECIATION RATE FORMULA?

A. The remaining-life depreciation rate formula is:

$$\text{Annual Depreciation Rate} = \frac{100\% - \text{Depn Reserve \%} - \text{Net Salvage \%}}{\text{Average Remaining Life in Years}}$$

Net Salvage Percent expressed as a percent of original book costs.

Depreciation Reserve Percent roughly represents the amount of depreciation already taken as a percent of original book costs.

Q. HOW DOES THE REMAINING-LIFE TECHNIQUE AFFECT ARIZONA'S ANNUAL DEPRECIATION EXPENSE?

A. The remaining-life technique is designed to recover plant investment costs over its remaining life. This design necessitates that periodic or "technical updates"[6] be performed in order to reflect current depreciation reserve ratios and average remaining lives. The technique is best illustrated with two numerical examples.

[6] "Technical Update" refers to updating prescribed depreciation calculations to include the effects of recent investment and depreciation reserve ratios, and remaining lives. Other prescribed depreciation components such as curve shapes, projection lives and net salvage values are specifically not to be adjusted. FCC 1995 Depreciation Study Guide, p. J-1.

In Case One, assume the depreciation reserve percent equals 45%, net salvage percentage equals zero and the average remaining life equals 5 years. The remaining-life rate calculation would be a follows:

$$\text{Annual Depreciation Rate} = \frac{100\% - 45\% - 0\%}{5 \text{ years}} = 11\% \text{ per year}$$

In Case Two, assume all factors are identical to Case One except that the depreciation reserve ratio now equals 55%. The rate calculation would be:

$$\text{Annual Depreciation Rate} = \frac{100\% - 55\% - 0\%}{5 \text{ years}} = 9\% \text{ per year}$$

As a result of changing the depreciation reserve percentage only, Case Two's recalculated annual depreciation rate decreased by 2%. These two examples are analogous to Arizona's current depreciation reserve ratio percentages.

Once depreciation rates resulting from the technical update are known, the effect of the technical update on depreciation expenses can then be calculated.

Q. IN ACTUAL TECHNICAL UPDATE CALCULATIONS, WOULDN'T THE REMAINING-LIFE DENOMINATORS BE UPDATED AS WELL?

A. Yes. The above numerical examples were illustrative only and were designed to demonstrate the effect of an increased depreciation reserve percentage only on annual depreciation rate calculations. In actual calculations, the remaining-life denominator portion of the calculation would be updated as well.

V. STAFF PLANT RECORDS ADJUSTMENT

Q. IN QWEST'S PREVIOUS RATE CASE DOCKET (NO. T-1051B-99-105), STAFF RECOMMENDED THAT CERTAIN VINTAGE PROPERTIES BE REMOVED FROM THE RATE BASE. CAN YOU DISCUSS?

A. Staff stated that the Company failed to prove certain plant vintages were still in service and should be removed from rate base.[7] Although I do not necessarily agree with Staff's assertion that the vintages should be removed from rate base, Qwest's present filing treats as retired, the plant vintages Staff recommended be treated as retired in the Company's last rate case.

[7] Surrebuttal Testimony of Michael Brosch, Docket No. T-1051B99-105, p. 23 – 25.

VI. ARIZONA CONCLUSIONS

Q. WHAT STUDY DATE WAS USED TO CALCULATE ARIZONA'S CURRENTLY PRESCRIBED DEPRECIATION RATES?

A. The remaining-life rate calculations in Arizona's last depreciation case were based on 1/1/97 investment and depreciation reserve levels.

Q. WHAT WERE ARIZONA'S DEPRECIATION RESERVE RATIO PERCENTAGES AS OF JANUARY 1, 1997 AND JANUARY 1, 2003?

A. Arizona's overall composite depreciation reserve ratio percentages were as of January 1, 1997 and January 1, 2003, 44.4% and 56.1%, respectively.

Q. WHAT IS THE FINANCIAL EFFECT OF RECALCULATING ARIZONA'S DEPRECIATION RATES UTILIZING A JANUARY 1, 2003 RESERVE PERCENTAGE OF 56.1% OVERALL COMPOSITE RESERVE PERCENTAGE VERSUS THE JANUARY 1, 1997 AMOUNT OF 44.4%?

A. Updating depreciation calculations for January 1, 2003 versus January 1, 1997 depreciation reserve ratio percentages, including retirement of Staff

identified vintages from Qwest's last case, reduces annual depreciation expenses during 2003 by nearly $110 million.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

MARC SPITZER – CHAIRMAN
WILLIAM A. MUNDELL
JEFF HATCH-MILLER
MIKE GLEASON
KRISTIN K. MAYES

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

DIRECT TESTIMONY EXHIBITS OF

KERRY DENNIS WU

ON BEHALF OF

QWEST CORPORATION

MAY 20, 2004

Statement A

ARIZONA COPORATION COMMISSION
DOCKET NO. T-01051B-03-0454
DOCKET NO. T-00000D-00-0672
Qwest Corporation
Direct Testimony of K. Dennis Wu
Exhibit KDW-1, Page 1 of 1
May 20, 2004

SUMMARY OF DEPRECIATION RATES
ALL VINTAGE RECOVERY

		DEPRECIATION RATES IN EFFECT 12/31/2002				RATES EFFECTIVE IN 2003			
ACCOUNT NUMBER	CLASS OR SUBCLASS OF PLANT	REM LIFE YEARS	RESERVE %	FUTURE SALVAGE %	NET RATE %	REM LIFE YEARS	RESERVE %	FUTURE SALVAGE %	NET RATE %
		A	B	C	D	E	F	G	H
2112	MOTOR VEHICLES	3.6	66.4	16.0	4.9	3.9	60.6	16.0	6.0
2114	SPEC PURPOSE VEHICLE	9.8	0.0	0.0	10.2	5.1	33.7	0.0	13.0
2115	GARAGE WORK EQUIP	10.2	-55.1	-4.0	15.6	9.2	-30.2	-4.0	14.6
2116	OTHER WORK EQUIP	5.4	7.2	7.0	15.9	6.5	40.0	7.0	8.2
2121	BUILDINGS	26.0	29.2	-6.0	3.0	24.0	27.8	-6.0	3.3
2122	FURNITURE	5.5	-10.8	0.0	20.1	6.8	54.5	0.0	6.7
2123.1	OFFICE EQUIPMENT	3.3	26.3	0.0	22.3	2.7	100.6	0.0	0.0
2123.2	COMPANY COMM EQUIP	5.3	67.7	0.0	6.1	4.3	106.3	0.0	0.0
2124	GEN PURPOSE CMPTR	2.4	72.4	5.0	9.4	1.9	92.2	5.0	1.5
2212	DIGITAL SW EQUIP	5.4	37.5	3.0	11.0	5.2	45.5	3.0	9.9
2220	OPERATOR SYSTEMS	4.1	96.6	-3.0	1.6	4.1	40.7	-3.0	15.2
2231	RADIO SYSTEMS	6.6	64.0	-2.0	5.8	5.2	94.4	-2.0	1.5
2232	CIRCUIT EQUIP								
	CIRCUIT DDS	4.0	75.4	3.0	5.4	3.5	100.1	3.0	0.0
	CIRCUIT DIGITAL	5.1	47.8	2.0	9.8	5.3	56.8	2.0	7.8
	CIRCUIT ANALOG	3.3	89.3	0.0	3.2	2.8	99.6	0.0	0.1
2362	OTHER TERM EQUIP	6.4	49.9	2.0	7.5	6.5	50.0	2.0	7.4
2411	POLE LINES	26.0	71.6	-138.0	6.4	25.0	85.9	-138.0	6.1
2421	AERIAL CABLE MET	5.2	61.5	-27.0	12.6	5.0	97.4	-27.0	5.9
2421	AERIAL CABLE NON MET	13.1	12.5	-27.0	8.7	9.0	40.2	-27.0	9.6
2422	UNDGRD CABLE MET	5.8	50.8	-6.0	9.5	5.7	75.8	-6.0	5.3
2422	UNDGRD CABLE NON MET	7.7	26.5	-6.0	10.3	7.4	41.3	-6.0	8.7
2423	BURIED CABLE MET	5.6	40.0	-7.0	12.0	5.5	62.6	-7.0	8.1
2423	BURIED CABLE NON MET	12.9	24.8	-7.0	6.4	8.8	46.8	-7.0	6.8
2424	SUB CABLE MET	1.4	-20.6	0.0	86.1	0.5	121.6	0.0	0.0
2424	SUB CABLE NON MET	9.0	0.0	0.0	11.1	0.0	0.0	0.0	0.0
2426	INTRA BLDG CA MET	8.3	70.7	0.0	3.5	8.1	76.1	0.0	3.0
2426	INTRA BLDG NON MET	6.1	20.2	0.0	13.1	6.2	56.0	0.0	7.1
2431	AERIAL WIRE	5.5	16.8	-30.0	20.6	5.4	75.1	-30.0	10.2
2441	CONDUIT SYSTEMS	44.0	21.1	-20.0	2.2	43.0	22.4	-20.0	2.3

ARIZONA CORPORATION COMMISSION
DOCKET NO. T-01051B-03-0454
DOCKET NO. T-00000D-00-0672
Qwest Corporation
Direct Testimony of K. Dennis Wu
Exhibit KDW-1, Page 1 of 1
May 20, 2004

CHANGE IN ANNUAL DEPRECIATION ACCRUALS
RESULTING FROM CHANGES IN DEPRECIATION RATES
$(000)

			RATES EFFECTIVE 12/31/2003			RATES EFFECTIVE IN 2004			
ACCOUNT NUMBER	CLASS OR SUBCLASS OF PLANT	INVESTMENT 1/1/03 I	RATE AMOUNT J=D*I	AMORT AMOUNT K	TOTAL L=J+K	RATE AMOUNT M=H*I	AMORT AMOUNT N	TOTAL O=M+N	CHANGE IN ACCRUALS P=O-L
2112	MOTOR VEHICLES	72,257	3,541	0	3,541	4,335	0	4,335	794
2114	SPEC PURPOSE VEHICLE	26	3	0	3	3	0	3	0
2115	GARAGE WORK EQUIP	1,490	232	0	232	218	0	218	-14
2116	OTHER WORK EQUIP	34,277	5,450	0	5,450	2,811	0	2,811	-2,639
2121	BUILDINGS	220,125	6,604	0	6,604	7,264	0	7,264	660
2122	FURNITURE	1,708	343	0	343	114	0	114	-229
2123.1	OFFICE EQUIPMENT	5,907	1,317	0	1,317	0	0	0	-1,317
2123.2	COMPANY COMM EQUIP	2,114	129	0	129	0	0	0	-129
2124	GEN PURPOSE CMPTR	96,398	9,061	0	9,061	1,446	0	1,446	-7,615
2212	DIGITAL SW EQUIP	1,121,676	123,384	0	123,384	111,046	0	111,046	-12,338
2220	OPERATOR SYSTEMS	4,091	65	0	65	622	0	622	557
2231	RADIO SYSTEMS	32,775	1,901	0	1,901	492	0	492	-1,409
2232	CIRCUIT EQUIP								
	CIRCUIT DDS	6,186	334	0	334	0	0	0	-334
	CIRCUIT DIGITAL	1,661,693	162,846	0	162,846	129,612	0	129,612	-33,234
	CIRCUIT ANALOG	41,267	1,321	0	1,321	41	0	41	-1,280
2362	OTHER TERM EQUIP	60,276	4,521	0	4,521	4,460	0	4,460	-61
2411	POLE LINES	51,293	3,283	0	3,283	3,129	0	3,129	-154
2421	AERIAL CABLE MET	191,153	24,085	0	24,085	11,278	0	11,278	-12,807
2421	AERIAL CABLE NON MET	8,318	724	0	724	799	0	799	75
2422	UNDGRD CABLE MET	378,428	35,951	0	35,951	20,057	0	20,057	-15,894
2422	UNDGRD CABLE NON MET	176,584	18,188	0	18,188	15,363	0	15,363	-2,825
2423	BURIED CABLE MET	1,565,550	187,866	0	187,866	126,810	0	126,810	-61,056
2423	BURIED CABLE NON MET	21,764	1,393	0	1,393	1,480	0	1,480	87
2424	SUB CABLE MET	3	3	0	3	0	0	0	-3
2424	SUB CABLE NON MET	0	0	0	0	0	0	0	0
2426	INTRA BLDG CA MET	41,901	1,467	0	1,467	1,257	0	1,257	-210
2426	INTRA BLDG NON MET	925	121	0	121	66	0	66	-55
2431	AERIAL WIRE	10,552	2,174	0	2,174	1,076	0	1,076	-1,098
2441	CONDUIT SYSTEMS	435,795	9,587	0	9,587	10,023	0	10,023	436
	TOTALS	6,244,532	605,894	0	605,894	453,802	0	453,802	-152,092
	COMPOSITES				9.7			7.3	

Statement C

ARIZONA CORPORATION COMMISSION
DOCKET NO. T-01051B-03-0454
DOCKET NO. T-00000D-00-0672
Qwest Corporation
Direct Testimony of K. Dennis Wu
Exhibit KDW-1, Page 1 of 1
May 20, 2004

SUMMARY OF RESERVES 1/1/2003

ACCOUNT	CATEGORY	1-1-2003 INVESTMENT	BOOK RESERVE AMOUNT	BOOK RESERVE PERCENT	AVERAGE SERVICE LIFE	AVERAGE REM LIFE	AVERAGE NET SALVAGE	FUTURE NET SALVAGE	THEORETICAL RESERVE AMOUNT	THEORETICAL RESERVE PERCENT
		A$	B$	C=B/A	D	E	F	G	H$	I
2112	MOTOR VEHICLES	72,256,851	43,788,427	60.6	9.3	3.9	15	16	34,972,316	48.4
2114	SPEC PURPOSE VEHICLE	25,794	8,705	33.7	14.8	5.1	0	0	16,895	65.5
2115	GARAGE WORK EQUIP	1,490,142	-450,222	-30.2	13.4	9.2	-24	-4	281,637	18.9
2116	OTHER WORK EQUIP	34,276,836	13,722,695	40.0	10.5	6.5	9	7	12,579,599	36.7
2121	BUILDINGS	220,124,829	61,140,846	27.8	34.0	24.0	2	-6	81,005,937	36.8
2122	FURNITURE	1,708,468	930,773	54.5	13.3	6.8	3	0	861,068	50.4
2123.1	OFFICE EQUIPMENT	5,906,791	5,941,607	100.6	11.6	2.7	0	0	4,530,509	76.7
2123.2	COMPANY COMM EQUIP	2,113,947	2,246,391	106.3	10.1	4.3	0	0	1,213,406	57.4
2124	GEN PURPOSE CMPTR	96,398,474	88,865,145	92.2	7.9	1.9	6	5	69,792,495	72.4
2212	DIGITAL SW EQUIP	1,121,676,308	510,274,305	45.5	10.3	5.2	3	3	538,404,628	48.0
2220	OPERATOR SYSTEMS	4,091,228	1,664,617	40.7	11.7	4.1	-3	-3	2,737,032	66.9
2231	RADIO SYSTEMS	32,775,431	30,941,464	94.4	17.2	5.2	-1	-2	23,434,433	71.5
2232	CIRCUIT EQUIP									
	CIRCUIT DDS	6,185,785	6,193,390	100.1	10.0	3.5	8	3	4,008,389	64.8
	CIRCUIT DIGITAL	1,661,693,361	944,451,081	56.8	10.0	5.3	2	2	766,040,639	46.1
	CIRCUIT ANALOG	41,266,663	41,108,947	99.6	14.2	2.8	-1	0	33,054,597	80.1
2362	OTHER TERM EQUIP	60,276,358	30,117,858	50.0	10.3	6.5	8	2	24,050,267	39.9
2411	POLE LINES	51,293,484	44,055,441	85.9	35.0	25.0	-86	-138	53,909,452	105.1
2421	AERIAL CABLE MET	191,152,568	186,246,642	97.4	14.4	5.0	-21	-27	162,479,683	85.0
2421	AERIAL CABLE NON MET	8,318,208	3,343,820	40.2	15.0	9.0	-27	-27	4,225,650	50.8
2422	UNDGRD CABLE MET	378,428,143	286,848,628	75.8	18.7	5.7	-6	-6	278,901,541	73.7
2422	UNDGRD CABLE NON MET	176,583,877	72,879,493	41.3	13.3	7.4	-6	-6	82,994,422	47.0
2423	BURIED CABLE MET	1,565,550,385	979,680,070	62.6	13.7	5.5	-7	-7	1,001,952,246	64.0
2423	BURIED CABLE NON MET	21,764,357	10,186,964	46.8	18.0	8.8	-7	-7	11,905,103	54.7
2424	SUB CABLE MET	2,572	3,127	121.6	21.0	0.5	0	0	2,510	97.6
2424	SUB CABLE NON MET	0	0	0.0	0.0	0.0	0	0	0	0.0
2426	INTRA BLDG CA MET	41,900,813	31,874,869	76.1	21.0	8.1	2	0	26,062,306	62.2
2426	INTRA BLDG NON MET	925,025	518,138	56.0	10.4	6.2	0	0	373,710	40.4
2431	AERIAL WIRE	10,551,539	7,920,920	75.1	10.9	5.4	-25	-30	7,185,598	68.1
2441	CONDUIT SYSTEMS	435,795,098	97,682,897	22.4	57.0	43.0	-20	-20	128,559,554	29.5
	TOTAL	6,244,533,335	3,502,187,038	56.1	0.0	0.0	0	0	3,355,535,622	53.7

Intrastate Statement B

ARIZONA CORPORATION COMMISSION
DOCKET NO. T-01051B-03-0454
DOCKET NO. T-00000D-00-0672
Qwest Corporation
Direct Testimony of K. Dennis Wu
Exhibit KDW-1, Page 1 of 1
May 20, 2004

CHANGE IN ANNUAL DEPRECIATION ACCRUALS
RESULTING CHANGE IN DEPRECIATION RATES
INTRA STATE FACTORS APPLIED ($000)

			RATES EFFECTIVE 12/31/2002			RATES EFFECTIVE IN 2003			
ACCOUNT NUMBER	CLASS OR SUBCLASS OF PLANT	INVESTMENT 1/1/03	RATE AMOUNT	AMORT AMOUNT	TOTAL	RATE AMOUNT	AMORT AMOUNT	TOTAL	CHANGE IN ACCRUALS
		I	J=D*I	K	L=J+K	M=H*I	N	O=M+N	P=O-L
2112	MOTOR VEHICLES	50,970	2,498	0	2,498	3,058	0	3,058	560
2114	SPEC PURPOSE VEHICLE	18	2	0	2	2	0	2	0
2115	GARAGE WORK EQUIP	1,051	164	0	164	153	0	153	-11
2116	OTHER WORK EQUIP	24,179	3,844	0	3,844	1,983	0	1,983	-1,861
2121	BUILDINGS	155,276	4,658	0	4,658	5,124	0	5,124	466
2122	FURNITURE	1,205	242	0	242	81	0	81	-161
2123.1	OFFICE EQUIPMENT	4,167	929	0	929	0	0	0	-929
2123.2	COMPANY COMM EQUIP	1,491	91	0	91	0	0	0	-91
2124	GEN PURPOSE CMPTR	67,999	6,392	0	6,392	1,020	0	1,020	-5,372
2212	DIGITAL SW EQUIP	890,050	97,906	0	97,906	88,115	0	88,115	-9,791
2220	OPERATOR SYSTEMS	3,244	52	0	52	493	0	493	441
2231	RADIO SYSTEMS	20,363	1,181	0	1,181	305	0	305	-876
2232	CIRCUIT EQUIP								
	CIRCUIT DDS	3,843	208	0	208	0	0	0	-208
	CIRCUIT DIGITAL	1,032,410	101,176	0	101,176	80,528	0	80,528	-20,648
	CIRCUIT ANALOG	25,639	820	0	820	26	0	26	-794
2362	OTHER TERM EQUIP	50,361	3,777	0	3,777	3,727	0	3,727	-50
2411	POLE LINES	37,542	2,403	0	2,403	2,290	0	2,290	-113
2421	AERIAL CABLE MET	139,905	17,628	0	17,628	8,254	0	8,254	-9,374
2421	AERIAL CABLE NON MET	6,088	530	0	530	584	0	584	54
2422	UNDGRD CABLE MET	276,972	26,312	0	26,312	14,680	0	14,680	-11,632
2422	UNDGRD CABLE NON MET	129,242	13,312	0	13,312	11,244	0	11,244	-2,068
2423	BURIED CABLE MET	1,145,826	137,499	0	137,499	92,812	0	92,812	-44,687
2423	BURIED CABLE NON MET	15,929	1,019	0	1,019	1,083	0	1,083	64
2424	SUB CABLE MET	2	2	0	2	0	0	0	-2
2424	SUB CABLE NON MET	0	0	0	0	0	0	0	0
2426	INTRA BLDG CA MET	30,667	1,073	0	1,073	920	0	920	-153
2426	INTRA BLDG NON MET	677	89	0	89	48	0	48	-41
2431	AERIAL WIRE	7,723	1,591	0	1,591	788	0	788	-803
2441	CONDUIT SYSTEMS	318,958	7,017	0	7,017	7,336	0	7,336	319
	TOTALS	4,441,797	432,415	0	432,415	324,654	0	324,654	-107,761
	COMPOSITES	0	0	0	9.7	0	0	7.3	

SUMMARY OF RESERVES 1/1/2003

ACCOUNT	CATEGORY	1-1-2003 INVESTMENT	BOOK RESERVE AMOUNT	BOOK RESERVE PERCENT	AVERAGE SERVICE LIFE	AVERAGE REM LIFE	AVERAGE NET SALVAGE	FUTURE NET SALVAGE	THEORETICAL RESERVE AMOUNT	THEORETICAL RESERVE PERCENT
		A$	B$	C=B/A	D	E	F	G	H$	I
2112	MOTOR VEHICLES	50,969,983	30,888,356	60.6	9.3	3.9	15	16	24,669,472	48.4
2114	SPEC PURPOSE VEHICLE	18,195	6,141	33.8	14.8	5.1	0	0	11,918	65.5
2115	GARAGE WORK EQUIP	1,051,146	-317,587	-30.2	13.4	9.2	-24	-4	198,667	18.9
2116	OTHER WORK EQUIP	24,178,880	9,679,989	40.0	10.5	6.5	9	7	8,873,649	36.7
2121	BUILDINGS	155,276,054	43,128,753	27.8	34.0	24.0	2	-6	57,141,588	36.8
2122	FURNITURE	1,205,153	656,567	54.5	13.3	6.8	3	0	607,397	50.4
2123.1	OFFICE EQUIPMENT	4,166,650	4,191,210	100.6	11.6	2.7	0	0	3,195,821	76.7
2123.2	COMPANY COMM EQUIP	1,491,178	1,584,604	106.3	10.1	4.3	0	0	855,936	57.4
2124	GEN PURPOSE CMPTR	67,999,484	62,685,473	92.2	7.9	1.9	6	5	49,231,626	72.4
2212	DIGITAL SW EQUIP	890,050,150	404,902,661	45.5	10.3	5.2	3	3	427,224,072	48.0
2220	OPERATOR SYSTEMS	3,243,935	1,319,875	40.7	11.7	4.1	-3	-3	2,170,193	66.9
2231	RADIO SYSTEMS	20,363,375	19,223,932	94.4	17.2	5.2	-1	-2	14,559,813	71.5
2232	CIRCUIT EQUIP									
	CIRCUIT DDS	3,843,228	3,847,953	100.1	10.0	3.5	8	3	2,490,412	64.8
	CIRCUIT DIGITAL	1,032,410,085	586,787,457	56.8	10.0	5.3	2	2	475,941,049	46.1
	CIRCUIT ANALOG	25,638,978	25,540,989	99.6	14.2	2.8	-1	0	20,536,821	80.1
2362	OTHER TERM EQUIP	50,360,897	25,163,470	50.0	10.3	6.5	8	2	20,093,998	39.9
2411	POLE LINES	37,541,701	32,244,177	85.9	35.0	25.0	-86	-138	39,456,328	105.1
2421	AERIAL CABLE MET	139,904,565	136,313,917	97.4	14.4	5.0	-21	-27	118,918,880	85.0
2421	AERIAL CABLE NON MET	6,088,096	2,447,342	40.2	15.0	9.0	-27	-27	3,092,753	50.8
2422	UNDGRD CABLE MET	276,971,558	209,944,511	75.8	18.7	5.7	-6	-6	204,128,038	73.7
2422	UNDGRD CABLE NON MET	129,241,740	53,340,501	41.3	13.3	7.4	-6	-6	60,743,618	47.0
2423	BURIED CABLE MET	1,145,826,327	717,027,843	62.6	13.7	5.5	-7	-7	733,328,849	64.0
2423	BURIED CABLE NON MET	15,929,333	7,455,839	46.8	18.0	8.8	-7	-7	8,713,345	54.7
2424	SUB CABLE MET	1,882	2,289	121.6	21.0	0.5	0	0	1,837	97.6
2424	SUB CABLE NON MET	0	0	0.0	0.0	0.0	0	0	0	0.0
2426	INTRA BLDG CA MET	30,667,205	23,329,217	76.1	21.0	8.1	2	0	19,075,002	62.2
2426	INTRA BLDG NON MET	677,026	379,225	56.0	10.4	6.2	0	0	273,519	40.4
2431	AERIAL WIRE	7,722,671	5,797,321	75.1	10.9	5.4	-25	-30	5,259,139	68.1
2441	CONDUIT SYSTEMS	318,958,432	71,494,112	22.4	57.0	43.0	-20	-20	94,092,737	29.5
	TOTAL	4,441,797,907	2,479,066,137	55.8	0.0	0.0	0	0	2,394,886,477	53.9

PARAMETER REPORT

CATEGORY	FIRST ELG YEAR	P.L. OR AYFR	AVG. NET SALV.	FUTURE NET SALV.	PRESCRIBED CURVE SHAPE PARAMETERS c	G	S	COMMENTS
2112 MOTOR VEHICLES	0	0	15	16				
2112 PASSENGER CARS	1983	8.6	15.4	16	IOWA CURVE L3.0			
2112 LIGHT TRUCKS	1983	8.6	15.4	16	IOWA CURVE L3.0			
2112 HEAVY TRUCKS	1983	8.6	15.4	16	IOWA CURVE L3.0			
2114 SPEC PURPOSE VEHICLES	0	16.1	0	0	IOWA CURVE S6.0			
2115 GARAGE WORK EQUIP	0	13.7	-24	-4	IOWA CURVE L0.0			
2116 OTHER WORK EQUIP	0	11.5	9	7	IOWA CURVE L4.0			
2121 BUILDINGS	0	0	2	-6				
2121 LARGE BUILDINGS	1983	43	2	-6	IOWA CURVE R1.0			
2121 OTHER BUILDINGS	1983	43	2	-6	IOWA CURVE R1.0			
2122 FURNITURE	1983	9.5	3	0	IOWA CURVE O4.0			
2123.1 OFFICE EQUIPMENT	1983	7	0	0	IOWA CURVE L0.5			
2123.2 COMPANY COMM EQUIP	0	0	0	0				
2123.2 STAND ALONE	0	8.3	-0.1	0	IOWA CURVE L0.5			
2123.2 PBX & KEY INTRASYSTEMS	0	8.3	-0.1	0	IOWA CURVE L0.5			
2124 GEN PURPOSE CMPTR	1983	5	6	5	IOWA CURVE O1.0			
2212 DIGITAL SW EQUIP	1983	10	3	3	IOWA CURVE O1.0			
2220 OPERATOR SYSTEMS	1983	10.7	-3	-3	IOWA CURVE S2.0			
2231 RADIO SYSTEMS	1983	15.1	-1	-2	IOWA CURVE S1.5			
2232 CIRCUIT DDS	1983	8.1	8	3	IOWA CURVE L1.0			
2232 CIRCUIT DIGITAL	1983	10	2	2	IOWA CURVE O2.0			
2232 CIRCUIT ANALOG	1983	8	-1	0	IOWA CURVE L0.0			
2362 OTHER TERM EQUIP	0	6.8	8	2	IOWA CURVE O3.0			
2411 POLE LINES	1982	46.4	-86	-138	IOWA CURVE O1.0			
2421 AERIAL CABLE MET	1982	12	-21	-27	IOWA CURVE R1.0			
2421 AERIAL CABLE NON MET	1982	14.5	-27	-27	IOWA CURVE SQ			
2422 UNDGRD CABLE MET	1982	15	-6	-6	IOWA CURVE R1.5			
2422 UNDGRD CABLE NON MET	1982	13.1	-6	-6	IOWA CURVE SQ			
2423 BURIED CABLE MET	1982	12	-7	-7	IOWA CURVE L1.5			
2423 BURIED CABLE NON MET	1982	17.6	-7	-7	IOWA CURVE SQ			
2424 SUB CABLE MET	1982	15	0	0	IOWA CURVE SQ			
2424 SUB CABLE NON MET	1982	9	0	0	IOWA CURVE SQ			
2426 INTRA BLDG CA MET	1982	19	2	0	IOWA CURVE L2.0			
2426 INTRA BLDG CABLE NON MET	1982	11.5	0	0	IOWA CURVE O1.0			
2431 AERIAL WIRE	0	8.9	-25	-30	IOWA CURVE L0.0			
2441 CONDUIT SYSTEMS	1982	56.6	-20	-20	IOWA CURVE SQ			

QWEST CORPORATION
Arizona Annual Intrastate Investment and
Depreciation Accrual Change
Includes Staff Adjustments - SXS, X-bar and Analog
(Thousands of Dollars)

Class of Plant	Dec 31, 2002 Gross Intrastate Investment	Prescribed Rates	1/1/03 Technical Update Rates	2003 Depreciation Change
2112 MOTOR VEHICLES	50,970	4.9%	6.0%	561
2114 SPEC PURPOSE VEHICLES	18	10.2%	13.0%	1
2115 GARAGE WORK EQUIP	1,051	15.6%	14.6%	(11)
2116 OTHER WORK EQUIP	24,179	15.9%	8.2%	(1,862)
2121 BUILDINGS	155,276	3.0%	3.3%	466
2122 FURNITURE	1,205	20.1%	6.7%	(161)
2123.1 OFFICE EQUIPMENT	4,167	22.3%	0.0%	(929)
2123.2 COMPANY COM EQUIP	1,491	6.1%	0.0%	(91)
2124 GEN PURPOSE CMPTR	67,999	9.4%	1.5%	(5,372)
2211 ANALOG SW EQUIP	-	16.2%	0.0%	-
2212 DIGITAL SW EQUIP	890,050	11.0%	9.9%	(9,791)
2220 OPERATOR SYSTEMS	3,244	1.6%	15.2%	441
2231 RADIO SYSTEMS	20,363	5.8%	1.5%	(876)
2232 CIRCUIT DDS	3,843	5.4%	0.0%	(208)
2232 CIRCUIT DIGITAL	1,032,410	9.8%	7.8%	(20,648)
2232 CIRCUIT ANALOG	25,639	3.2%	0.1%	(795)
2362 OTHER TERM EQUIP	50,361	7.5%	7.4%	(50)
2411 POLE LINES	37,542	6.4%	6.1%	(113)
2421 AERIAL CABLE MET	139,905	12.6%	5.9%	(9,374)
2421 AERIAL CABLE NON MET	6,088	8.7%	9.6%	55
2422 UNDGRD CABLE MET	276,972	9.5%	5.3%	(11,633)
2422 UNDGRD CABLE NON MET	129,242	10.3%	8.7%	(2,068)
2423 BURIED CABLE MET	1,145,826	12.0%	8.1%	(44,687)
2423 BURIED CABLE NON MET	15,929	6.4%	6.8%	64
2424 SUB CABLE MET	2	86.1%	0.0%	(2)
2424 SUB CABLE NON MET	-	11.1%	0.0%	-
2426 INTRA BLDG CABLE MET	30,667	3.5%	3.0%	(153)
2426 INTRA BLDG CABLE NON MET	677	13.1%	7.1%	(41)
2431 AERIAL WIRE	7,723	20.6%	10.2%	(803)
2441 CONDUIT SYSTEMS	318,958	2.2%	2.3%	319
Total	4,441,797			(107,761)

Sum of Monthly Depreciation Accrual Changes	(109,706)

QWEST CORPORATION
Change in Arizona Intrastate Monthly Depreciation Accrual
Includes Staff Adjustments - SXS, X-bar and Analog
(Thousands of Dollars)

Class of Plant	Jan 2003	Feb 2003	Mar 2003	Apr 2003	May 2003	Jun 2003	Jul 2003	Aug 2003	Sep 2003	Oct 2003	Nov 2003	Dec 2003	Prescribed Rates	1/1/03 Technical Update Rates
2112 MOTOR VEHICLES	47	47	47	46	46	46	46	46	46	46	46	46	4.9%	6.0%
2114 SPEC PURPOSE VEHICLES	-	-	-	-	-	-	-	-	-	-	-	-	10.2%	13.0%
2115 GARAGE WORK EQUIP	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	(1)	15.6%	14.6%
2116 OTHER WORK EQUIP	(155)	(157)	(158)	(160)	(161)	(163)	(165)	(166)	(168)	(169)	(171)	(172)	15.9%	8.2%
2121 BUILDINGS	39	39	39	40	40	40	40	41	41	41	42	42	3.0%	3.3%
2122 FURNITURE	(13)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	(14)	20.1%	6.7%
2123.1 OFFICE EQUIPMENT	(77)	(77)	(78)	(78)	(78)	(78)	(78)	(78)	(78)	(78)	(78)	(78)	22.3%	0.0%
2123.2 COMPANY COM EQUIP	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(8)	(9)	(9)	6.1%	0.0%
2124 GEN PURPOSE CMPTR	(448)	(448)	(448)	(448)	(448)	(448)	(448)	(448)	(448)	(448)	(449)	(449)	9.4%	1.5%
2211 ANALOG SW EQUIP	-	-	-	-	-	-	-	-	-	-	-	-	16.2%	0.0%
2212 DIGITAL SW EQUIP	(816)	(817)	(817)	(818)	(819)	(819)	(820)	(821)	(822)	(822)	(823)	(824)	11.0%	9.9%
2220 OPERATOR SYSTEMS	37	36	34	33	32	31	29	28	27	26	25	23	1.6%	15.2%
2231 RADIO SYSTEMS	(73)	(73)	(73)	(74)	(74)	(74)	(74)	(74)	(74)	(75)	(75)	(75)	5.8%	1.5%
2232 CIRCUIT DDS	(17)	(17)	(17)	(17)	(17)	(17)	(17)	(16)	(16)	(16)	(16)	(16)	5.4%	0.0%
2232 CIRCUIT DIGITAL	(1,721)	(1,728)	(1,735)	(1,742)	(1,749)	(1,757)	(1,764)	(1,771)	(1,778)	(1,785)	(1,793)	(1,800)	9.8%	7.8%
2232 CIRCUIT ANALOG	(66)	(66)	(66)	(66)	(66)	(66)	(66)	(66)	(66)	(66)	(66)	(66)	3.2%	0.1%
2362 OTHER TERM EQUIP	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	7.5%	7.4%
2411 POLE LINES	(9)	(9)	(9)	(9)	(9)	(10)	(10)	(10)	(10)	(10)	(10)	(10)	6.4%	6.1%
2421 AERIAL CABLE MET	(781)	(784)	(786)	(789)	(792)	(794)	(797)	(799)	(802)	(805)	(807)	(810)	12.6%	5.9%
2421 AERIAL CABLE NON MET	5	5	5	5	5	5	5	5	5	5	5	5	8.7%	9.6%
2422 UNDGRD CABLE MET	(969)	(972)	(974)	(976)	(978)	(980)	(983)	(985)	(987)	(989)	(991)	(994)	9.5%	5.3%
2422 UNDGRD CABLE NON MET	(172)	(173)	(173)	(174)	(174)	(175)	(175)	(176)	(176)	(177)	(177)	(178)	10.3%	8.7%
2423 BURIED CABLE MET	(3,724)	(3,737)	(3,750)	(3,763)	(3,777)	(3,790)	(3,803)	(3,816)	(3,829)	(3,842)	(3,856)	(3,869)	12.0%	8.1%
2423 BURIED CABLE NON MET	5	5	5	5	5	6	6	6	6	6	6	6	6.4%	6.8%
2424 SUB CABLE MET	-	-	-	-	-	-	-	-	-	-	-	-	86.1%	0.0%
2424 SUB CABLE NON MET	-	-	-	-	-	-	-	-	-	-	-	-	11.1%	0.0%
2426 INTRA BLDG CABLE MET	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	(13)	3.5%	3.0%
2426 INTRA BLDG CABLE NON MET	(3)	(3)	(3)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	(4)	13.1%	7.1%
2431 AERIAL WIRE	(67)	(67)	(67)	(68)	(68)	(68)	(68)	(69)	(69)	(69)	(69)	(70)	20.6%	10.2%
2441 CONDUIT SYSTEMS	27	27	27	27	27	27	27	27	27	27	27	27	2.2%	2.3%
Monthly Total	(8,977)	(9,009)	(9,037)	(9,070)	(9,099)	(9,128)	(9,159)	(9,186)	(9,215)	(9,244)	(9,275)	(9,307)		
Annual Total Using Monthly Calculation	(109,706)													

QWEST CORPORATION
Arizona Monthly Intrastate Investment Balances
Includes Staff Adjustments - SXS, X-bar and Analog
(Thousands of Dollars)

Class of Plant	Dec 31, 2002	Jan 31, 2003	Feb 28, 2003	Mar 31, 2003	Apr 30, 2003	May 31, 2003	Jun 30, 2003	Jul 31, 2003	Aug 31, 2003	Sep 30, 2003	Oct 31, 2003	Nov 30, 2003	Dec 31, 2003
2112 MOTOR VEHICLES	50,970	50,889	50,808	50,727	50,646	50,565	50,484	50,403	50,322	50,241	50,160	50,079	50,002
2114 SPEC PURPOSE VEHICLES	18	18	18	18	18	18	18	18	18	18	18	18	18
2115 GARAGE WORK EQUIP	1,051	1,053	1,055	1,057	1,059	1,061	1,063	1,065	1,067	1,069	1,071	1,073	1,075
2116 OTHER WORK EQUIP	24,179	24,424	24,669	24,914	25,159	25,404	25,649	25,894	26,139	26,384	26,629	26,874	27,124
2121 BUILDINGS	155,276	156,383	157,490	158,597	159,704	160,811	161,918	163,025	164,132	165,239	166,346	167,453	168,555
2122 FURNITURE	1,205	1,209	1,213	1,217	1,221	1,225	1,229	1,233	1,237	1,241	1,245	1,249	1,253
2123.1 OFFICE EQUIPMENT	4,167	4,169	4,171	4,173	4,175	4,177	4,179	4,181	4,183	4,185	4,187	4,189	4,186
2123.2 COMPANY COM EQUIP	1,491	1,510	1,529	1,548	1,567	1,586	1,605	1,624	1,643	1,662	1,681	1,700	1,719
2124 GEN PURPOSE CMPTR	67,999	68,013	68,027	68,041	68,055	68,069	68,083	68,097	68,111	68,125	68,139	68,153	68,171
2211 ANALOG SW EQUIP	-	-	-	-	-	-	-	-	-	-	-	-	-
2212 DIGITAL SW EQUIP	890,050	890,837	891,624	892,411	893,198	893,985	894,772	895,559	896,346	897,133	897,920	898,707	899,493
2220 OPERATOR SYSTEMS	3,244	3,137	3,030	2,923	2,816	2,709	2,602	2,495	2,388	2,281	2,174	2,067	1,962
2231 RADIO SYSTEMS	20,363	20,416	20,469	20,522	20,575	20,628	20,681	20,734	20,787	20,840	20,893	20,946	20,998
2232 CIRCUIT DDS	3,843	3,816	3,789	3,762	3,735	3,708	3,681	3,654	3,627	3,600	3,573	3,546	3,517
2232 CIRCUIT DIGITAL	1,032,410	1,036,724	1,041,038	1,045,352	1,049,666	1,053,980	1,058,294	1,062,608	1,066,922	1,071,236	1,075,550	1,079,864	1,084,182
2232 CIRCUIT ANALOG	25,639	25,614	25,589	25,564	25,539	25,514	25,489	25,464	25,439	25,414	25,389	25,364	25,342
2362 OTHER TERM EQUIP	50,361	50,416	50,471	50,526	50,581	50,636	50,691	50,746	50,801	50,856	50,911	50,966	51,022
2411 POLE LINES	37,542	37,636	37,730	37,824	37,918	38,012	38,106	38,200	38,294	38,388	38,482	38,576	38,664
2421 AERIAL CABLE MET	139,905	140,370	140,835	141,300	141,765	142,230	142,695	143,160	143,625	144,090	144,555	145,020	145,482
2421 AERIAL CABLE NON MET	6,088	6,151	6,214	6,277	6,340	6,403	6,466	6,529	6,592	6,655	6,718	6,781	6,840
2422 UNDGRD CABLE MET	276,972	277,603	278,234	278,865	279,496	280,127	280,758	281,389	282,020	282,651	283,282	283,913	284,540
2422 UNDGRD CABLE NON MET	129,242	129,597	129,952	130,307	130,662	131,017	131,372	131,727	132,082	132,437	132,792	133,147	133,505
2423 BURIED CABLE MET	1,145,826	1,149,879	1,153,932	1,157,985	1,162,038	1,166,091	1,170,144	1,174,197	1,178,250	1,182,303	1,186,356	1,190,409	1,194,458
2423 BURIED CABLE NON MET	15,929	16,045	16,161	16,277	16,393	16,509	16,625	16,741	16,857	16,973	17,089	17,205	17,322
2424 SUB CABLE MET	2	2	2	2	2	2	2	2	2	2	2	2	2
2424 SUB CABLE NON MET	-	-	-	-	-	-	-	-	-	-	-	-	-
2426 INTRA BLDG CABLE MET	30,667	30,760	30,853	30,946	31,039	31,132	31,225	31,318	31,411	31,504	31,597	31,690	31,784
2426 INTRA BLDG CABLE NON MET	677	685	693	701	709	717	725	733	741	749	757	765	773
2431 AERIAL WIRE	7,723	7,752	7,781	7,810	7,839	7,868	7,897	7,926	7,955	7,984	8,013	8,042	8,069
2441 CONDUIT SYSTEMS	318,958	319,902	320,846	321,790	322,734	323,678	324,622	325,566	326,510	327,454	328,398	329,342	330,286
Total	4,441,797	4,455,010	4,468,223	4,481,436	4,494,649	4,507,862	4,521,075	4,534,288	4,547,501	4,560,714	4,573,927	4,587,140	4,600,344

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF QWEST CORPORATION'S FILING OF RENEWED PRICE REGULATION PLAN.	)	**DOCKET NO. T-01051B-03-0454**
IN THE MATTER OF THE INVESTIGATION OF THE COST OF TELECOMMUNICATIONS ACCESS.	)	**DOCKET NO. T-00000D-00-0672**
STATE OF WASHINGTON	)	**AFFIDAVIT OF KERRY DENNIS WU**
COUNTY OF KING	) :	**SS**

Kerry Dennis Wu, of lawful age being first duly sworn, depose and states:

1. My name is Kerry Dennis Wu. I am Finance Director – Capital Recovery – for Qwest Corporation in Seattle, Washington. I have caused to be filed written direct testimony in Docket No. T-01051B-03-0454 and T-00000D-00-0672.

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

Further affiant sayeth not.

Kerry Dennis Wu

SUBSCRIBED AND SWORN to before me this 12th day of May, 2004.

LORI L. WILKE
COMMISSION EXPIRES
NOTARY
PUBLIC
7-10-07
STATE OF WASHINGTON

Lori L. Wilke
Notary Public

My Commission Expires: 7/10/07

DOCKET NOS. T-01051B-03-0454
T-00000D-00-0672

Q-10
Admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

MARC SPITZER
Chairman

WILLIAM MUNDELL
Commissioner

JEFF HATCH-MILLER
Commissioner

MIKE GLEASON
Commissioner

KRISTIN K. MAYES
Commissioner

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

TESTIMONY OF

DAVID ZIEGLER

ON BEHALF OF

QWEST CORPORATION

MAY 20, 2004

IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS AND CURRENT POSITION.

A. My name is David Ziegler. I am employed by Qwest Services Corporation as Assistant Vice President – Arizona Public Policy. My business address is 4041 North Central Avenue, Phoenix, Arizona 85012. I am providing this testimony on behalf of Qwest Corporation ("Qwest"), the public service corporation providing telecommunications service in Arizona.

Q. WHAT ARE YOUR CURRENT RESPONSIBILITIES?

A. I am responsible for regulatory, legislative and community affairs in Arizona.

Q. PLEASE REVIEW YOUR EDUCATIONAL AND EMPLOYMENT BACKGROUND.

A. I received a Bachelor of Science degree in Business Administration (summa cum laude) from Columbia College in 1988. I have also attended numerous industry seminars on economics, management, marketing and technical courses. I began my career with Qwest (Mountain Bell) in 1978 in the business office. In 1980, I accepted the position of Manager - Residence Operations, where I was responsible for developing methods

and procedures for billing and collections. In 1986, I moved to Strategy Development, where I was responsible for cost of service studies and economic regulatory issues. In 1994, I accepted the position of Manager-Regulatory Affairs in Colorado Regulatory where I was responsible for managing regulatory issues before the Colorado Public Utilities Commission. In 1997, I accepted the position of Director - Regulatory Affairs in Colorado Regulatory. In 2001, I accepted the position of Regional Director – Out of Region, where I was responsible for regulatory and legislative activities in a 14-state area. In 2002, I accepted my current position.

Q. HAVE YOU PREVIOUSLY APPEARED BEFORE THE ARIZONA CORPORATION COMMISSION OR OTHER PUBLIC UTILITY COMMISSIONS AS A WITNESS IN REGULATORY PROCEEDINGS?

A. I have testified before the Arizona Corporation Commission (the "Commission") in the hearing on the proposed settlement in Docket No. RT-00000F-02-271, Docket No. T-00000A-97-0238, and Docket No. T-00151B-02-0871 (consolidated).

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to provide the Commission with an overview and explanation of Qwest's filing in this matter, including the following: (1) its Commission-ordered R14-2-103 filing ("Rule 103 Filing"); (2) its proposals for revision of the current Price Cap Plan; (3) its proposed elimination of distance sensitive zone charges in retail Zones 1 and 2; (4) its proposal to use the Arizona Universal Service Fund ("AUSF") as a mechanism to increase competition in less-densely populated portions of Qwest's service territory in Arizona and to keep the price of basic residential service low in those areas; (5) its proposed restructuring of certain rates; and (6) its proposal for addressing intrastate access charges. Further, as Mr. Teitzel and Mr. McIntyre testified, Qwest's billing and collection services and its voice mail services should be declared deregulated because they are not essential and integral to the provision of Qwest's public telephone service. Mr. Shooshan and Mr. Teitzel discuss this proposed plan.

Although Qwest's Rule 103 Filing shows a revenue requirement deficiency of $322 million, Qwest does not propose rate increases to recover this revenue requirement. Qwest does not believe that traditional revenue-requirement-based ratemaking is appropriate or sustainable in the increasingly competitive telecommunications market in Arizona. Rather, Qwest has proposed changes to the Price Cap Plan, rate rebalancing, and the use of AUSF funding for subscribers in Qwest's less dense service areas in order to (1) place Qwest in a position where it can

compete fairly with its competitors in Arizona and (2) introduce competition in the provision of telephone service in less densely populated portions of the State.

BACKGROUND OF THIS PROCEEDING

Q. WHY DID QWEST MAKE THIS FILING?

A. In 2001, the Commission approved with significant modifications a Settlement Agreement between Qwest and Staff, which established a Price Cap Plan (the "Plan') for Qwest. The adoption of the Plan represented a significant step away from traditional rate-of-return regulation by granting some degree of pricing flexibility to Qwest in exchange for a commitment by Qwest not to seek an increase in rates for three years and for certain mechanisms in the Plan that guaranteed that Qwest's rates for certain basic services would be capped for the period of the Plan. Further, the Plan provided that the rates for basic/essential services in the aggregate would be reduced annually in accordance with the inflation/productivity adjustment. The Commission approved the Plan in recognition of the increasingly competitive telecommunications market in Arizona and of the inappropriateness of traditional ratemaking in a competitive market.

Q. WHAT HAS OCCURRED SINCE 2001 WHEN THE PRICE CAP PLAN

WAS APPROVED BY THE COMMISSION?

A. Arizona is the state in which Qwest has faced the most significant competitive losses throughout its 14-state region. There are more wireless telephones in service in Arizona than wireline telephones served by Qwest. Qwest has also faced significant competitive in-roads from cable companies and other CLECS who provide wireline service. Competition has been beneficial to the ratepayers of Arizona; permitting Qwest to compete freely with the CLECs will provide even larger benefits to ratepayers.

As is explained in detail in the testimony of Mr. Grate and Mr. Teitzel, Qwest has experienced a significant and continuing loss of lines since 2001 despite the fact that Arizona has been one of the fastest growing states in the country. This has resulted in a significant loss of revenue by Qwest since 2001. Further, Qwest has experienced automatic revenue decreases totaling $60 million as a result of the Plan over its initial term. As is discussed in Mr. Shooshan's testimony, the change in the competitive circumstances faced by Qwest makes it imperative that the Commission revise the Plan.

Q. HOW WAS THIS DOCKET COMMENCED?

A. In July of 2003, as required by its Settlement Agreement approved in

Decision No. 63487, Qwest filed with the Commission certain financial information specified in the Settlement Agreement and its proposals for revisions to the Plan. When it became clear that a revised plan would not be approved prior to its expiration on March 30, 2004, Qwest filed a motion seeking clarification as to how the Plan was to be applied during the period between its expiration and a Commission order renewing, revising or otherwise terminating the Plan. On February 10, 2004, the Commission entered an order clarifying how the Plan would apply during the period preceding the adoption of a revised price cap plan and requiring Qwest to make further reductions in intrastate access charges and in the prices of Basket 1 service on April 1, 2004. In that order, at the urging of Staff and RUCO, the Commission also required Qwest to make a full Rule 103 Filing as a prerequisite to any further proceedings on a revised price cap plan. The parties to the docket subsequently agreed that the Rule 103 Filing should be based on a 2003 calendar test year.

Q. HAS QWEST FILED AN RULE 103 FILING AS REQUIRED BY THE COMMISSION?

A. Qwest has submitted its Rule 103 Filing simultaneously with this testimony. Philip Grate, Peter Cummings, Kerry Dennis Wu, and Nancy Heller-Hughes have filed testimony in support of the Rule 103 Filing.

QWEST'S PROPOSALS

Q. WHAT IS THE RELATIONSHIP BETWEEN QWEST'S RULE 103 FILING AND ITS PROPOSALS IN THIS DOCKET?

A. Actually none. Qwest has submitted its Rule 103 Filing as required by Decision No. 66772. If this were a traditional rate case instead of a proceeding to revise the Plan, Qwest would propose increases in rates and charges sufficient to provide it with the opportunity to recover this revenue requirement deficiency. This is the traditional ratemaking method followed by the Commission and other regulatory bodies in setting rates for monopoly-provided public services, such as water and sewer.

Traditional monopoly rate setting is neither appropriate nor sustainable in a competitive marketplace. Monopoly rate setting assumes that the utility's customers will all receive service from Qwest and pay the rates set by the Commission, so as to permit Qwest to recover its revenue requirement. This type of pricing does not work in a competitive marketplace where consumers are free to choose among multiple providers and can make that choice based on price and other service differences. Given the competition Qwest faces from wireless, facilities-based, UNE-based, and VOIP providers, as well as resellers, which makes traditional monopoly, rate-of-return pricing a relic of the past, it will not work for the Commission to simply increase the rates Qwest charges for its services on the assumption that those increases will produce

additional revenues for Qwest. Qwest has not proposed rate changes to recover the revenue requirement set forth in the Rule 103 Filing. Qwest has made specific, targeted proposals for (1) amendments to the Price Cap Plan, (2) limited rate rebalancing, (3) the elimination of distance-sensitive retail zone charges, and (4) the implementation of AUSF funding in UNE Zones 2 and 3 to permit basic service rates in those zones to remain at their current levels. Aside from the AUSF proposal, these changes are largely revenue neutral; however, they will give Qwest a fair and equal chance to compete effectively. The AUSF proposal will allow Qwest to recover its costs of serving customers in high cost areas, but will also create conditions conducive to the development of competition in the less densely populated portions of Qwest service territory where competitors have been reluctant to serve.

Q. PLEASE DESCRIBE THE CHANGES THAT QWEST HAS PROPOSED FOR THE PRICE CAP PLAN?

A. Qwest has proposed five specific changes to the Price Cap Plan. These changes are discussed in detail in the testimony of Mr. Shooshan and Mr. Teitzel. I will briefly describe those changes and the reason for each change.

First, Qwest has proposed the elimination of the Inflation/Productivity Adjustment Mechanism for the Cap on Basket 1. Mr. Shooshan explains

in his testimony why it is both necessary and appropriate to eliminate the Inflation/Productivity Adjustment Mechanism. This mechanism does not reflect the cost of service, the impact of the current competitive environment or customer's needs and desires. Such automatic reductions are not sustainable in a competitive market and in light of Qwest's financial condition, as further explained in the testimony of Mr. Teitzel and Mr. Grate.

Second, Qwest is proposing to replace the current Basket 1 Cap with a new cap reflecting the effect of the rate rebalancing proposed in the testimony of Mr. Teitzel and Mr. McIntyre, and the elimination of distance-sensitive zone charges for customers in retail Zones 1 and 2 ($1.00 in Zone 1 and $3.00 in Zone 2). The impact of these revisions will be a slight downward adjustment in the Basket 1 Cap, which will then remain unchanged over the life of the revised plan. Qwest also proposes eliminating the hard caps on specific Basket 1 services so that the rates for all services in that Basket may be raised and lowered so long as the aggregate revenues for those services remain at or below the recalculated cap.

Third, Qwest proposes a "Competitive Zone" test for moving services out of Basket 1 and into Basket 3. Mr. Teitzel describes the reasons for this proposal in detail. Competition in the telecommunications industry in Arizona and elsewhere has not developed on a service-by-service or

stand-alone basis. Rather, competitors have focused on selling bundles of services to consumers in discrete geographic areas, which they choose to serve. For example, Cox has implemented its local telephone service largely by offering telecommunications services as part of a package with data and cable television services in neighborhoods in which Cox provides cable television service. It has also focused on expansion into new master-planned communities with bundles of services. In order to compete effectively, Qwest must be free to offer bundles of services on a competitive basis where its competitors offer or are able to offer such services. Qwest has proposed to define its competitive zones on a wire center or smaller basis, with the zone being defined by the geographic area in which a facilities-based, UNE-based, or resale competitor is providing or offering service. In these competitive zones, all services provided by Qwest will be subject to the pricing and other rules set forth in A.A.C. R14-2-1101 *et. seq.* This will permit Qwest to compete on equal terms and will provide the ratepayers of Arizona with the benefits of a true competitive choice.

Fourth, Qwest proposes the elimination of the Revenue Cap on Basket 3. As Mr. Shooshan and Mr. Teitzel discuss, there is no need for a Revenue Cap on Basket 3 since the prices for services in that basket are effectively restrained by competition. On a forward-looking basis, Qwest should be able to price its competitive services in the same manner as the CLECs who are not constrained by an overall revenue cap on the services they

provide.

Fifth, Qwest proposes that services contained in Qwest's Basket 3 (Competitive/Non-Essential) be subject to the same regulatory requirements as services that have been declared competitive for other providers. For example, CLECs routinely introduce new services for which they file tariffs and which are automatically treated as competitive services. As discussed by Mr. Shooshan, new services provided by Qwest are by their very nature not basic, essential services. They are essentially discretionary services and there is no need to apply the limitations of Basket 1 to those services. Similarly, Qwest's promotional service offerings are subject to different requirements than those applied to competitors. This difference in treatment should be changed.

Q. WHAT RATE REBALANCING HAS QWEST PROPOSED AS PART OF ITS FILING?

A. As described in the testimony of Mr. Teitzel and Mr. McIntyre, Qwest has proposed various miscellaneous changes in its rates for services, including the elimination or limitation of certain obsolete services. Qwest also requests the elimination of the free call allowance for directory assistance service. The overall effect of these changes is to permit Qwest the opportunity to recover an additional $7 million in revenues.

Q. PLEASE DESCRIBE QWEST'S PROPOSAL TO ELIMINATE DISTANCE SENSITIVE ZONE CHARGES FOR CUSTOMERS IN ZONES 1 AND 2.

A. Customers located in retail Zones 1 and 2 of Qwest's Arizona wire centers currently pay additional charges over and above the base charge for 1FR and 1FB service they receive. These charges are referred to in Qwest's tariff as zone charges. These distance-sensitive zone charges are difficult for the customer to understand. Elimination of the charges will simplify billing and minimize customer confusion.

Q. PLEASE DESCRIBE QWEST'S PROPOSAL FOR THE USE OF AUSF SUPPORT FOR RESIDENTIAL CUSTOMERS IN UNE ZONE 2 AND BUSINESS AND RESIDENTIAL CUSTOMERS IN UNE ZONE 3?

A. Qwest proposes that the difference between the TSLRIC of basic residential local exchange service in UNE Zone 2 and the sum of the 1FR rate and FCC Customer Access Line Charge in Zone 2 be recovered from the AUSF. Similarly, Qwest proposes that the difference between the TSLRIC of basic residential and business exchange service and the 1FR or 1FB rate and the FCC Customer Access Line Charge in UNE Zone 3 be recovered from the AUSF. This proposal will advance two important public interest goals. First, it will permit residential and business customers in those zones to continue to pay charges for basic service that are the same as those paid in UNE Zone 1, so that all customers pay a

single statewide averaged rate for basic service. If these rates were raised to cover the TSLRIC of providing basic services in those zones, customer (and particularly residential customers) would face significant rate increases. Use of AUSF funds will ameliorate the need for such increases. Second, the implementation of this proposal will increase competition in the provision of service to customers in UNE Zones 2 and 3. In June 2002, the Commission de-averaged the prices of unbundled loops as UNEs so that the price of an unbundled loop is significantly higher in UNE Zones 2 and 3 than in UNE Zone 1. Because all Qwest residential and business customers pay the same basic charge for service due to statewide averaging of rates and these rates are below the TSLRIC of residential service in Zone 2 and the TSLRIC of basic business and residential service in Zone 3, it is not economically sound for a CLEC to buy an unbundled loop or UNE-P in Zone 2 or Zone 3 and to compete with Qwest by serving a residential customer in Zone 2 or a residential or business customer in Zone 3. Because the AUSF monies will be portable (*i.e.,* whatever carrier serves the customer will receive the AUSF payment), other carriers will be able to compete with Qwest in these Zones by charging comparable or lower rates and recovering a portion of their costs through AUSF payments. This will help bring the benefits of competition to the less-densely populated areas served by Qwest and will prevent rural customers from being deprived of meaningful competitive choice. Qwest's proposal is discussed in more detail in Mr. Teitzel's testimony.

Q. PLEASE DESCRIBE QWEST'S PROPOSAL FOR ADDRESSING SWITCHED ACCESS SERVICES.

A. If the Commission reverses the access charge reduction ordered in Decision No. 66772, Qwest would propose intrastate access charges be reduced by $5 million in this case. Assuming that the proposals Qwest has made for revisions to the Plan are adopted, Qwest would not request any specific rate increase to offset this rate reduction.

For the reasons discussed in Mr. McIntyre's testimony, Qwest is not proposing any further changes to switched access charges at this time. The FCC is presently investigating the entire topic of intercarrier compensation. Several parties are submitting proposals for comprehensive plans for the complete revamping of intercarrier compensation. Since this all-encompassing restructure of intercarrier compensation is imminent, it seems appropriate to wait for that restructure to address access charges.

To the extent that the Commission chooses to order additional reductions in intrastate access charges at this time, such changes must be revenue neutral. As Qwest proposed in its prefiled testimony filed in the Access Docket and in Mr. McIntyre's testimony in this case, if Qwest's intrastate access charges are reduced in this docket, the Commission should

implement a subscriber line charge or other end-user charge in an amount sufficient to offset the access reduction. Mr. McIntyre explains the amount of subscriber line charge that would be required to offset a reduction in Qwest's intrastate access rates to the current interstate levels. For each $5 Million reduction in Intrastate access, Qwest would need to receive 20¢ per line in a subscriber line charge.

Q. ARE ALL OF THE PORTIONS OF QWEST'S PROPOSAL INTERRELATED?

A. Yes. Because Qwest is proposing to deal with its financial needs by a revised price cap plan and modest restructuring of rates, it is essential that the Commission adopt all of the significant features of Qwest's proposal. If the Commission attempts to mix some portions of the existing Plan with some proposed revisions and other changes based on traditional ratemaking methodologies, the result will be a mis-matched regulatory scheme that neither permits Qwest an opportunity to earn a fair return on its investment nor permits Qwest to compete fairly and equally in the Arizona telecommunications market. Qwest simply does not believe that a traditional rate case will produce results that are in the best interests of Arizona ratepayers or Qwest. Certainly, various interested parties will undoubtedly argue for reductions in specific rates or continued limitations on Qwest's ability to compete. However, these proposals will not serve the interests of the citizens of Arizona. Similarly, a traditional rate

proceeding that focuses on allowable levels of test year expenses, appropriate return on capital and rate designs, which serve goals other than permitting the competitive market to work, will be resource intensive for all parties and ultimately counter-productive. The challenges faced by Qwest and the telecommunications industry in Arizona as a whole cannot be met by setting rates that no customer will ever pay to meet a revenue requirement that will never be met.

Q. WHAT ARE QWEST'S GOALS IN MAKING ITS FILING?

A. Qwest has made its proposals in this case recognizing that a traditional revenue requirement and monopoly-based rate setting are not viable alternatives today. Competition has changed forever the prices, terms and conditions under which a company can successfully provide telephone service to the public. The Arizona telecommunications market is one of the most competitive in the country and in the 14-state Qwest service territory. The Plan adopted in 2001 was a first step toward recognizing the need to move away from traditional revenue requirement rate setting. Qwest believes that the Commission must approve a revised price cap plan that continues the movement away from traditional ratemaking.

The revised price cap plan adopted by the Commission must recognize the realities of the competitive marketplace. It should adopt Qwest's

Competitive Zones proposal to permit Qwest to compete fairly and effectively with competitors who offered bundled services to customers in distinct geographic areas. It should revise the Basket 1 price cap to eliminate the Inflation/Productivity Adjustment Mechanism and the hard caps on services in that basket. It should recognize that a revenue cap on Basket 3 is unnecessary because Qwest's ability to raise prices for services in that basket is effectively constrained by competition. The Commission should take this opportunity to bring competition to the less-densely populated areas of Qwest's service territory by adopting a fully-portable AUSF proposal for service in those areas that will permit CLECs to serve those customers and preserve affordable service.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

DOCKET NOS. T-01051B-03-0454
T-00000D-00-0672

ORIGINAL

Q-11

Admitted

065

COMMISSIONERS
MARC SPITZER -Chairman
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ARIZONA CORPORATION COMMISSION

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Mr. Patrick Quinn
Qwest Corporation
4041 North Central Avenue, 11th Floor
Phoenix, Arizona 85012

June 21,2004

Viafacsimile and first class mail

Re: Qwest Corporation – Renewed Price Cap Plan Filing
Docket T-01051B-03-0454– Letter of Sufficiency

Dear Mr. Quinn:

Pursuant to A.A.C. **R14-2-103(B)(7),** this letter is to inform you that Staff deems your A.A.C. R14-2-103 ("Rule 103") filing (with the information and amendments Qwest committed to file today) to meet the sufficiency requirements of Rule 103. This sufficiency determination is, of course, conditioned upon Qwest's updating its filing today with all of the information and corrections it agreed to last week at Staffs request. Further, Qwest has represented to Staff that it will supply certain information via responses to data requests or by a date certain agreeable to Staff. Based on these representations and commitments, and the fact that Staff will still have sufficient time to review the information when received, we believe no purpose would be served in delaying the proceeding by finding the filing insufficient at this time. Qwest agreed that if it does not abide by its commitments, or upon review the Staff finds the information supplied to be unresponsive or incomplete, Staff may raise these deficiencies as a sufficiency issue at that time. Further, in light of the unique circumstances of this case, we have accepted Qwest's filing despite certain other deficiencies which might otherwise cause us to find the filing insufficient. Given the flexibility afforded the Staff in Decision No. 66772 (Finding of Fact 13), the agreements reached in this case should not be viewed as precedent or justification for deviating from any Rule 103 filing requirements in the future.

We classified Qwest as a class A utility under Rule 103. If you have any questions, I can be reached at (602) 542-0858.

Arizona Corporation Commission
DOCKETED
JUN 2 1 2004
DOCKETED BY CAR

Sincerely,

Mathew Rowell
Chief, Telecommunications and Energy Section

cc: Docket Control Center
Jane Rodda, Hearing Division
Christopher C. Kempley
Norm Curtright, Esq.
Tim Berg, Esq.
All Parties of Record

DOCKET NOS. T-01051B-03-0454
T-00000D-00-0672

Q-12 Admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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

REBUTTAL TESTIMONY

OF

PETER C. CUMMINGS

QWEST CORPORATION

DECEMBER 20, 2004

TESTIMONY OF PETER C. CUMMINGS
INDEX OF TESTIMONY

I. TESTIMONY

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II. EXHIBITS

	Exhibit
Cost of Capital and Capital Structure Recommendations	PCC-1R
Cost of Equity Capital Recommendations	PCC-2R
Capital Structure Risk Adjustment	PCC-3R

EXECUTIVE SUMMARY

Capital Structure and Cost of Debt

Staff, RUCO, and Qwest all adopt the Qwest – Arizona actual capital structure and cost of debt. The parties have all agreed that the capital structure is 75.2% debt and 24.8% equity and that the overall embedded cost of debt is 7.81% Cost of equity is the only cost of capital input that remains in dispute.

QC's capital structure is substantially more leveraged than industry and comparable risk companies. The relatively small proportion of equity financing in QC's capital structure requires an equity return that is substantially greater than industry and comparable risk company averages.

Fair Return on Equity Capital – Proxy Company Groups

Estimating the cost of equity capital for QC is a two step process. The first step is to estimate the market required return on equity for publicly traded proxy groups of companies. The second step adjusts the proxy groups market required return to match the increased leverage of QC's capital structure.

While the direct testimonies of Staff witness Reiker, RUCO witness Rigsby and I differ in methodology, their results for the first step are quite similar and the ranges of market required return estimates overlap. Nested within the RUCO range of 10.2% to 12.8% is the Staff range of 10.2% to 11.7% and my range of 11.2% to 11.7%.

Fair Return on Equity Capital for QC – Financial Leverage Adjustments

Mr. Reiker and Mr. Rigsby have both underestimated the second step – the adjustment of the proxy group market required return to account for the greater debt leverage of the QC capital structure.

Rebuttal to the Testimony of Joel M. Reiker

The capital structure / financial risk adjustment employed by Mr. Reiker is methodologically flawed in two important respects. First, he uses book values rather than market values for the proxy group companies. Second, he makes an inappropriate adjustment to the risk measurement for QC. When corrected for these errors, Mr. Reiker's data supports an equity return for QC of 20.2%.

Rebuttal to the Testimony of William A. Rigsby

Mr. Rigsby analyzed four telecommunications companies and has, in fact, made no adjustment for the fact that QC has much more debt in its capital structure than the proxy companies. Mr. Rigsby has simply used two valuation models (DCF and

CAPM) for the same four proxy companies and averaged the results to provide a cost of equity estimate for those four companies. His testimony vastly understates the required return on equity capital for QC.

Conclusion

After reviewing the direct testimony of Staff witnesses Ramirez and Reiker and RUCO witness Rigsby, the conclusion of my testimony remains that a fair return on the QC equity capital invested in Arizona is 21.4%. My specific recommendation is that the Commission authorize a fair return on equity capital of 21.4% for QC – Arizona. When combined with the Company's capital structure and debt costs, the overall return requirement for a fair return on invested capital in Arizona is 11.18%

IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND CURRENT POSITION.

A. My name is Peter C. Cummings and my business address is 1600 Bell Plaza, Room 3005, Seattle, Washington 98191. I am employed by Qwest Corporation (QC) as Director - Finance.

Q. ARE YOU THE SAME PETER C. CUMMINGS THAT PROVIDED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes, I am.

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my rebuttal testimony is to evaluate and respond to the direct testimony of Staff witnesses Alejandro Ramirez and Joel M. Reiker and the direct testimony of RUCO witness William A. Rigsby.

CAPITAL STRUCTURE AND COST OF DEBT

Q. IS THERE ANY AGREEMENT ON COST OF CAPITAL ISSUES AMONG THE PARTIES TO THIS PROCEEDING?

A. Yes. The direct filed testimonies of Alejandro Ramirez and Joel M. Reiker on behalf of Commission Staff, William A. Rigsby on behalf of RUCO, and my testimony on behalf of Qwest Corporation, all adopt the Qwest – Arizona actual capital structure and cost of debt. As shown in Exhibit PCC-1R, the parties have all agreed that the capital structure is 75.2% debt and 24.8% equity and the overall embedded cost of debt is 7.81%.

Q. WHAT ISSUES REMAIN IN DISPUTE?

A. Cost of equity capital is the only cost of capital item that remains in dispute.

COST OF EQUITY

The Market Required Return For Proxy Companies

Q. WHAT METHODS DID STAFF WITNESS REIKER AND RUCO WITNESS RIGSBY USE TO ESTIMATE THE COST OF EQUITY?

A. Mr. Reiker and Mr. Rigsby both used Discounted Cash Flow (DCF) and Capital Asset Pricing Model (CAPM) models to estimate the cost of equity for a proxy group of telecommunications companies.

Q. IS THIS APPROACH SIMILAR TO WHAT YOU PROVIDED IN YOUR DIRECT TESTIMONY?

A. Yes. There are differences in the companies selected and differences in the implementation of DCF and CAPM models, but the basic approach of using publicly

traded company data to estimate the cost of equity for a proxy group of companies is common to the testimony of all three cost of capital witnesses.

Q. HOW DO THE MARKET REQUIRED RETURN ESTIMATES FOR PROXY COMPANIES PROVIDED BY STAFF AND RUCO COMPARE TO THE ANALYSIS IN YOUR DIRECT TESTIMONY?

A. The 11.2% to 11.7% return range from my direct testimony lies within the ranges of required returns developed by both Staff witness Reiker and RUCO witness Rigsby. As shown in Exhibit PCC-2R, the Staff range is 10.2% to 11.7% and the RUCO range is 10.2% to 12.8%.

Market Required Return For QC

Q. THESE RANGES OF MARKET REQUIRED RETURNS FOR THE PROXY COMPANIES OVERLAP AND ARE, IN FACT, QUITE SIMILAR. IS THE MARKET REQUIRED RETURN FOR PROXY GROUP COMPANIES A GOOD ESTIMATE OF THE MARKET REQUIRED RETURN FOR QC?

A. No. Because of the great difference in debt financing as a percent of capital structure between QC and the proxy group companies, financial theory tells us that QC has a greater market required return than the proxy group companies. My rebuttal testimony will focus on this financial risk / capital structure adjustment between the proxy companies and QC. This is the major difference between the testimony of Qwest, Staff, and RUCO. The fact that I am not commenting specifically on Staff and

RUCO DCF and CAPM model implementation and results for the proxy companies does not necessarily mean that I agree with their methods or their results.

Q. IS THERE A METHOD TO ADJUST PROXY GROUP MARKET REQUIRED RETURN ESTIMATES TO PROVIDE AN EQUITY RETURN ESTIMATE FOR A COMPANY THAT HAS SIGNIFICANTLY HIGHER OR LOWER CAPITAL STRUCTURE LEVERAGE THAN THE PROXY GROUP?

A. Yes. There is a well known financial procedure to quantitatively adjust observed market required return data to account for capital structure differences. This procedure, developed by Professor Hamada of the University of Chicago[1], utilizes the Capital Asset Pricing Model (CAPM) logic to first remove the effect of debt financing or leverage from the proxy groups equity return estimates and then adds back the effect of actual debt financing or leverage of the target company – in this case, QC. In the language of finance, the betas of the proxy group companies are "unlevered" to reflect the return required as if those companies had all equity financing, and then the betas are "relevered" to reflect the return required at the mix of debt and equity financing for the target company being evaluated.

Q. DID MR. REIKER AND MR. RIGSBY MAKE ADJUSTMENTS TO THEIR REQUIRED RETURN ESTIMATES FOR THE PROXY COMPANIES TO ACCOUNT FOR THE QC CAPITAL STRUCTURE DIFFERENCE?

[1] Robert S. Hamada, "The Effect of The Firm's Capital Structure on the Systematic Risk of Common Stocks", The Journal of Finance, May 1972, pp. 435-452.

A. Mr. Reiker made a quantitative adjustment intended to reflect the financial risk differential inherent in QC capital structure, and Mr. Rigsby made no explicit adjustment. Both of their approaches are inadequate and my testimony will examine each separately.

Financial Leverage Adjustments

Q. WOULD YOU BRIEFLY REVIEW THE FINANCIAL PROCEDURE TO ADJUST OBSERVED MARKET REQUIRED RETURN DATA TO ACCOUNT FOR CAPITAL STRUCTURE DIFFERENCES?

A. The effects of debt financing are removed from the proxy group return estimates by "unlevering" the betas of the proxy group using the following formula:

$$B_u = \frac{B_L}{1 + (1-t)\, W_d/W_e}$$

Where: B_u = Beta unlevered
B_L = Beta levered
t = Tax rate for the company
W_d = Percent debt in the capital structure
W_e = Percent equity in the capital structure

The W_d and W_e percents are based on the market values of debt and equity. The proxy group companies can then be used to estimate the required equity return (or cost of equity capital) for QC by relevering the proxy group betas to reflect the higher debt leverage of QC. The unlevered beta is adjusted to a new levered beta reflecting the new capital structure weights of debt and equity as follows:

$$B_L = B_u\,(1+(1-t)\, W_d/W_e)$$

REBUTTAL TO THE TESTIMONY OF JOEL M. REIKER

Q. MR. REIKER APPEARS TO HAVE FOLLOWED A SIMILAR PROCEDURE. PLEASE EXPLAIN THE DIFFERENCES BETWEEN HIS ADJUSTMENT AND YOUR ADJUSTMENT.

A. There are two important differences between my adjustment and that made by Mr. Reiker. First, in unlevering the betas of the proxy company group, Mr. Reiker used the book value weights of debt and equity for the proxy companies instead of the market value weights as specified in financial theory and practice. Second, Mr. Reiker inappropriately "unadjusted" the published betas for the proxy companies and then "readjusted" the new levered beta for QC.

Q. WHY IS IT IMPORTANT TO USE MARKET VALUES IN THE CAPITAL STRUCTURE/ FINANCIAL LEVERAGE ADJUSTMENT METHODOLOGY?

A. The levered and unlevered beta equations developed by Professor Hamada specify market values of debt and equity consistent with the economic value environment of the capital markets and the capital asset pricing model.[2] Since Hamada's development of this adjustment methodology, Finance professors and practitioners have consistently advocated the use of market values.[3] Market values are the correct

[2] Ibid.

[3] See, for example: J. Fred Weston and Thomas E Copeland, Managerial Finance, 9th Ed, Fort Worth, Texas, The Dryden Press, 1992, pp. 571-4; Michael C. Erhardt, The Search for Value: Measuring the Company's Cost of Capital, Boston MA, Harvard Business School Press, 1994, p 117; Shannon P. Pratt, Cost of Capital Estimation and Applications, New York: John Wiley & Sons, 1998, p 84.

inputs to the adjustment model for capital structure or financial leverage differences. As a concession to the practicalities of implementation of this methodology, many practitioners substitute the book value for the market value debt and use the market value of equity.[4]

Q. PLEASE COMMENT ON MR. REIKER'S CLAIM THAT YOUR USE OF MARKET VALUES CREATES AN "APPLES TO ORANGES" SITUATION.

A. Mr. Reiker's testimony position is that, since we have no observed market value for QC, then Hamada's adjustment methodology must be changed to use accounting book values for the proxy companies instead of their economic market values. This is not true. Mr. Reiker's testimony invalidates the economic foundation of the adjustment methodology and seriously distorts the required adjustment for financial leverage. Mr. Reiker used the Hamada adjustment equations, but used the wrong input for equity capital – he used the book value percentage of equity capital instead of the market value of equity capital.

Q. DOES THE FACT THAT THERE IS NO OBSERVED MARKET VALUE FOR QC CREATE AN "APPLES TO ORANGES" SITUATION?

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[4] Finance practitioners commonly use the book values of debt and market values of equity. Market values of debt are difficult or impractical to obtain and book values of debt approximate market values, particularly in a low inflationary environment. See (for example): Duff & Phelps Credit Rating Company, Special Report, "Measuring Debt With Cash Flow", July 1994, p.2. and Michael C. Erhardt, The Search for Value: Measuring the Company's Cost of Capital, Boston MA, Harvard Business School Press, 1994, p 117.

A. In my experience, inherent in rate of return regulation is the potential for some mismatch in the application of financial theory and models to the construct of rate base regulation. All of the capital market data we employ in estimating the cost of capital – stock prices, dividend yields, interest rates, betas, market risk premiums -- are all market value or economic based. We employ that data using financial models to determine a fair return on the rate base – the original investment cost less accumulated depreciation. We are always applying market value data and economic financial models to a rate base derived from the accounting books of the regulated company. The fact that the rate base is book value oriented does not require that the financial models we employ be changed from market values to book values. Quite the contrary – removing the underlying market economics from financial models renders then unreliable and invalid.

Q. IS THE PROPER APPROACH TO APPLY MARKET VALUE DATA AND MARKET BASED FINANCIAL MODELS TO THE BOOK VALUE RATE BASE TO DETERMINE A FAIR RETURN?

A. Yes. Since QC – Arizona is not publicly traded and is regulated; we may infer that, under rate of return regulation, the value of the rate base is the best surrogate available for the market value of the entity. The value of any asset is the present value of the future stream of cash flows associated with ownership of the asset. In the context of rate of return rate base regulation, the Commission prescribed fair rate of return is based on the market required return on the assets that comprise the rate base. The Commission prescribes a revenue requirement to provide the market

required return (i.e. cash flows) on the regulated assets of the company and thus the market value of those assets to investors (what they would pay in the market) is equivalent to the carrying value of those assets on the regulated books of the company.

Q. MR. REIKER "UNADJUSTED" THE PUBLISHED BETAS FOR THE PROXY COMPANIES AND THEN "READJUSTED" THE NEW CALCULATED LEVERED BETA FOR QC. WHY IS THIS A PROBLEM?

A. The effect of Mr. Reiker's "unadjusting" and "readjusting" appears to be the cloaking of an ad hoc downward trimming of the required return for QC in the technical nomenclature of finance. The "unadjusting" of the published betas provided by Merrill Lynch and Value Line has a very small effect on the calculation of the average unlevered beta of the proxy group of companies – a decrease from 0.62 to 0.59. Mr. Reiker's "readjusting" of the calculated beta for QC has a very large effect on the financial risk adjustment for QC – a decrease from 1.68 to 1.41.

Q. WHY ARE THE BETAS PUBLISHED BY VALUE LINE AND MERRILL LYNCH ADJUSTED?

A. The betas published by Value Line, Merrill Lynch, and other services are derived from statistical regression of returns of individual securities against a broad market index return. The observed beta from the regression of historical data is typically adjusted toward a value of 1.0 (the beta of the market as a whole) by Value Line, Merrill Lynch and other services that publish betas. The purpose for this adjustment is to correct

for statistical deficiencies in the estimate and recognize the long term trend for betas to converge toward a value of 1.0, and thus provide a better estimate of the true or forward looking beta.[5]

Q. IS THERE A NEED TO ADJUST THE CALCULATED RELEVERED BETA FOR QC?

A. No. The beta adjustment provided by Value Line and others is applicable only to the beta estimates provided for the proxy companies. There is no beta adjustment applicable to the relevered beta that is calculated for QC. There is no statistical regression or observed data in the calculated relevered beta. The purpose of unlevering the proxy group company betas and relevering the sample average unlevered beta for QC is to calculate the financial risk differential between QC and the proxy companies. There is no new statistical regression of historical data and no need for or rationale for adjustment of the relevered beta for QC. Mr. Reiker's adjustment to the relevered beta for QC inappropriately lowers the financial risk adjustment and the required return for QC.

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[5] The motivation for adjusting beta estimates is the observation that, on average, the beta coefficients of stocks seem to move toward 1 over time. ... Another explanation for this phenomenon is statistical. We know that the average beta over all securities is 1. Thus, before estimating the beta of a security our guess would be that it is 1. When we estimate this beta coefficient over a particular sample period, we sustain some unknown sampling error of the estimated beta. The greater the difference between our beta estimate and 1, the greater is the chance that we incurred a large estimation error, and that, when we estimate the same beta in a subsequent sample period, the new estimate will be closer to 1. The sample estimate of the beta coefficient is the best guess for the sample period. Given that beta has a tendency to evolve toward 1, however, a forecast of the future beta coefficient should adjust the sample estimate in that direction. Merrill Lynch adjusts beta estimates in a simple way. They take the sample estimate of beta and average it with 1, using the weights of two thirds and one third:

Adjusted beta = 2/3 (sample beta) + 1/3(1)

Zvi Bodie, Alex Kane, and Alan J. Marcus, Investments, Homewood, IL: Irwin, 1989, pp. 271-272.

Q. HAVE YOU SEEN ANY OTHER EXAMPLES OF AN ADJUSTMENT FOR A RELEVERED BETA SIMILAR TO WHAT MR. REIKER HAS DONE?

A. No. I've never seen this kind of adjustment in financial theory or practice.

Q. CAN YOU QUANTIFY THE IMPACT OF MR. REIKER'S TWO METHODOLOGICAL ERRORS – SUBSTITUTING BOOK VALUE FOR MARKET VALUE IN THE PROXY COMPANIES AND "ADJUSTING" THE RELEVERED BETA FOR QC?

A. Yes. Exhibit PCC-3R provides a comparison of Mr. Reiker's capital structure adjustment as filed and as corrected for the two methodological errors. The errors have a substantial impact. When corrected, the risk adjustment increases from 3.7% to 9.3%. When added to Mr. Reiker's sample Telco cost of equity estimate of 10.9%, the adjusted cost of equity for QC is 20.2%.

Q. WHAT ARE YOUR CONCLUSIONS RELATIVE TO MR. REIKER'S TESTIMONY?

A. Mr. Reiker's adjustment for the capital structure and financial risk differences between his sample telecommunications companies and QC is methodologically flawed resulting in a substantial understatement of the required equity return for QC. When corrected for methodological flaws, Mr. Reiker's data supports a QC equity return of 20.2%.

REBUTTAL TO THE TESTIMONY OF WILLIAM A. RIGSBY

Q. WHAT IS MR. RIGSBY'S RECOMMENDATION FOR THE COST OF COMMON EQUITY FOR QC?

A. As stated on page 29 of his testimony, Mr. Rigsby recommends 11.5%, which is the average of his 10.2% DCF estimate and 12.8% CAPM estimate for his proxy group of telecommunications companies.

Q. DO YOU AGREE WITH MR. RIGSBY'S RECOMMENDATION FOR QC?

A. No. I believe Mr. Rigsby's 11.5% average estimate of the cost of capital for his proxy group of telecommunications companies is a reasonable estimate only for that group of companies. His 11.5% estimate is comparable to the 11.2% to 11.7% range for proxy group companies shown in my direct testimony at page 34. Despite the language in his testimony, Mr. Rigsby fails to make an adjustment to the proxy group cost of equity to reflect the higher financial risk and required equity return for QC.

Q. PLEASE EXPLAIN.

A. Mr. Rigsby explains at the start of his testimony that his cost of capital analysis utilized both the discounted cash flow (DCF) and capital asset pricing model (CAPM) methods because, "These are the two most commonly used methods for calculating the cost of equity capital in rate case proceedings and are generally regarded as the

most reliable."[6] Later in his testimony, Mr. Rigsby says that typically his recommended cost of equity is derived solely from his DCF analysis and that his decision to average in the CAPM results was based on the fact that QC has much more debt in its capital structure than the capital structures of the four companies included in his DCF and CAPM analysis.[7]

Mr. Rigsby has, in fact, made no adjustment for the fact that QC has much more debt in its capital structure. Mr. Rigsby has simply used two valuation models (DCF and CAPM) for the same four proxy companies and averaged the results to provide a cost of equity estimate for those four companies.

Q. IS THE COST OF EQUITY ADJUSTMENT FOR A HIGHLY LEVERAGED COMPANY LIKE QC A SMALL ADJUSTMENT THAT MIGHT BE REASONABLY BE DEALT WITH AS AN EXTENSION OF THE ESTIMATE TOWARDS THE TOP OF A RANGE OR AS A SMALL AD-ON?

A. No. The required cost of equity adjustment is not small and it is not even linear. The adjustment is out of the range of estimates for other firms in the industry. The following table shows the effect of increasing financial leverage (as measured by debt in the capital structure) on risk (as measured by beta). This table is adapted from the

[6] Direct Testimony of William A. Rigsby, page 3.

[7] Ibid, p 29-30.

published work of Professor Aswath Damodaran, a leading current expert on valuation and corporate finance.[8]

Debt /Capital	Debt/Equity	Beta	Leverage Effect	
0%	0%	0.73	0.00	◄ Proxy Group Unlevered
10%	11.1%	0.78	0.05	
20%	25.0%	0.84	0.12	
25%	33.3%	0.88	0.16	
30%	42.9%	0.93	0.20	
40%	66.7%	1.04	0.31	◄ S&P 500 Companies
50%	100.0%	1.20	0.47	
60%	150.0%	1.43	0.71	
70%	233.3%	1.82	1.10	
75%	300.0%	2.14	1.41	◄ QC-Arizona
80%	400.0%	2.61	1.89	
90%	900.0%	4.97	4.24	

Q. PLEASE COMMENT ON MR. RIGSBY'S POSITION THAT HE USUALLY RELIES SOLELY ON THE DCF MODEL AND THAT INCLUDING A CAPM MODEL PROVIDES A RISK ADJUSTED ESTIMATE FOR QC.

A. Mr. Rigsby's so called capital structure adjustment is simply ad hoc, devoid of any tie to financial theory or replicable logic. The adjustment simply seems to be what Mr. Rigsby wants it to be.

[8] Aswath Damodaran, Damodaran on Valuation: Security Analysis for Investment and Corporate Finance, New York: John Wiley & Sons, 1994, p. 159. See also http://pages.stern.nyu.edu/~adamodar/ (Damodaran Online) for further information and spreadsheet levbeta.xls.

Q. DOES THE INCLUSION OF A CAPM COST OF EQUITY ESTIMATE FOR PROXY GROUP COMPANIES PROVIDE A RISK ADJUSTED COST OF EQUITY ESTIMATE FOR QC?

A. No. Mr. Rigsby's CAPM estimate for his group of four proxy companies provides a cost of equity estimate for those four companies and those four companies have an average capital structure that is very different from the QC – Arizona capital structure. Mr. Rigsby's Schedule WAR-9 shows the average capital structure for his proxy group companies as 70.1% equity and 29.9% debt. This is almost the reverse of QC's capital structure of 75.2% debt and 24.8% equity. Mr. Rigsby's CAPM cost of equity estimate is appropriate for the proxy group companies only at their capital structure average of 70.1% equity / 29.9% debt. In no way does the inclusion of CAPM model results in Mr. Rigsby's recommendation account for or adjust for the capital structure difference between the proxy group and QC.

Q. WHAT IS YOUR CONCLUSION RELATIVE TO MR. RIGSBY'S TESTIMONY?

A. Mr. Rigsby's testimony fails to address the capital structure and financial risk differential between QC – Arizona and the proxy group of telecommunications companies and, as a result, his testimony vastly understates the required return on equity capital for QC- Arizona and should not be relied upon by the Commission.

OVERALL RATE OF RETURN RECOMMENDATION

Q. AFTER REVIEWING STAFF AND RUCO TESTIMONY, WHAT IS YOUR RECOMMENDATION FOR A FAIR OVERALL RETURN ON RATE BASE FOR QC?

A. My recommendation remains the same. Using the fair return on equity capital and QC's actual capital structure and embedded debt cost, I recommend the following as a fair return on rate base:

	Percent	Cost	Weighted Cost
Debt	75.2%	7.81%	5.87%
Equity	24.8%	21.4%	5.31%
Overall Return			11.18%

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS

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

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

REBUTTAL EXHIBITS

OF

PETER C. CUMMINGS

QWEST CORPORATION

DECEMBER 20, 2004

EXHIBITS OF PETER C. CUMMINGS

Index of Rebuttal Exhibits

Exhibit

PCC-1R Cost of Capital and Capital Structure Recommendations

PCC-2R Cost of Equity Capital Recommendations

PCC-3R Capital Structure Risk Adjustment

COST OF CAPITAL AND CAPITAL STRUCTURE RECOMMENDATIONS OF THE PARTIES

Qwest - Cummings

	Percent	Cost	Wtd Cost
Debt	75.2%	7.81%	5.87%
Equity	24.8%	21.40%	5.31%
Total Capital			11.18%

Staff - Reiker/Ramirez

	Percent	Cost	Wtd Cost
Debt	75.2%	7.81%	5.87%
Equity	24.8%	14.6%	3.63%
Total Capital			9.5%

RUCO - Rigsby

	Percent	Cost	Wtd Cost
Debt	75.17%	7.81%	5.87% *
Equity	24.83%	11.5%	2.86%
Total Capital			8.73%

* LT Debt 66.45% @ 7.89% plus
ST Debt 8.72% @ 7.24%

The parties agree on Capital Structure and Cost of Debt
Cost of Equity is the only item in dispute

COST OF EQUITY CAPITAL RECOMMENDATIONS OF THE PARTIES

Qwest - Cummings	Staff - Reiker	RUCO - Rigsby
Required Equity Return for Proxy Groups	**Required Equity Return for Proxy Groups**	**Required Equity Return for Proxy Groups**
11.2% to 11.7% [1]	10.2% to 11.7% [2]	10.2% to 12.8% [3]
Corroborating Evidence:	**Corroborating Evidence:**	**Corroborating Evidence:**
S&P 500 Companies - 12.0% to 13.1% [1] Dow Jones Industrials - 12.2% to 12.8% [1]	Non-Telco Companies - 10.5% to 11.5% [5]	N/A
Capital Structure Adjusted Return for QC	**Capital Structure Adjusted Return for QC**	**Capital Structure Adjusted Return for QC**
21.4% [4]	14.6% [6]	11.5% [7]

Notes:

[1] Cummings Direct, page 34
[4] Cummings Direct, page 36

[2] Reiker Direct, page 23
[5] Reiker Exhibit JR-14
[6] Reiker Direct, page 28

[3] Rigsby Direct, page 6
[7] Rigsby Direct, page 29

CAPITAL STRUCTURE RISK ADJUSTMENT

REIKER TESTIMONY

	SAMPLE TELEPHONE COMPANIES UNLEVERED BETA CALCULATION								QWEST CORP RELEVERED BETA CALCULATION					CAPITAL STRUCTURE RISK ADJUSTMENT		
		RAW LEVERED BETA														
Line No.		Value Line β_L	Merrill Lynch β_L	Average β_L	Tax Rate t	Debt W_d	Equity W_e	Average Unlevered Raw Beta β_{UL}	Debt W_d	Equity W_e	Tax Rate t	Relevered Raw Beta β_{RL}	Adjusted Relevered Beta β_{RL}	Historical & Current Market Risk Premium (Rp)	Qwest Corp Required Equity Return [β_{RL} × Rp]	Risk Adjustment QC Req'd Ret. Less Historical Market Risk Premium
1	BellSouth	0.90	0.97	0.93	35%	39%	61%	0.66								
2	SBC Comm.	1.04	0.82	0.93	33%	32%	68%	0.71								
3	Verizon	0.97	0.97	0.97	32%	57%	43%	0.51								
4	Alltel	0.97	0.82	0.89	38%	46%	54%	0.59								
5	CenturyTel Inc.	1.12	0.88	1.00	39%	47%	53%	0.64								
6	Citizens Comm.	0.97	1.38	1.17	36%	75%	25%	0.40								
7																
8	Sample Tel./Qwest	1.00	0.97	0.98	35%	49%	51%	0.59	75%	25%	38.3%	1.68	1.46	7.9%	11.6%	**3.7%**

Source: Schedules JR-10, JR-11, and JR-12

CORRECTED METHODOLOGY WITH MARKET VALUES AND NO ADJUSTMENT TO RELEVERED BETA

	SAMPLE TELEPHONE COMPANIES UNLEVERED BETA CALCULATION								QWEST CORP RELEVERED BETA CALCULATION					CAPITAL STRUCTURE RISK ADJUSTMENT		
		PUBLISHED LEVERED BETA														
Line No.		Value Line β_L	Merrill Lynch β_L	Average β_L	Tax Rate t	Debt W_d	Mkt Value Equity W_e	Average Unlevered Beta β_{UL}	Debt W_d	Equity W_e	Tax Rate t	Relevered Beta β_{RL}		Historical & Current Market Risk Premium (Rp)	Qwest Corp Required Equity Return [β_{RL} × Rp]	Risk Adjustment QC Req'd Ret. Less Historical Market Risk Premium
1	BellSouth	0.95	0.98	0.97	35%	21%	79%	0.82								
2	SBC Comm.	1.05	0.88	0.97	33%	17%	83%	0.85								
3	Verizon	1.00	0.98	0.99	32%	29%	71%	0.77								
4	Alltel	1.00	0.88	0.94	38%	26%	74%	0.77								
5	CenturyTel Inc.	1.10	0.92	1.01	39%	41%	59%	0.71								
6	Citizens Comm.	1.00	1.25	1.13	36%	55%	45%	0.63								
7													This Step			
8	Sample Tel./Qwest	1.02	0.98	1.00	35%	32%	68%	0.76	75%	25%	38.3%	2.18	Not Needed	7.9%	17.2%	**9.3%**

Source: Schedule JR-7, JR support worksheets
Mkt Value Equity = No. shares outstanding 3/31/04 (JR Wkst Capstruccalc) times 8/18/04 share price (Sch JR-7)

Unlevered Beta = $\beta_{UL} = \beta_L/(1+W_d/W_e*(1-t))$ and Relevered Beta = $\beta_{RL} = \beta_{UL}*(1+W_d/W_e*(1-t))$,
where β_{UL}=unlevered beta, β_{RL}=relevered beta, β_L=levered beta, W_d=percent debt in Capital Structure, W_e=percent equity in Capital Structure, t=tax rate

BEFORE THE ARIZONA CORPORATION COMMISSION

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

STATE OF WASHINGTON)
) **ss** **AFFIDAVIT OF PETER C. CUMMINGS**
COUNTY OF KING)

Peter C. Cummings, of lawful age being first duly sworn, deposes and states:

1. My name is Peter C. Cummings. I am Director – Finance for Qwest Corporation in Seattle, Washington. I have caused to be filed written rebuttal testimony in Docket No. T-01051B-03-0454 and T-00000D-00-0672.

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

Further affiant sayeth not.

Peter C. Cummings

SUBSCRIBED AND SWORN to before me this 14th day of December, 2004.

Lori L. White
Notary Public

My Commission Expires: 7/10/07

DOCKET NOS. T-01051B-03-0454
T-00000D-00-0672

Q-13

Admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

MARC SPITZER
Chairman

WILLIAM A. MUNDELL
Commissioner

JEFF HATCH-MILLER
Commissioner

MIKE GLEASON
Commissioner

KRISTIN K. MAYES
Commissioner

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

REBUTTAL TESTIMONY OF

PHILIP E. GRATE

ON BEHALF OF

QWEST CORPORATION

DECEMBER 20, 2004

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SUMMARY OF REBUTTAL TESTIMONY

My rebuttal testimony responds to testimony prepared by Staff witnesses Dunkel, Brosch and Carver and by RUCO witness Diaz Cortez concerning revenue requirement issues. Qwest is operating at a loss in Arizona. Its revenues are declining steadily while its expenses remain relatively flat. Qwest's retail access line count continues to fall. Given the relatively fixed-cost nature of Qwest's business, and the strong competitive pressures on its revenues and access line count, Qwest continues to believe that its revenue requirement is not fully recoverable at this time.

Revenue requirement is less important in this case than it would be in traditional rate case because Qwest is not asking for recovery of most of its revenue requirement. Nevertheless the revenue requirement portion of this case raises certain regulatory accounting and ratemaking issues that have significance beyond this case. Those issues include:

1. When is a change in accounting method or estimate effective for purposes of regulatory accounting and ratemaking in Arizona?
2. What cost-of-service ratemaking methods are to be used in the calculation of revenue requirement in Arizona?
3. In Arizona, what standards of ratemaking properly control cost disallowance?

Accounting Method Changes. With regard to accounting method changes, the issues are whether Qwest adopted accrual accounting for other post employment benefits (OPEBs) and accrual accounting for internal-use-software in 1999 or will adopt these accounting method changes in this case. Staff maintains Qwest adopted accrual accounting for OPEBs in 1999 and will adopt accrual accounting for software SOP 98-1 in this case. Qwest and RUCO believe just the opposite, that Qwest adopted accrual accounting for software in 1999 and will adopt accrual accounting for OPEBs in this case. My testimony reviews the pertinent Arizona regulatory accounting rule, the history of automatic adoption of accounting method changes and the Commission's prior orders and then explains why I believe Staff is mistaken and Qwest and RUCO are correct.

Ratemaking Methods. This case presents three ratemaking method issues for the Commission's consideration. The first ratemaking method issue is whether the Commission should require annualization of the test year using a technically supportable method on a consistent basis or should allow piecemeal annualization of isolated elements of the test year using different methods. Qwest annualized test year revenue and expenses by applying a single annualization method based on regression analysis to all significant test year revenue and expense accounts. RUCO opposes any annualization of the test year. Staff proposed several ad hoc annualization adjustments in addition to or as replacements of Qwest's annualization adjustments. My testimony explains why Arizona's use of an end-of-test-year rate base makes it necessary and

appropriate to annualize the test year. I also explain why I believe the test year should be annualized by applying a valid method on a consistent basis instead of using the piecemeal approach that Staff employed.

The second ratemaking method issue is, when pro forma adjustments to accrued expenses are made, should rate base also be adjusted to reflect the effect of the accrued expense adjustment? My testimony reviews the arguments for and against adjusting the rate base. I note that prior to Utilitech's involvement in Arizona ratemaking, Staff argued and the Commission agreed that rate base should be adjusted. Once Utilitech became involved in Arizona ratemaking, Staff reversed its position. I conclude that the reasoning set forth by Staff and the Commission in favor of adjusting rate base is sound and should be followed.

The third ratemaking methodology issue is whether a pro forma depreciation rate change should be calculated on the entire test year starting with the beginning of test year balances or only on the end-of-test-year balances. Qwest computed its technical update to depreciation rates on the entire test year. Staff believes the adjustment should be computed on the end-of-test-year investment and reserve balances. I conclude that if the depreciation rate change will not take effect until after the end of the test year, then it is appropriate to compute its effect using end-of-test-period balances instead of computing its effect over the entire test year. On the assumption that any depreciation rate change the Commission orders will be post-test-year, I adopted the position that Staff advocates.

Disallowance Standards. My testimony concerning disallowance standards argues that in order for the interests of both ratepayers and investors to be protected, the Commission's disallowance standards should be based on whether a cost is commercially reasonable and not on other policy considerations, particularly policies that have lost their vitality as competition takes control of the telecommunications marketplace in Arizona.

As I did in my direct testimony I explain why the Commission should reject the "tangible ratepayer benefit" standard that Utilitech advances. This standard does not protect the interests of investors in a utility that is prudently managed and that incurs costs, such as incentive compensation costs, that are prudent by standards of commercial reasonableness. I argue that Qwest's test year incentive compensation costs are reasonable by commercial standards and ought not to be disallowed as Staff suggests.

I also reject the disallowance of ordinary business costs--such as image and brand advertising costs--because of standing disallowance policies. Such policies are, by their very nature, prejudicial. I argue that the reasonableness of a cost must be assessed in the context of the circumstances in which it was incurred. A cost such as image and brand advertising that a monopoly arguably ought not to incur might be reasonable when, instead of holding a monopoly on service, the utility is facing strong competition. I argue that the reasons Staff puts forward for disallowing Qwest's image advertising are base on erroneous

information, speculation and opinion unsupported by marketing and advertising expertise.

Other revenue requirement issues: While I do not attempt to rebut every contestable revenue requirement issue I do offer testimony on eight individual revenue requirement issues: 1) I explain why Staff's proposal to remove assets used to support DSL from rate base on the grounds that Qwest violated the FCC's jurisdictional separations rules is incorrect and impermissible. 2) I explain why Staff's proposal to remove from rate base assets use by one of Qwest's affiliates, Broadband Services, Inc., on grounds that the affiliate did not pay for their use is incorrect. 3) I explain why Staff's proposal to impute revenues to FCC Deregulated products is in appropriate and why Staff's computation of this proposed adjustment is incorrect. 4) I offer rebuttal to Staff's and RUCO's arguments opposing my proposal to adopt the same method of accounting for the financing cost of telephone plant under construction that is used by the FCC's Uniform System of Accounts. 5) I explain why RUCO's recalculation of Qwest's property tax expense is incorrect. 6) I explain why RUCO's reasons for opposing to inclusion of pension asset in rate base are incorrect. 7) I explain why Staff's and RUCO's factoring down Qwest's cost of capital on its fair value rate base is incorrect and impermissible. 8) I explain why RUCO's proposed adjustment to rate base for allegedly missing accumulated depreciation balances on station apparatus is incorrect.

Future Reporting Requirements. My testimony explains why Staff's proposal to require Qwest to prepare and file annually by April 1 a detailed revenue requirement calculation should be rejected. Greatly expanding Qwest's reporting burdens would be counter to the direction in which state regulatory reporting requirements are going and competitively unfair to Qwest.

Ministerial Matters. My testimony on ministerial matters explains the mechanics of Qwest's revenue requirement update and that Qwest's revenue requirement now stands at $271.3 million on an original cost rate base and $351.7 million on a fair value rate base. My testimony also lists those topics and adjustments for which no rebuttal is offered and lists those adjustments Staff and RUCO have proposed that are duplicative of adjustments included in Qwest's revised revenue requirement.

IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Philip E. Grate. My business address is Qwest Corporation, 1600 7th Avenue, Seattle, Washington.

Q. ARE YOU THE SAME PHILIP E. GRATE WHO FILED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes.

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. My rebuttal testimony pertains to the calculation of Qwest's revenue requirement and responds to the direct testimony of Staff witnesses Michael L. Brosch, Steven C. Carver and William Dunkel, and to RUCO witness Marylee Diaz Cortez. Qwest's other revenue requirement rebuttal witnesses in this case are Nancy Heller Hughes, Peter C. Cummings and Kerry Dennis Wu.

Ms. Heller Hughes rebuttal testimony addresses the direct testimony of William Dunkel filed on behalf of Staff regarding the Reproduction Cost New Less Depreciation (RCNLD) value of Qwest's plant in service in Arizona. Mr. Cummings' testimony pertains to Qwest's cost of capital and responds to the testimony of Staff witnesses Joel M. Reiker regarding cost of equity and

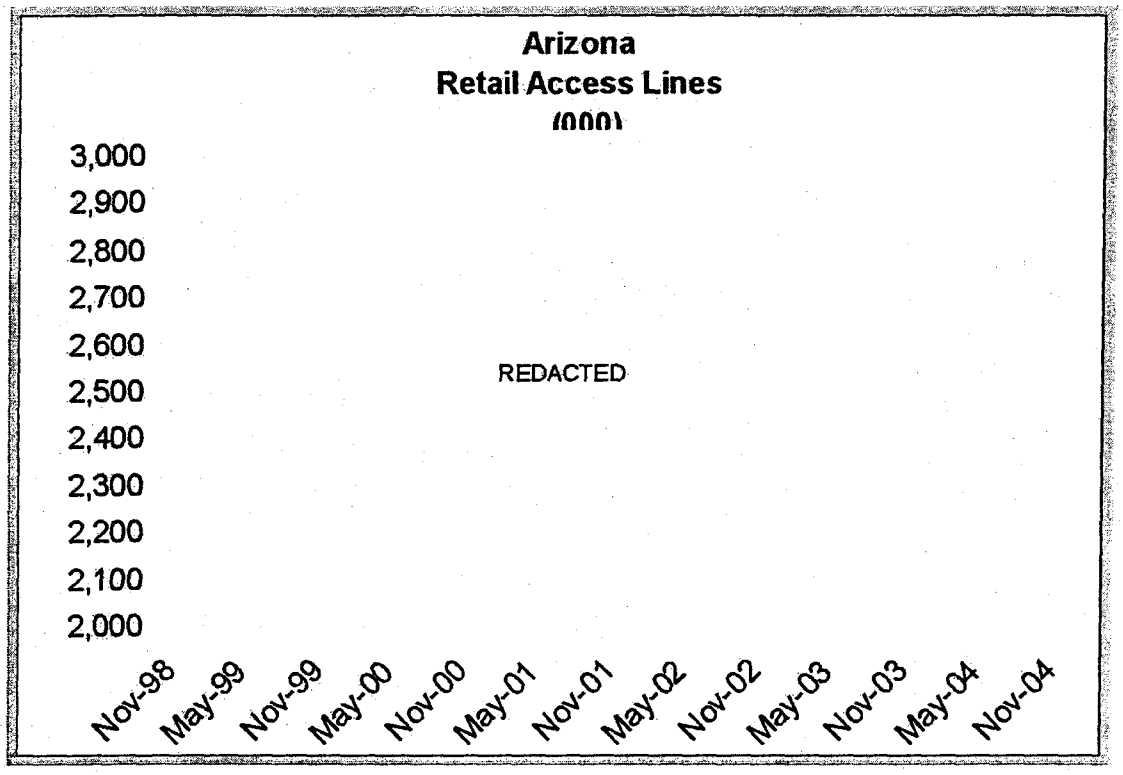
Alejandro Ramirez regarding capital structure, cost of debt and rate of return. Mr. Cummings also responds to RUCO witness William A. Rigsby regarding capital structure, cost of common equity and cost of debt Mr. Wu testifies on depreciation in rebuttal of Staff witness Dunkel.

REVIEW OF QWEST'S FINANCIAL PERFORMANCE

Q. IS QWEST'S FINANCIAL PERFORMANCE IN ARIZONA DECLINING?

A. Yes. Qwest's financial performance in Arizona is declining. Specifically Qwest's revenues are declining more rapidly than its expenses. I explained in my direct testimony that the erosion of Qwest's revenues was largely due to the loss of a significant portion of Qwest's retail customer base. I also testified that during the 38 month period ending April, 2004, Qwest's retail Arizona access line count REDACTED of the total as of February, 2001. Between April and November, 2004, Qwest's retail access line count REDACTED REDACTED

In the 3¾ years since February 2001, REDACTED REDACTED . The following graph charts Qwest's retail access line count over the most recent 72 months:



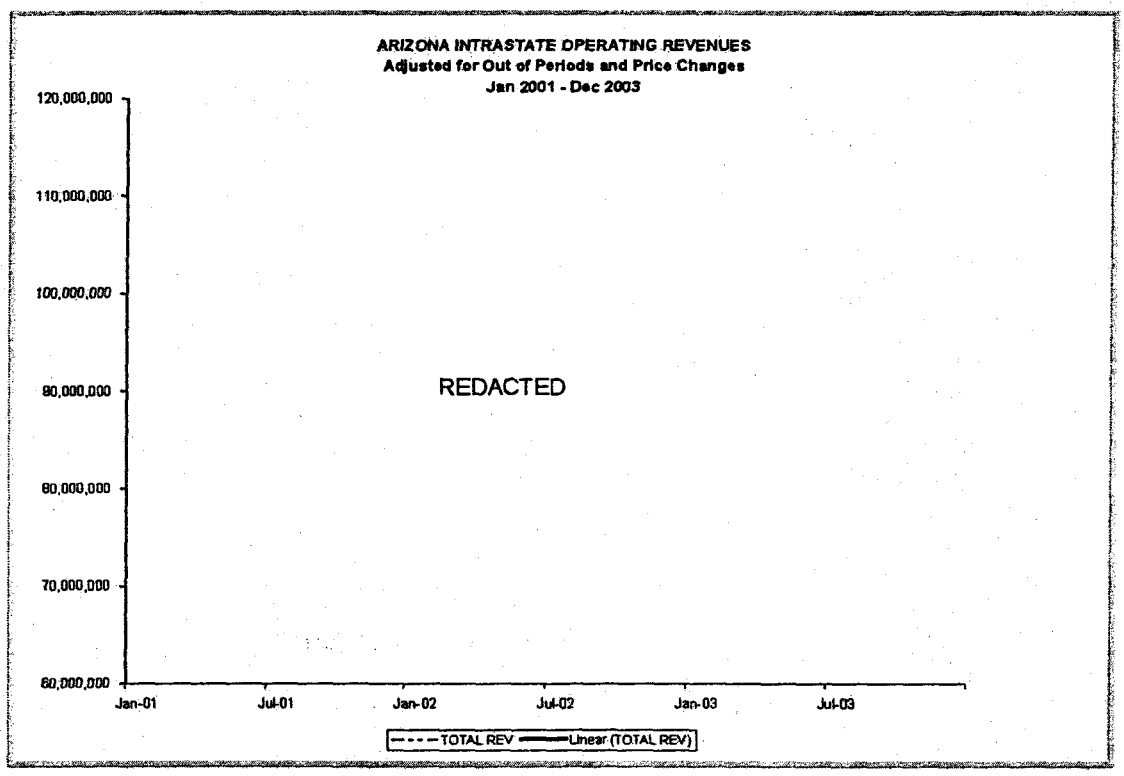
Q. WHAT IS THIS EFFECT OF THIS ACCESS LINE LOSS?

A. The effect is deteriorating financial results. Telephony is a capital intensive and, therefore, a relatively fixed cost business. As shown on Qwest's Rule 103 filing, Qwest has invested $6.8 billion in its Arizona network in order to be ready to provide high quality retail and wholesale telecommunications services on demand to whomever requests it. Qwest must also maintain the business infrastructure necessary to maintain its network and meet customer demands for service.

When customers discontinue service and, as a result, Qwest's access line count falls, the installed network and its maintenance requirements do not

shrink. Consequently, when Qwest is undergoing REDACTED

REDACTED Following is a chart showing the slope of Qwest's recorded monthly Arizona intrastate revenues over the three years ending with the test year in this case. The revenues have been adjusted to remove out-of-period entries and the effect of price changes so that the chart reflects Qwest's actual revenue generating performance.



Note that the r-squared for the revenues is REDACTED

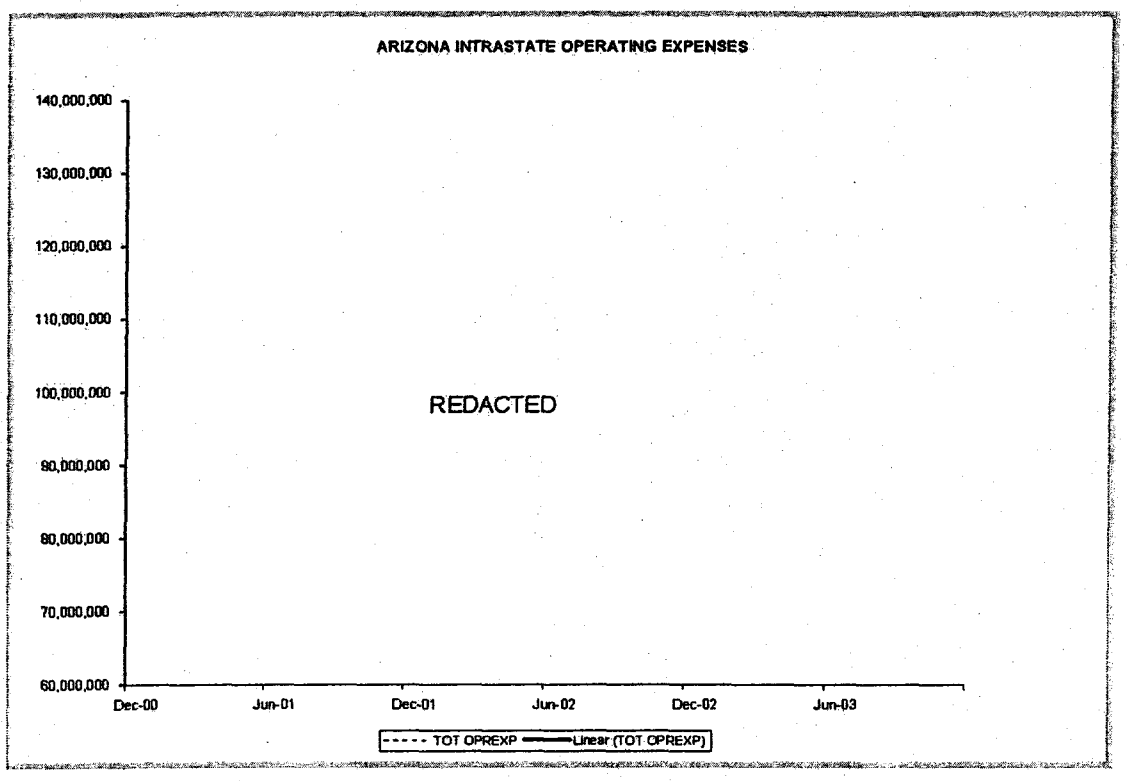
REDACTED

REDACTED

REDACTED

REDACTED

Compare the slope of Qwest's monthly revenues with the slope of its monthly Arizona intrastate expenses over the same period as shown on the following chart.



The slope of the expenses REDACTED REDACTED REDACTED. The average expected expense decrease is REDACTED REDACTED REDACTED

These data demonstrate the fixed cost nature of Qwest's business. A decline in revenues does not produce a corresponding decline in expenses.

RATEMAKING ISSUES IN THIS CASE

Q. WHAT CONDITIONS DOES THE GENERAL THEORY OF RATE-MAKING IN ARIZONA PRESUPPOSE?

A. The general theory of cost-of-service rate-making presupposes the existence of a utility with a monopoly over the services it provides. Consequently, it presupposes that the rates a regulator establishes to satisfy the overall operating costs of the utility and produce a reasonable rate of return will be recoverable from the customers of those monopoly services. As the testimony of Qwest witness David Teitzel explains, that is not the case for Qwest.

Q. IS QWEST ASKING FOR RATES TO RECOVER ITS REVENUE REQUIREMENT?

A. No. Given the intensity of competition Qwest now faces in Arizona as described by Mr. Teitzel, and the pace of Qwest's Arizona access line loss as shown above, Qwest does not believe the revenue requirement computed in the schedules of its Rule 103 filing is fully recoverable from its Arizona customers.

My direct testimony explained that Qwest was not proposing rates to fully recover its revenue requirement and that instead, Qwest was proposing modifications to its price regulation plan that will allow the Company to

compete on a more equal footing with its competition in Arizona. Qwest's position remains unchanged.

Q. THEN OF WHAT RELEVANCE IS QWEST'S REVENUE REQUIREMENT IN THIS DOCKET?

A. Given the intense pressure on Qwest's revenues and the relatively fixed cost nature of its business, revenue requirement has substantially less relevance than in the traditional rate case of a traditional monopoly utility because the recoverability of cost-of-service rates is uncertain. By Qwest's calculation, Qwest's revenue requirement now stands at $271.3 million on an original cost rate base and $351.7 million on a fair value rate base. By RUCO's calculation Qwest's revenue requirement is $160 million. Staff claims it is $3.5 million. Any of these revenue requirements would be sufficient to provide for the rates Qwest has requested in this case. Consequently, the debate over Qwest's revenue requirement is, in some respects, academic.

Accordingly, I have prepared a more limited rebuttal than might be called for were revenue requirement critical to this case.[1] The fact that I am not commenting specifically on every adjustment proposed by Staff and RUCO does not necessarily mean that I agree with their methods or their results. My testimony does not attempt to address every potentially contestable

[1]The adjustments I do not specifically address in testimony are set forth at the end of this testimony in the section regarding ministerial matters.

ratemaking issue. Instead, it focuses principally on issues that have broad Arizona regulatory accounting and ratemaking significance beyond this case.

Q. WHAT ISSUES HAVE SIGNIFICANCE BEYOND THIS CASE?

A. The direct testimony of Staff, RUCO and Qwest raise three important questions regarding revenue requirement calculations that invite the Commission's consideration:

1. In Arizona, **when is a change** in accounting method or estimate **effective** for purposes of regulatory accounting and ratemaking?

2. In Arizona, what cost-of-service ratemaking **methods** are to be used in the calculation of revenue requirement?

3. In Arizona, what **standards** of ratemaking properly **control cost disallowance**?

CHANGES IN REGULATORY ACCOUNTING METHODS

Relevance of Accounting Methods

Q. WHY ARE CHANGES IN REGULATORY ACCOUNTING RELEVANT?

A. Changes in regulatory accounting methods are relevant for two reasons. From a policy perspective they are important because accounting methods are a critical component of Arizona's regulatory framework. Parties need to

be clear about what accounting methods are to be used in Arizona, which does not appear to be the case at present. They are important in this case because they are dispositive of two revenue requirement issues involving four adjustments to Qwest's test year worth almost $58 million that Staff has proposed.

Staff Adjustment Number	Issue	Revenue Requirement Value ($000)
B-6	SOP 98-1 (Internal Use Software)	(7,572)
C-11	SOP 98-1 (Internal Use Software)	(25,020)
B-8	FAS 106 OPEB costs	12,648
C-18	FAS 106 OPEB costs	(36,652)
Total	Revenue Requirement Value	(57,715)

The Commission's Regulatory Accounting Rule

Q. WHAT IS THE COMMISSION'S RULE WITH REGARD TO REGULATORY ACCOUNTING?

A. The Commission's rule regarding regulatory accounting for telephone companies is found in Arizona Administrative Code (A.A.C.) R14-2-510 G, Accounts and Records, which, in pertinent part, reads:

> 2. Each utility shall maintain its books and records **in conformity with the Uniform Systems of Accounts** for Class A, B, C and D Telephone Utilities **as adopted and amended by the Federal Communications Commission** ... (emphasis added)

Q. WHEN WAS THIS RULE ADOPTED?

A. A.A.C. R14-2-510 G was adopted effective March 2, 1982

The History of Accounting Method Changes in Arizona

Q. AS IT PERTAINS TO QWEST AND ITS PREDECESSOR COMPANIES WHAT HAS BEEN THE RECORD OF ADHERENCE TO THE COMMISSION'S ACCOUNTING RULE IN ARIZONA RATEMAKING

A. It appears that between 1982 and 1992, Staff, RUCO, the Company and the Commission uniformly adhered to the rule. I reviewed the Commission's decisions in the following Company dockets.

Docket Number	Decision	Date	Disposition
E-1051-81-406	53040	21 May 1982	Settled
E-1051-83-035	53849	22 Dec. 1983	Litigated
E-1051-83-286	53939	01 Mar. 1984	Litigated
E-1051-84-100	54843	10 Jan. 1986	Litigated
E-1051-88-146	56471	17 May. 1989	Settled
E-1051-91-004	57462	15 Jul. 1991	Settled

My review of these cases found no evidence that an accounting method change incorporated as an amendment into the Uniform System of Accounts (USOA) was not automatically incorporated into regulatory accounting and ratemaking in Arizona. So far as I can discern, the following USOA accounting method changes were incorporated into Arizona regulatory accounting and ratemaking without the Company, Staff, RUCO or the Commission taking any action:

- Capital to expense shifts resulting from the adoption of the "new" uniform system of the accounts prescribed by the FCC (i.e., Part 32);

- Change in accounting from the cash method to the accrual method of accounting for the compensated absences, merit awards and medical/dental expenses;
- Increase in the capitalization rules from $200 to $500, allowing the expensing of qualifying "small value" assets;
- Increase in the capitalization rules from $500 to $2,000, allowing the expensing of qualifying "small value" assets;
- Adoption of the FAS87 accrual method of accounting for pension costs.
- A June 1992 change from the cash to the accrual method of reporting public telephone revenues and
- A March 1993 change in the method of accruing for Billing and Collections revenue.

Q. DID ALL PARTIES AND THE COMMISSION CONTINUE TO ADHERE TO ITS REGULATORY ACCOUNTING RULE IN THE 1990'S?

A. No. An eight page description of my review and analysis of the Company's history regarding accounting method changes in Arizona can be found in Qwest Corporation—Exhibit PEG-R7 Based on that review I conclude that since promulgating A.A.C. R14-2-510 G the Commission's ratemaking orders have ruled on the adoption of four accounting method changes--accrual accounting for Other Post Employment Benefits (OPEBs), accrual accounting for compensated absences, and two rulings changing the method of accounting for short term plant under construction (STPUC).

Q. PLEAES EXPLAIN THE FIRST ACCOUNTING METHOD RULING.

A. On May 21, 1982, two and a half months after promulgating A.A.C. R14-2-510G, the Commission issued Decision No. 53040 in Docket No. 9981-E-1051-81-406 which was a Mountain Bell (Qwest's predecessor company) rate

case. Pursuant to a stipulation between the Company and Staff, the Commission ordered a change in the method of accounting for STPUC from the capitalization method to the rate base method.[2] Changing to the rate base method of accounting for STPUC made Arizona's method uniform with the method the FCC had been using for STPUC. The FCC and Arizona used the same method for STPUC until the Commission's 1995 order in the Company's 1994 rate case discussed below.

Q. PLEASE EXPLAIN THE SECOND ACCOUNTING METHOD RULING.

A. In the Company's 1994 rate case[3] the Commission ruled on three accounting method issues. The first was accounting for Other Post-employment Benefits (OPEBs). The USOA adopted Statement of Financial Accounting Standard No. 106, Employer's Accounting for Postretirement Benefits Other Than Pensions, (FAS 106) effective in 1992. FAS 106 prescribed an accrual method of accounting. Staff and RUCO argued the Commission should reject FAS 106. The Commission ordered the Company to continue using the pay-as-you-go method that the USOA had employed prior to 1992.[4]

Q. PLEASE EXPLAIN THE THIRD ACCOUNTING METHOD RULING.

A. In the Company's 1994 rate case the second accounting method issue upon which the Commission ruled was accounting for compensated absences.

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[2] Decision No. 53040, p. 5, Ordering clause 4.
[3] Docket No. E-1051-93-183.
[4] Decision No. 58927, January 3, 1995, pages 44 and 45.

The Company began to utilize the accrual method of accounting for compensated absences in 1988 when the FCC adopted Part 32 of the USOA. In the Company's 1994 rate case, RUCO opposed switching from the pay-as-you-go method to the accrual method. The Commission approved the continued use of the accrual method which was also the method prescribed by the USOA.[5]

Q. PLEASE DESCRIBE THE FOURTH ACCOUNTING METHOD CHANGE.

A. In the Company's 1994 rate case, a third accounting issue was raised, accounting for STPUC, which was also the subject of the Commission's first accounting ruling described above. Although in 1994 the USOA did not prescribe the capitalization method to account for STPUC and had not prescribed at least as far back as 1977, Staff urged the Commission to change from the rate base method the USOA prescribed to the capitalization method. The Commission agreed and ordered a change to the capitalization method.[6]

[5] Decision No. 58927, p. 47, line 18
[6] Decision No. 58927, p 6, l. 15.

Q. DID YOU FIND EVIDENCE TO SUGGEST THAT AN ACCOUNTING METHOD CHANGE INCORPORATED AS AN AMENDMENT TO THE USOA IS NOT AUTOMATICALLY INCORPORATED INTO ARIZONA REGULATORY ACCOUNTING?

A. No. It is clear that absent a Commission order to the contrary, an accounting method change incorporated into the USOA is (and consistently has been) automatically incorporated into Arizona regulatory accounting by operation of Rule R14-2-510 G.

Q. DID YOUR REVIEW REVEAL EVIDENCE OF ANY REQUIREMENT FOR REGULATED TELEPHONE COMPANIES TO SEEK COMMISSION APPROVAL TO EMPLOY FOR RATEMAKING PURPOSES ACCOUNTING METHOD CHANGES THAT HAVE ALREADY BEEN INCORPORATED INTO THE USOA?

A. No. I also inquired through discovery whether Staff was aware of any such requirement. Staff indicated they were not aware of any such requirement.[7]

[7] *See* Qwest data requests 10-6, 10-7 and 10-8 and Staff's response which can be found in Qwest Corporation— Exhibit PEG-R16.

1 ***Accounting for OPEBs (Staff B-8, C-1; RUCO RBA#7, OA#5)***

2 **Q. HAS THE COMMISSION ISSUED ANY ORDER DIRECTING THE**
3 **COMPANY TO CHANGE THE METHOD OF ACCOUNTING FOR OPEBS IT**
4 **ORDERED IN THE COMPANY'S 1994 RATE CASE?**

5 A. No. The Commission's ratemaking order in Decision No. 58927 required the
6 Company to continue using the pay-as-you-go method of accounting for
7 OPEBs for ratemaking purposes despite the fact that the accrual method had
8 been incorporated into the USOA. Since then there has been no Commission
9 decision or ruling directing the Company to stop using the pay-as-you-go
10 method and to start using FAS 106 to account for OPEBs. In compliance with
11 Decision No. 58927, the Company does not use FAS 106 accrual accounting
12 for OPEBs for regulatory purposes in Arizona. In this docket my direct
13 testimony proposes that the Commission change from the pay-as-you-go
14 method ordered in Decision No. 58927 to the accrual accounting method.

15 **Q. MR. CARVER'S TESTIMONY[8] ARGUES THAT IN THE COMPANY'S LAST**
16 **RATE CASE THE COMMISSION ORDERED THE COMPANY TO BEGIN**
17 **USING ACCRUAL ACCOUNTING FOR OPEBS EFFECTIVE JANUARY 1,**
18 **1999. DO YOU AGREE?**

19 A. No. The adoption of FAS 106 for ratemaking purposes was a contested issue
20 in Qwest's last rate case. A settlement agreement between Staff and Qwest
21 that the Commission adopted with some modifications resolved the case.

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[8] Docket No. T-01051B-03-0454; Direct Testimony of Steven C. Carver; pp. 56-71.

Nothing in the settlement agreement or the Commission's decision approving the settlement agreement provides for the adoption of FAS 106. Mr. Carver argues that it was the "regulatory intent" of Staff and Qwest to adopt FAS 106 for ratemaking purposes,[9] and that, therefore, Qwest is pretending that the Commission did not adopt FAS 106 in Qwest's last rate case. I disagree.

First, the adoption of FAS 106 for ratemaking purposes was not uncontested. AT&T opposed it in direct and surrebuttal testimony.[10] Staff offered no testimony in rebuttal of AT&T's position.

Second, Mr. Carver's assertion that Qwest and Staff intended to agree on the accounting method to be used is contradicted by the settlement agreement itself, which provides:

> 11. COMPLETE AGREEMENT. This Agreement represents the complete agreement of the Parties. **There are no understandings** or commitments **other than those specifically set forth herein.** The Parties acknowledge that this Agreement resolves all issues that were raised in the Rate Case and is a complete and total settlement between the Parties. (emphasis added)

At page 61 of his direct testimony Mr. Carver acknowledges that "Mr. Grate is quite correct that both the settlement agreement and the Commission's order are silent concerning the transition from PAYGO to OPEB accrual

[9] Docket No. T-01051B-03-0454; Direct Testimony of Steven C. Carver; p. 56, l.11; p. 61, l. 1; 27 p. 67, l. 1' p. 71, l. 4.
[10] Docket No. T-1051B-99-105, Direct Testimony of Susan M. Gately, pp. 36-7, Surrebuttal Testimony of Susan M. Gately, p. 11.

accounting." Nevertheless Mr. Carver ignores the portion of the settlement agreement that states there are no understandings other than those specifically set forth in the settlement agreement. Instead, he argues there was an unwritten understanding or "regulatory intent" between Staff and Qwest whereby they adopted FAS 106 and "mutually adopted an APBO/TBO balance and an amortization period."[11]

Even if there was such an understanding before the settlement agreement, there was not one after the signing of the settlement agreement—by the force of its own terms. Nevertheless, Mr. Carver dismisses the settlement agreement's silence regarding OPEBs as inconsequential.

> I do not find it disturbing, dispositive or surprising that OPEB accounting (i.e., PAYGO continuation or adoption of FAS 106) was not explicitly addressed in the last rate case settlement agreement, unlike the specific reference contained in the 1997 Southwest Gas Corporation settlement.

If the 1997 Southwest Gas Corporation settlement (to which Staff was a party) included language explicitly adopting FAS 106, then clearly the settlement agreement between Staff and Qwest in the Company's last rate case could have too. The absence of language regarding FAS 106 is not, as Mr. Carver suggests, inconsequential, particularly where the settlement agreement is clear that there are no understandings beyond what it says.

[11] Docket No. T-01051B-03-0454; Direct Testimony of Steven C. Carver; p. 64, l.27.

1 Third, I do not subscribe to Mr. Carver's view that the party's "regulatory
2 intent" expressed in rate case testimony that preceded a settlement
3 agreement should determine Arizona regulatory accounting and ratemaking
4 policy. Where the Commission has plainly ordered a deviation from Arizona's
5 regulatory accounting rule for ratemaking purposes, it should not be left to the
6 parties to later undo the order though their testimony, even if they are
7 unanimous in their desire (which in the Company's last rate case they were
8 not) to change the accounting method the Commission previously ordered.

9 **Q. WHAT IS RUCO'S POSITION WITH REGARD TO THE ADOPTION OF FAS**
10 **106?**

11 A. RUCO proposes two adjustments to Qwest's adjustment PFA-03 that treats
12 FAS 106 as adopted as of the end of the 2003 test year. However neither
13 RUCO adjustment disputes the adoption of FAS 106 within the 2003 test
14 year. No party except Staff claims it was adopted in 1999.

Q. MR. CARVER ARGUES QWEST HAS NOT MAINTAINED ITS ARIZONA INTRASTATE REGULATORY ACCOUNTING RECORDS IN STRICT COMPLIANCE WITH THE PAYGO ACCOUNTING METHOD ADOPTED BY THE COMMISSION IN THE COMPANY'S 1994 RATE CASE.[12] HOW DO YOU RESPOND?

A. In the Company's 1994 rate case[13] the Commission ordered a deviation from Arizona's regulatory accounting rule for purposes of the Company's ratemaking by adjusting Qwest's test year OPEBs costs. The Commission's decision did not address what to do regarding compliance with the regulatory accounting rule in A.A.C. R14-2-510 G. During that same time period, several other state regulatory commissions also ordered ratemaking and/or accounting with regard to OPEBs that differed from the USOA. Hence, the regulatory accounting and ratemaking treatment of OPEB costs varies from the treatment afforded it by the FCC in several states.

The differences include partial early adoption in one state, phased in adoption in another, late adoption in several, and in Arizona, no adoption at all. There are also differences relating to funding or not funding the accrued liability, and the timing of the recognition of the Transition Benefit Obligation (TBO). These differences make for a mélange of jurisdictional accounting issues that Qwest must handle.

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[12] Docket No. T-01051B-03-0454; Direct Testimony of Steven C. Carver; pp. 67-71.
[13] Docket No. E-I051-93-183 (Decision No. 58927).

1 Qwest maintains JR books for each state that reflect Jurisdictional
2 Differences (JDs) from the books kept for reporting to the FCC (MR Books).
3 Each state has its own JR books that reflect accounting estimates and
4 methods that are unique to that state and different from the FCC's accounting
5 estimates and methods. However because OPEBs accounting is so complex,
6 Qwest does not, as a rule, record JDs for OPEBs in the several states where
7 differences in regulatory accounting and ratemaking treatment exist. Qwest's
8 JR books in most states—including Arizona—are no different than the MR
9 books in their accounting for OPEBs. In states where there are exceptions to
10 this rule the exceptions relate to TBO amortization differences.

11 Because Arizona is one of the states in which the Company has no JDs for
12 OPEBs the Arizona unadjusted test year reflects OPEBs in accordance with
13 the FCC's adoption of FAS 106 in 1992. This was the case in Docket No. E-
14 1051-93-183 (the Company's 1994 rate case) and Docket No. T-01051B-99-
15 0105 (the Company's last rate case) and it is the case in Qwest's current Rule
16 103 filing.

17 **Q. DID YOU EXPLAIN THIS TO MR. CARVER?**

18 A. Yes. On October 21, 2004, Mr. Carver sent me a series of three e-mails
19 inquiring about Qwest's OPEBs accounting. He asked me to schedule a
20 meeting so that I could explain and clarify Qwest's responses to his discovery
21 concerning OPEBs. As I studied his questions and began to research the

answers, I determined that a written explanation would best clarify our responses and help his understanding. I e-mailed that response to Mr. Carver October 25, 2004. A copy of the e-mails between Mr. Carver and myself is attached to this testimony as Qwest Corporation—Exhibit PEG-R8.

Q. AS A MATTER OF REGULATORY POLICY, WHAT SHOULD THE COMMISSION DO WHEN IT INTENDS TO CHANGE ITS POSITION WITH REGARD TO A PREVIOUSLY ORDERED REGULATORY ACCOUNTING AND RATEMAKING RULE?

A. If the Commission's position regarding the accounting rules for establishing revenue requirement is not explicit, it opens the ratemaking process to endless debate about what the rules are. In this case, Staff argues the "regulatory intent" of the parties to a settlement agreement that contains no language expressing that intent is somehow dispositive. Qwest's view is that if the Commission issues an order deviating from its own accounting rule, the Commission must issue another order superseding the first order before the first order can be considered no longer effective.

Deviating from uniform accounting rules destroys the comparability of utility financial results. Deviation from the USOA also leads to a patchwork quilt of different accounting rules for different utilities that make the job of reviewing and understanding their financial results more burdensome. I recommend the Commission avoid deviating from Arizona's regulatory accounting rule and

take steps to adopt accounting methods that are consistent with the USOA so that over time, uniformity and consistency will return to regulatory accounting in Arizona.

I also believe that where the Commission has issued an order to adopt for ratemaking purposes a different accounting method than is required under Arizona's regulatory accounting rule, a departure from that order can only be accomplished with another order. I do not believe it is sound regulatory policy for the parties to be allowed to speculate and argue about what a settlement agreement or the Commission's order meant by their silence.

Q. SHOULD THE COMMISSION ADOPT STAFF'S PROPOSED ADJUSTMENTS FOR OPEBS?

A. No. Adjustments B-8 and C-18 are premised on Staff's erroneous assumption that the Commission's order in Qwest's last rate case directed Qwest to adopt of FAS 106 in 1999. It did not. Accordingly, adjustments B-8 and C-18 must be rejected.

Q. SHOULD THE COMMISSION ADOPT RUCO'S PROPOSED ADJUSTMENTS FOR OPEBS?

A. No. These adjustments are unnecessary. Adjustment PFA-02 to Qwest's revised revenue requirement calculation includes the same corrections that

RUCO's Operating Adjustment #5 - Postretirement Benefit Amortization and Rate Base Adjustment #7 - Postretirement Benefits are meant to make.

Accounting for Internal-Use-Software (Staff B-6, C-11; RUCO RB#2, OA#4)

Q. WHAT IS THE CONTESTED REGULATORY ACCOUNTING ISSUE WITH REGARD TO ACCOUNTING FOR INTERNAL-USE-SOFTWARE?

A. The contested issue is a calendar question, specifically, when did accrual accounting for internal-use-software under the American Institute of Certified Public Accountants' Statement of Position 98-1 (SOP 98-1) first become effective for regulatory accounting and ratemaking in Arizona. RUCO and Qwest believe the date was January 1, 1999. Staff asserts it has not yet occurred and proposes two adjustments (B-6 and C-11) that assume adoption occurs in the 2003 test year.

Q. WHEN WAS SOP 98-1 ADOPTED FOR PURPOSES OF THE FCC'S USOA?

A. January 1, 1999.

Q. WHEN WAS SOP 98-1 ADOPTED FOR PURPOSES OF AND REGULATORY ACCOUNTING UNDER A.A.C. R-14-2-510 G?

A. January 1, 1999.

Q. WHEN DO RUCO AND QWEST BELIEVE SOP 98-1 WAS ADOPTED?

A. January 1, 1999.[14]

Q. HAS THE COMMISSION ISSUED ANY ORDER DEVIATING FROM THE JANUARY 1, 1999 ADOPTION UNDER A.A.C. R14-2-510 G?

A. No.

Q. WHY, THEN, MIGHT STAFF BELIEVE ADOPTION OF SOP 98-1 HAS NOT YET OCCURRED?

A. Perhaps from my direct testimony in which I stated

> Q. DOES QWEST USE SOP 98-1 IN ALL THE OTHER STATES WHERE IT IS REGULATED?
> A. No. Qwest does not use SOP 98-1 to account for internal use software in any state except Oregon.

Q. WAS THIS STATEMENT CORRECT WHEN YOUR DIRECT TESTIMONY WAS FILED MAY 20, 2004?

A. Yes. When my direct testimony was filed, Qwest recorded on the state regulatory books of all states except Oregon Jurisdictional Differences (JDs) that treated the costs of internal-use-software as if SOP 98-1 had not been adopted.

[14] Docket No. T-01051B-03-0454; Direct Testimony of Marylee Diaz Cortez, p. 6, l. 21.

Q. IS THIS STATEMENT STILL CORRECT?

A. No. When I prepared my direct testimony earlier this year, I was unaware of Arizona's regulatory accounting rule set forth in A.A.C. R14-2-510 G. I was also unaware of the true history of the treatment of accounting method for ratemaking purposes in Arizona. In fact I was under the mistaken impression that Qwest was obligated to seek the Commission's approval for each accounting method change before it could be incorporated into regulatory accounting and ratemaking in Arizona. Because the Commission has not issued an order adopting SOP 98-1, I wrongly assumed it had not been adopted in Arizona.

Q. WHAT WAS THE BASIS FOR YOUR MISTAKEN ASSUMPTION?

A. I had two reasons. In preparing to write my direct testimony, I reviewed Qwest's accounting for SOP 98-1 and found that in all states except Oregon Qwest treated the costs of internal-use-software as if SOP 98-1 had not been adopted. I also reviewed portions of the testimony filed in Docket No. T-1051B-99-105 (Qwest's last rate case) and found that Staff witness Steven C. Carver had testified that the Company had "previously sought regulatory approval and ratemaking treatment" for the following accounting method changes:

- Capital to expense shifts resulting from the adoption of the "new" uniform system of the accounts prescribed by the FCC (i.e., Part 32);

- Change in accounting from the cash method to the accrual method of accounting for the compensated absences, merit awards and medical/dental expenses;
- Increase in the capitalization rules from $200 to $500, allowing the expensing of qualifying "small value" assets;
- Increase in the capitalization rules from $500 to $2,000, allowing the expensing of qualifying "small value" assets;
- Adoption of the FAS87 accrual method of accounting for pension costs; and
- Adoption of the FAS106, which implemented a change from cash to accrual method of accounting for post-retirement benefits other than pensions.[15]

Relying on the Company's accounting records and on Mr. Carver's testimony, I wrongly assumed that the Company was required to seek the Commission's approval before incorporating accounting method changes into regulatory accounting and ratemaking in Arizona.

Q. WHAT CAUSED YOU TO QUESTION THAT ASSUMPTION?

A. In the course of discovery in this docket, Staff propounded data request UTI 4-1(a) which asked:

> Since Qwest adopted SOP98-1 in 1999 pursuant to an order of the FCC, please explain why Qwest is only now proposing to adopt this accounting method for Arizona regulatory purposes?

This question and a phone conversation with Mr. Brosch and Mr. Carver raised doubts about my assumptions regarding the adoption of SOP 98-1.

[15] Docket No. T-1051B-99-105, Direct Testimony of Steven C. Carver, pages 64 and 65.

Q. WHAT DID YOU DO ABOUT YOUR DOUBTS?

A. I researched the Arizona Administrative Code and found A.A.C. R14-2-510 G, Arizona's regulatory accounting rule. I then reread the Commission's orders issued since it promulgated A.A.C. R14-2-510 G in 1982 to determine whether the Commission had adhered to this rule for ratemaking purposes or whether Mr. Carver's testimony in Qwest's last rate case was correct.

Q. WHAT DID YOU FIND?

A. An eight page description of my review and analysis of the Company's history regarding accounting method changes in Arizona can be found in Qwest Corporation—Exhibit PEG-R7. I found nothing in the orders I reviewed to corroborate Mr. Carver's testimony. Instead, I found that except for the rejection of FAS 106 to account for OPEBs (which I discussed in the preceding pages) the accounting method changes he had mentioned appeared to have been incorporated automatically into Arizona regulatory accounting and ratemaking. The process did not require or involve any active participation by the Company, Staff, RUCO or the Commission.

I concluded that Mr. Carver's testimony in the Company's last rate case was incorrect. With the exception of its order in the Company's 1994 rate case that explicitly rejected FAS 106 and adopted the capitalization method of accounting for STPUC (both at the behest of Mr. Carver), the Commission

had adhered to Arizona's regulatory accounting rule for purposes of establishing the Company's revenue requirements.

Q. DID YOU GIVE STAFF AN OPPORTUNITY TO CORROBORATE MR. CARVER'S TESTIMONY IN THE COMPANY'S LAST RATE CASE?

A. Yes. I prepared questions that were served on Staff as data request Qwest 10-11 and 10-12. The questions asked for citation to the Commission decision or order evidencing that Qwest sought and the Commission granted approval for these accounting method changes. As I have previously testified, Staff declined to provide any such information.[16]

Q. DID YOU INVESTIGATE WHY QWEST'S ACCOUNTING FOR INTERNAL-USE-SOFTWARE DID NOT REFLECT ADOPTION OF SOP 98-1 IN ANY STATE EXCEPT OREGON?

A. Yes. It struck me that by not following the USOA regarding the adoption of SOP 98-1 Qwest was non-compliant with A.A.C. R-14-2-510 G. So I initiated an internal inquiry to determine whether this was true. In response to Staff data request UTI 16-17, Qwest explained with regard to the adoption of SOP 98-1 that,

> In addition to Arizona, the company maintained offbook records for the following jurisdictions in 2003: Colorado, Iowa, Idaho, Minnesota, Montana, Nebraska, New Mexico, North Dakota, South Dakota, Utah, Washington and Wyoming. "The reason for maintaining the offbook

[16]A copy of Qwest data requests 10-11 and 10-12 and Staff's response can be found in Qwest Corporation— Exhibit PEG-R16.

records is the same for Arizona and all the jurisdictions shown above. There have been no orders in any of these jurisdictions implementing SOP 98-1.

So I asked that the inquiry address not only Arizona but also all other jurisdictions to determine whether Qwest was non-compliant with any other state's regulatory accounting rules as it pertained to SOP 98-1.

Q. WHAT DID THE INQUIRY REVEAL?

A. The inquiry concluded that the regulatory accounting rules in all states except Washington, Iowa and South Dakota would provide for the adoption of SOP 98-1 at the same time it was adopted for purposes of the USOA. As a result of this inquiry, Qwest is adjusting its JR books in November to reflect adoption of SOP 98-1 in conformance with adoption as per the USOA in Arizona, Colorado, Idaho, Montana, Nebraska, New Mexico, North Dakota, Utah, and Wyoming.

Q. WHAT DID YOU DO WITH YOUR NEWFOUND KNOWLEDGE OF THE ARIZONA RULE AND PRACTICE REGARDING ACCOUNTING METHOD CHANGES?

A. I concluded that Qwest's adjustment PFA-03 regarding the adoption of SOP 98-1 was incorrect, because it assumed adoption in 2003 instead of 1999. I notified the parties of this conclusion in Qwest's supplemental response to Staff's data request UTI 4-1(a) as follows: "Qwest will revise its test year to

reflect the adoption of SOP 98-1 effective January 1, 1999, the same date Qwest adopted SOP 98-1 for FCC reporting purposes." In response to part (c) of that data request I provided an attachment with a revised calculation of Adjustment PFA-03 to reflect the fact that SOP 98-1 had been adopted January 1, 1999.

Q. MR. CARVER COMPLAINS: "THIS REVISED POSITION...IS SPONSORED BY MR. GRATE EVEN THOUGH THE COMPANY HAS NEVER PREVIOUSLY PROPOSED NOR SOUGHT COMMISSION APPROVAL TO RECOGNIZE THIS ACCOUNTING CHANGE FOR INTRASTATE REGULATORY PURPOSES."[17] WHAT IS YOUR RESPONSE?

A. I discovered in my research that Arizona has no requirement for the Company to seek or the Commission to grant approval of this accounting change. Under Arizona's regulatory accounting rule, as promulgated by this Commission, the adoption of this change was automatic in 1999. Mr. Carver complains of non-compliance with a nonexistent requirement.

Q. DID YOU GIVE MR. CARVER AN OPPORTUNITY TO DEMONSTRATE THAT SUCH A REQUIREMENT EXISTS?

A. Yes. I prepared questions that were served on Staff as Qwest data requests 10-5 and 10-6. The questions asked if Staff believes that Arizona utilities, or Qwest in particular, must seek and receive Commission approval to

[17] Docket No. T-01051B-03-0454; Direct Testimony of Steven C. Carver; pp. 50-51.

1 incorporate a change in accounting methods mandated by the USOA for cost-
2 of-service ratemaking purposes in Arizona. In response to both questions,
3 Mr. Carver responded that he "**believes** that resolution of ratemaking
4 treatment of accounting changes that significantly impact revenue
5 requirement is properly addressed within the context of ratemaking
6 proceedings" **but admitted** that his belief was "**not predicated on any**
7 **statutory constitutional or rulemaking authority.**" (emphasis added)[18]

8 There is no Arizona requirement to seek Commission approval for accounting
9 changes automatically incorporated by Arizona's regulatory accounting rule.
10 Mr. Carver's complaint that the Company has never previously proposed nor
11 sought Commission approval to recognize this accounting change for
12 intrastate regulatory purposes is based on a fundamental misconception.

13 **Q. MR. CARVER CLAIMS THAT HE KNOWS SOP 98-1 WAS NOT ADOPTED**
14 **IN 1999 BECAUSE OF WHAT THE PARTIES SAID IN TESTIMONY FILED**
15 **IN THE CASE.[19] WHAT IS YOUR RESPONSE?**
16 A. The testimony of the parties is irrelevant for two reasons. First, the testimony
17 is irrelevant because the settlement agreement in Qwest's last rate case
18 makes it so. The settlement agreement provides: "There are no
19 understandings or commitments other than those specifically set forth herein."

[18] A copy of Qwest data requests 10-5 and 10-6 and Staff's response can be found in Qwest Corporation— Exhibit PEG-R16.
[19] Docket No. T-01051B-03-0454; Direct Testimony of Steven C. Carver; pp. 53-54.

Second, nothing in Arizona's regulatory accounting rule suggests that the positions of the parties in a rate case (particularly one that is resolved by a settlement lacking any language regarding account method changes) affect the operation of the rule. Absent a Commission decision that orders a deviation from the rule (Decision 58927 being the only one) there is no basis for disregarding it.

Q. SHOULD THE COMMISSION ADOPT STAFF'S PROPOSED ADJUSTMENTS FOR SOP 98-1 (INTERNAL USE SOFTWARE)?

A. No. Adjustments B-6 and C-11 are premised on Mr. Carver's erroneous belief that SOP 98-1 was not adopted in 1999. Staff is the only party that maintains this incorrect position. Nothing in the settlement agreement or the Commission's order in Qwest's last rate case provides for non-adoption. Moreover, it has long been the Commission's practice to follow its rule and automatically incorporate into ratemaking changes in accounting method under the rule. Accordingly, adjustments B-6 and C-11 must be rejected.

Q. SHOULD THE COMMISSION ADOPT RUCO'S PROPOSED CAPITALIZATION OF SOFTWARE ADJUSTMENTS?

A. No. These adjustments are unnecessary. Adjustment PFA-03 to Qwest's revised revenue requirement calculation includes the same corrections that RUCO's Operating Adjustment #4 – Capitalization of Software. and Rate Base Adjustment #2 - Capitalization of Software are meant to make.

RATEMAKING METHODS

Relevance of Ratemaking Methods

Q. WHY ARE THE COMMISSION'S RATEMAKING METHODS RELEVANT?

A. The Commission's ratemaking methods are relevant for two reasons. From a policy perspective they are important because they are a critical component of Arizona's regulatory framework. Parties need to be clear about the ratemaking methods in Arizona. Such clarity seems to be lacking at present. The ratemaking methods are important in this case because they are dispositive of three revenue requirement issues involving eight adjustments to Qwest's test year worth $84 million that Staff has proposed.

Staff Adjustment Number	Issue	Revenue Requirement Value ($000)
C-16	Year-end Wage and Salary Annualization	(12,804)
C-5	Directory Assistance Revenue Annualization	(3,789)
C-4	Toll Revenue Annualization	(1,100)
C-2	Local Service Revenue Correction	(810)
C-3	Access Revenue Annualization	135
B-7	Depreciation Reserve Correction	(10,123)
C-22	Depreciation Annualization	(55,748)
Total	Revenue Requirement Value	(84,239)

The Commission's Ratemaking Methods

Q. WHAT DO YOU MEAN BY "RATEMAKING METHODS?"

A. I am referring to the Commission's methods regarding cost-of-service test year construction. The Commission's cost-of-service ratemaking rules define the test year as:

> The **1-year historical period** used in determining rate base, operating income and rate of return. The end of the test year shall be the most recent practical date available prior to the filing. A.A.C. R14-2-103(A)(3)(p) (emphasis added)

However, the Commission's rules also define original cost rate base as:

> An amount consisting of the depreciated original cost, prudently invested, of the property (exclusive of contributions and/or advances in aid of construction) **at the end of the test year**, used or useful, plus a proper allowance for working capital and including all applicable pro forma adjustments. A.A.C. R14-2-103(A)(3)(h) (emphasis added)

The use of an end-of-period rate base instead of the rate base during the test year gives rise to two ratemaking methodology issues most states don't have.

Method of Annualization (Staff C-16; RUCO OA#2)

Q. WHAT IS THE FIRST RATEMAKING METHOD ISSUE?

A. The first methodology issue is whether the Commission should require annualization of the test year using a technically supportable method on a consistent basis or should allow piecemeal annualization of isolated elements of the test year using different methods.

Q. WHAT GIVES RISE TO THIS METHODOLOGY ISSUE?

A. Unlike Arizona, most regulatory jurisdictions establish rate base as the average during the test period, which is typically twelve months. Arizona's rule specifying an end-of-period rate base creates the potential for a mismatch between the rate base determined at a single point in time and operating income determined over twelve months. This mismatch can occur where the factors that determine revenues and expenses during the entire twelve month test period are not representative of the factors at the end of the test period (when rate base is measured). A mismatch between rate base and the factors that determine operating income can impair the predictive value of the test year by distorting the financial relationship between end-of-period rate base and operating income over the preceding twelve months.

To avoid this distortion so-called "annualization" adjustments are necessary to harmonize or synchronize operating income measured over a twelve month test period with rate base measured at a single point in time. The aim of these annualization adjustments is to make overall operating income reflect financial results at a single point in time—the same single point in time that rate base is measured—instead of over the preceding twelve months. The goal is to harmonize or synchronize **overall** operating income with end of period rate base so that the revenue requirement **overall** is representative of financial conditions at the end of the test period.

The issue in this case—and the issue generally for the Commission to consider—is what methodological approaches should be permitted and not permitted for computing annualization of the revenue and expense components of operating income.

Q. ARE YOU SUGGESTING THAT THE COMMISSION SHOULD PRESCRIBE A SPECIFIC METHODOLOGY FOR COMPUTING ANNUALIZATION?

A. No. I do not believe the Commission should assume that any one methodology is superior to the others or that it should prescribe any particular methodology. I am suggesting that the Commission instruct parties to use a single annualization methodology applied consistently to all significant elements of operating income.

Q. DID QWEST MAKE AN ADJUSTMENT TO ANNUALIZE TEST YEAR OPERATING INCOME?

A. Yes. Qwest's adjustment PFN-03 is Qwest's comprehensive annualization of test period operating income. It increases revenue requirement $44.7 million. Qwest analyzed all significant USOA revenue and expense accounts and, using a consistently applied statistical method, annualized those accounts. Where a statistically significant factor could be identified that would be a statistically reliable indicator of year end levels Qwest calculated an adjustment tied to that indicator. I explained Qwest's methodology in detail in my direct testimony

1 **Q. MR. CARVER ASSERTS THAT CERTAIN ELEMENTS OF QWEST'S**
2 **REVENUE REQUIREMENT CALCULATION, SPECIFICALLY EMPLOYEE**
3 **LEVELS AND GENERAL NON-LABOR OPERATING EXPENSES, ARE**
4 **BASED ON AVERAGE TEST YEAR LEVELS.[20] IS THIS CORRECT?**
5 A. Qwest applied its annualization analysis methodology to every significant
6 account including every significant operating expense account. None of its
7 expense accounts qualified for adjustment under the methodology Qwest
8 employed. However, it would be misleading to claim Qwest did not conduct a
9 rigorous analysis of expense account before determining that no adjustments
10 were warranted to the twelve months of test year expenses.

11 Qwest did not adjust expenses to reflect changes in employee counts for two
12 reasons. First, Qwest found no correlation between employee counts and
13 overall expense levels. Second, an ad hoc adjustment for employee levels
14 would have introduced a second annualization methodology into the
15 annualization process that was inconsistent with and potentially duplicative of
16 the method Qwest used.

17 **Q. DID RUCO MAKE ANNUALIZING ADJUSTMENTS TO TEST YEAR**
18 **OPERATING INCOME?**
19 A. No. Arguing that that Qwest's adjustment "amounts to nothing more than
20 speculation of future customer levels" and "does not meet the known and

[20] Docket No. T-01051B-03-0454; Direct Testimony of Steven C. Carver; p. 7, l. 18.

measurable standard, matching principle, or historical test year concepts of ratemaking," RUCO proposed Operating Adjustment #2 which is a complete reversal of Qwest's adjustment PFN-03. [21]

Q. IS ANY OF RUCO'S ARGUMENTS CORRECT?

A. No. Qwest's annualization adjustments are not based on speculation of future customer levels but on analysis of actual historical data. They do not violate the known and measurable standard or the historical test year data because they do not rely on any post-test year data or speculation. They do not violate the matching principle but, instead, serve it by harmonizing the end-of-period rate base with twelve months of operating income. RUCO's Operating Adjustment #2 should be rejected.

Q. DID STAFF MAKE ANNUALIZING ADJUSTMENTS TO TEST YEAR OPERATING INCOME?

A. Yes. Staff started with Qwest's adjustment PFN-03 and added five adjustments of its own. These are Staff's adjustments C-2 ("Local Service Revenue Correction"), C-3 ("Access Revenue Annualization"), C-4 ("Toll Revenue Annualization"); C-5 ("Directory Assistance Revenue Annualization") and C-16 ("Year end Wage and Salary Annualization"). By Staff's calculation, the aggregate effect of these adjustments reduces revenue requirement

[21] Docket No. T-01051B-03-0454; Direct Testimony of Marylee Diaz Cortez; p. 18.

$18.3 million. The net effect of these five Staff adjustments and Qwest's adjustment PFN-03 is a revenue requirement increase of roughly $28 million.

Q. HAS THE COMMISSION APPROVED TEST YEAR ADJUSTMENTS FOR YEAR END EMPLOYEE LEVELS IN THE PAST?

A. Yes. In the Company's 1985 rate case[22] the Commission accepted Staff's proposed adjustment number 11 that "reduced TY operating expenses by $2,685,000 to reflect its recalculation of Mountain States adjustment Nos. 20 and 21 using lower end of TY employee levels."[23] However, the Commission also accepted Staff's adjustment number 16 that **"increased TY operating expenses by "$2,154,000 to reflect the annualization at end of TY levels of all other non-wage expenses."**[24] (emphasis added) Utilitech was not Staff's revenue requirement consultant in the Company's 1985 rate case.

In the Company's 1994 rate case[25] the Commission said: "The Company adjusted its TY salaries and wages by annualizing its March 1993 wage level. * * * We concur with the Company's TY salaries and wage adjustment of $3,931,000."[26] The Company also proposed to annualize customer operations and uncollectibles. According to Staff, these two expense accounts did not vary directly with either customer counts or revenues. The

[22] Docket No. E-1051-84-100.
[23] Docket No. E-1051-84-100, Decision No. 54843, p. 14, l. 25.
[24] Docket No. E-1051-84-100, Decision No. 54843, p. 15, l. 16.
[25] Docket No. E-1051-93-183.
[26] Docket No. E-1051-93-183, Decision No. 58927. p. 47, l. 25.

Commission agreed with Staff and denied the adjustments.[27] Utilitech was Staff's consultant in this case.

Q. WHY DO YOU OPPOSE STAFF'S ADJUSTMENT C-16 IN THIS CASE?

A. Staff's adjustment C-16 is a piecemeal annualizing adjustment that relies on a substantially different methodology than does Staff's other four adjustments or Qwest's adjustment PFN-03. Adjustment C-16 purports to adjust the test year to reflect declining employee levels. According to Mr. Carver, "It is based on average regular pay (basic pay plus paid absences) per equivalent employee (i.e., both management and occupational employees) for the months of October through December 2003."[28] It adjusts expenses for year end employee counts in seven expenditure type codes (EXTCs):

111 – Basic Wages
131 – Equivalent Time-Off Paid
132 – Holiday Paid
133 – Vacation Paid
134 – Excused Work Days Paid
139 – Other Paid Days such as jury duty, death in family, etc.
149 – Short Period Sickness

Q. WHY DO YOU FIND THIS PROBLEMATIC?

A. My disagreement with adjustment C-16 is that it is not based on a methodology used consistently and uniformly. Instead, it singles out just seven EXTCs and adjusts just those seven. It fails to consider whether

[27] Docket No. E-1051-93-183, Decision No. 58927. p. 48, l. 27.
[28] Docket No. T-01051B-03-0454; Direct Testimony of Steven C. Carver; p. 34.

significant changes might also be occurring in the other 446 active EXTCs to which the Company records expenses and whether those changes might offset the changes in the seven that Mr. Carver singles out for adjustment. In the colloquial vernacular of ratemaking, adjustment C-16 is "sharp-shooting" the revenue requirement.

Q. DOES MR. CARVER RELY ON REGRESSION ANALYSIS FOR ADJUSTMENT C-16?

A. Yes. During the last three months of the test year, the average count of equivalent employees in Arizona was 5,618 management and occupational employees. Using regression analysis, Mr. Carver put the count at 5,244, which is 374 less than the average over the three months.[29] Using this statistically derived change in equivalent employee counts he computed his downward adjustment in wage and salary expense. However, he failed to first establish that changes in employee counts are a statistically reliable indicator of overall expense levels.

[29]The regressed value Mr. Carver uses for employees is lower than the actual level during any month of the 36 month regression period. It is notable that in support of Staff adjustments C-4 and C-5, Mr. Brosch argues the Company's annualization of intrastate toll service and directory assistance should be rejected because Qwest's regression value for these two revenue sources is lower than the actual level during any month of the 36 month regression period. Apparently Staff rejects the notion that what is sauce for the goose is also sauce for the gander.

1 **Q. WHAT OTHER PROBLEMS DID YOU FIND WITH MR. CARVER'S**
2 **ADJUSTMENT C-16?**
3 A. Mr. Carver's calculation employs a methodology that conflicts with the
4 methodology his partner, Mr. Brosch, uses for other proposed annualization
5 adjustments. In his testimony supporting Staff's adjustments C-4, Toll
6 Revenue Annualization, Mr. Brosch, argued "the overall result of Qwest's
7 annualized IntraLATA Toll revenue adjustment is not consistent with recorded
8 revenue levels in the test period. Specifically, Qwest's proposed **annualized**
9 **monthly** revenue **level...is lower than every single month of the test**
10 **period.**[30] Similarly with regard to Staff's adjustments C-5, Directory Revenue
11 Annualization, Mr. Brosch argued that because revenues in the test year were
12 greater than the amount computed by statistical regression: "The Company's
13 adjustment result is **not credible in relation to any actual data in the test**
14 **year** and should be rejected."[31]

15 Based on these arguments, Mr. Brosch rejected Qwest's regression analysis
16 and instead computed an annualization adjustment based on multiplying
17 revenue data from the fourth quarter of the test year by four. The regression
18 analysis of employee counts upon which Mr. Carver relies yields an
19 equivalent employee count that is hundreds of employees less than the actual
20 employee count in any month of the test period. Had Mr. Carver been

[30] Docket No. T-01051B-03-0454; Direct Testimony of Michael Brosch; p. 48. l. 16.
[31] Docket No. T-01051B-03-0454; Direct Testimony of Michael Brosch; p. 50. l. 1.

consistent and applied the approach his partner used in Staff Adjustments C-4 and C-5, he would have determined employee counts based on fourth quarter data instead of on a regression analysis. Had he done this, his calculation of adjustment C-16 would have yielded an adjustment of less than a tenth of a million instead of $12.5 million. I am attaching Qwest Corporation—Exhibit PEG R9 to show the corrected calculation of Adjustment C-16, which the Commission should use should it choose, against my recommendation, to annualize year-end wage and salaries on the basis of equivalent employee counts.

Q. DO CHANGES IN EQUIVALENT EMPLOYEE COUNTS ACCURATELY MEASURE OR REFLECT CHANGES IN OVERALL OPERATING EXPENSES?

A. No. In response to Staff data request UTI 8-43 Qwest provided an attachment which contained a chart, attached to this testimony as Qwest Corporation—Exhibit PEG R10, showing a comparison of intrastate operating expenses to equivalent employees during a 36 month regression period from January 1, 2001 to December 31, 2003 (the end of the test period). As it shows, there is practically no correlation at all (r-Squared = 0.0154) between equivalent employee counts and operating expense.

Q. DID UTILITECH'S DISCOVERY FOLLOW UP TO INQUIRE ABOUT THIS LACK OF CORRELATION?

A. Not directly. Rather than ask about the lack of correlation between equivalent employees and overall expenses, Staff's data request UTI 15-09, asked "if it would be reasonable or unreasonable to expect labor expense, particularly basic salaries and wages, to be directly influenced by headcounts." (emphasis added) Qwest responded that "basic salaries and wages would be directly and perfectly correlated with headcounts if and only if salary and wage rates and employee mix (i.e., the number of employees at each wage scale) were held constant." Qwest explained that such was not the case.

> **The relationship between headcount and basic wages and salaries is quite low.** As shown on Confidential Attachment A to this response, the coefficient of determination (R-Squared) between headcount and basic wages and salaries is only 0.47. That is, headcount alone accounts for less than half of the variation in basic wage expense.

Q. BESIDES THE SEVEN EXPENSE EXTCS YOU LISTED, DOES STAFF'S EXPENSE ANNUALIZATION INCLUDE ANY OTHER EXTCS?

A. No. Staff's expense annualization adjustment disregards the 446 other active EXTCs to which Qwest charges costs.

Q. DID QWEST PROVIDE STAFF AN ANALYSIS OF ALL OF THE SIGNIFICANT EXPENSE EXTCS?

A. Yes. In response to Staff data request UTI 15-8 Qwest provided a correlation matrix for the relationships between labor expense and other drivers. A

review of the correlation matrix indicated that the drivers and expenses examined were not strongly correlated with changes in expense levels, whether examined by USOA account or by EXTC. In other words, no statistically justifiable adjustment could be made.

Q. DID YOU ASK STAFF WHETHER THEY CONSISTENTLY ANALYZED ALL OF THE COMPONENTS OF COST OF SERVICE IN QWEST'S TEST YEAR?

A. Yes. I had read "Proposal to the Arizona Corporation Commission Utilities Division, Qwest Corporation Filing of a Renewed Price Cap Plan," dated March 26, 2004 that Staff's consultants ("Utilitech" or "UTI") had prepared and provided Staff (Proposal). The Proposal stated that "UTI will analyze decreasing as well as increasing cost of service components to determine whether test year operating results are reasonable overall and indicative of future events." So I prepared several questions asking about Staff's approach and analysis that were served on Staff as Qwest data requests 11-1, 11-2 and 11-3.

Staff's response to Qwest data request 11-2(c) explains Staff's position where it says, "The question implies a need for consistency in annualizing or normalizing all expense related EXTCs, regardless of any identified need for adjustment. Mr. Carver disagrees. * * * Regardless of the regression results,

Mr. Carver believes that the calculation of overall revenue requirement should recognize identifiable and quantifiable adjustments to test year results."

By this response Mr. Carver essentially admits that he believes in piecemeal adjustment of the revenue requirement. He only requires an adjustment be "identifiable and quantifiable" which, of course is the minimum information required to calculate any adjustment. The "identifiable and quantifiable" standard of ratemaking is no standard at all.

An adjustment must be more than simply known and measurable. It must also be readily reconcilable with the analysis of other test year accounts without creating serious possibilities of distortion or mismatching. Adjusting seven out of 453 expense EXTCs fails to satisfy this requirement.

Q. DOES STAFF FOLLOW ITS OWN LOGIC REGARDING TEST YEAR CONSISTENCY?

A. With regard to test year consistency Mr. Carver testifies: "In the absence of a reasonable balance or matching, a distorted view of the cost of service will lead to improper rate adjustments. A consistent matching of material price and quantity changes is necessary to achieve this balance, particularly when volume changes, during or subsequent to the test year, offset price level changes."[32] (emphasis added) He also testifies: <u>All</u> components of the

[32] Docket No. T-01051B-03-0454; Direct Testimony of Steven C. Carver; p. 9. l. 15.

ratemaking equation change over time. It is only by consistently analyzing the major cost of service components that a determination can be made as to whether the **overall revenue requirement** has changed materially. The key issue is whether revenues are growing faster or slower than the **overall costs**, including investment return, necessary to support those revenues."[33] (underlined emphasis in original, bold emphasis added)

Despite this rhetoric, Utilitech does not rely on a consistent application of an annualization methodology. It takes a piecemeal approach. This was confirmed in Mr. Carver's response to Qwest data request 11-3(b): "Unlike the regression analysis prepared by Qwest...**Utilitech employs a range of analytical methodologies** with the objective of evaluating material increases or decreases in the components of cost of service." (emphasis added).

Q. SHOULD THE COMMISSION ACCEPT STAFF'S PROPOSED ADJUSTMENT C-16?

A. No. Making piecemeal adjustments to the revenue requirement is poor ratemaking. If rate base and operating results (revenues and expenses) are to be reasonable overall and indicative of future events as a whole, then all revenues and expenses must be harmonious with and synchronized to end-of-test-period levels, not just a handful of expenses linked to a single factor

[33] Docket No. T-01051B-03-0454; Direct Testimony of Steven C. Carver; p. 10. l. 18.

such as equivalent employee counts, particularly where that factor is known to have no correlation to overall expenses.

Because of the unique test-year construction in Arizona that relies on an end-of-test-period rate base, I believe the Commission should establish and communicate a policy that requires those who propose annualization adjustments to show that they are 1) applying a technically defensible methodology and 2) they are applying it consistently to all elements of operating results, not just a few as Staff's adjustment C-16 does.

If the Commission does not require consistent application of a single defensible annualization methodology, the annualization of the test year becomes a competition in which each side will look for adjustments that yield a revenue requirement potentially riddled with overlapping and inconsistent annualization adjustments based on various and potentially inconsistent methods. This is less likely to lead to the determination of just and reasonable rates than is the disciplined application of a sound methodology consistently applied.

Access Charge Revenues (Staff C-3)

Q. MR. BROSCH'S TESTIMONY CLAIMS THAT AN ANNULIZATION BASED ON THE LAST THREE MONTHS OF THE TEST YEAR PRODUCES "A

MORE REPRESENTATIVE DATA PERIOD"[34] THAN DOES A REGRESSION ANALYSIS. DO YOU AGREE?

A. No. Arizona requires an end-of-year test period, not an average for the final three months. End-of-year volumes are the only period consistent with that requirement. There is no sound reason to prepare annualization adjustments that rely on different test period data periods based on subjective assessments.

In particular, Mr. Brosch shows minutes of use for September through December in the table at Line 7 on Page 44 of his testimony and claims that the average for October through December (90,718 million) is more representative than December alone (88,196 million). He arbitrarily chooses to use October and November when minutes (and lines in service) were higher.

Q. WHAT'S WRONG WITH THIS APPROACH?

A. Aside from being arbitrary, it creates a mismatch between test period revenues and volumes. The table that Mr. Brosch uses shows on its face why this proposal is unreasonable. As shown, September minutes of 84,523 million are excluded from his "average." Had he added that month to his calculation, the average would have been 89,170 million or within 1% of the value of actual December volumes.

[34] Docket No. T-01051B-03-0454; Direct Testimony of Michael L. Brosch. p. 45 ll. 15-16.

Q. CAN YOU SUMMARIZE YOUR CONCLUSION?

A. Yes. The Company's approach, which **consistently** uses end-of-period test year volumes, yields a reliable annualization that is consistent with Arizona's end-of-test-year rate base. Mixing this annualization approach with a different annualization approach in order to satisfy the analyst's subjective criteria is manipulative and therefore leads to distortion of the overall results of Qwest's consistently applied annualization analysis. Mr. Brosch's adjustment C-3 should be rejected.

Toll Service Revenues (Staff C-4)

Q. PLEASE DESCRIBE STAFF'S PROPOSED ADJUSTMENT TO TOLL SERVICE REVENUES AND YOUR REACTION TO IT.

A. Mr. Brosch claims that end of test period volumes are unrepresentative because the resulting revenue is too low. He arbitrarily rejects the Company's adjustment based on his subjective opinion and analysis. Staff's adjustment C-4 should be rejected for the same reason that adjustment C-3 should be rejected.

Directory Assistance Revenues (Staff C-5)

Q. PLEASE CRITIQUE STAFF'S PROPOSED ADJUSTMENT TO DIRECTORY ASSISTANCE REVENUES.

A. Staff's adjustment C-5 to Directory Assistance revenues suffers from the same infirmities as Adjustments C-3 and C-4. Once again, Staff arbitrarily picks a set of data that generates the answer it seeks. Staff's adjustment on Schedule C-5 should be rejected.

Pro Forma Adjustment to Accrued Expenses (Staff B-7; RUCO RBA#1)

Q. WHAT IS THE SECOND RATEMAKING METHOD ISSUE IN THIS CASE?

A. The second methodology issue is this: when pro forma adjustments to accrued expenses are made, should rate base also be adjusted to reflect the effect of the accrued expense adjustment?

Q. TO WHAT ADJUSTMENTS DOES THIS ISSUE PERTAIN?

A. This issue pertains to Staff's proposed adjustment B-7, Depreciation Reserve Correction, and RUCO's Rate Base Adjustment #1, Accumulated Depreciation. Although they disagree on the amount, Qwest, Staff and RUCO do agree that Qwest's test year depreciation expense should be reduced by a pro forma adjustment that reflects reduced depreciation rates to be put into effect sometime after the test year. The methodological issue is whether a pro forma adjustment to the accumulated depreciation expense

account should be made to reflect the effect of the pro forma adjustment to depreciation expense. Qwest believes that it should, while Staff and RUCO believe that it should not.

Q. WHY DOES STAFF OPPOSE A PRO FORMA ADJUSTMENT TO THE ACCUMULATED DEPRECIATION EXPENSE ACCOUNT?

A. Staff's witness, Mr. Carver, argues:

> While the annualization of depreciation expense for ratemaking purposes should synchronize the new depreciation rates with the level of depreciable plant included in rate base, the depreciation reserve used as an offset to rate base should be determined consistent with the balance of plant in service included in rate base. In other words, the balance of both of these rate base components in Staff s filing should be valued at December 31, 2003 - as appropriately adjusted for eliminations, corrections or other valuation issues. In my opinion, **the Commission should <u>not</u> reach out beyond test yearend to capture**, in isolation, **the full pro forma annual effect of the change in depreciation rates** on the December 31, 2003, year-end balances for the accumulated depreciation reserve and the accumulated deferred income tax reserve. **Otherwise, test year distortions and mismatched components of the ratemaking equation would yield improper results.**[35]

Q. DO YOU AGREE WITH MR. CARVER'S ARGUMENT?

A. No. Mr. Carver's argument is tautological. It never explains why 1) a pro forma adjustment to test year expenses (to reflect the effect of reducing depreciation rates well after the end of the test year) does not distort the test year but 2) an adjustment to test year rate base for the that same depreciation rate reduction does. Mr. Carver has simply decided that the rate

[35] Docket No. T-01051B-03-0454; Direct Testimony of Steven C. Carver; p. 28.

base effect of post-test-year changes is to be ignored while the expense effect of those changes is not.

When depreciation rates are reduced sometime after the 2003 test year (probably sometime in 2005), the reduced accruals to depreciation expense (which is included in operating income) will cause a corresponding reduction in accruals to the accumulated depreciation expense account (which is included in rate base). Recognizing one of these effects but not the other distorts the test year. Failing to match the rate base effects of a post test year change with the operating income effects of that change does not avoid a mismatch, it creates one. It does not avoid test year distortion, it is test year distortion. It is a failure to synchronize the operating income effect with the rate base effects of a pro forma post-test-year change.

Mr. Carver argues:

> For the ratemaking equation to function properly, the components comprising the equation (i.e., rate base, revenues, expenses and rate of return) must be reasonably representative of ongoing levels, internally consistent and comparable - within the context of test period parameters. To the extent that these components are not properly synchronized, a utility may not have the opportunity to earn its authorized return or, alternatively, may have the opportunity to earn in excess of the return authorized. **By synchronizing or maintaining the comparability of revenues, expenses and investment, the integrity of the test year can be maintained** with the reasonable expectation that the resulting rates will

1 not significantly misstate the ongoing cost of providing utility service.
2 (emphasis added)[36]

3 Ignoring the pro forma effect on rate base of a pro forma depreciation
4 expense reduction is a failure to synchronize elements of expenses
5 (depreciation expense) and investment (accumulated depreciation expense).

6 **Q. IS THE COMPANY'S TREATMENT OF THIS ISSUE CONSISTENT?**

7 A. Yes. In adjustment PFA-02 the Company proposes adoption of accrual
8 accounting for OPEBs under FAS 106. The adoption will not happen until the
9 Commission issues its order in this docket. Nevertheless, Qwest's calculation
10 of adjustment PFA-O2 includes in the test year a full year's effect on both
11 expenses and rate base. Adjustment PFA-02 reduces rate base $118 million
12 for the pro forma effect of the post-test-year adoption of FAS 106.

13 **Q. HOW HAS THE COMMISSION TREATED THIS ISSUE HISTORICALLY?**

14 A. Both Staff and RUCO served Qwest data requests asking for Qwest's
15 rationale for including the pro forma adjustment to depreciation. A copy of
16 Qwest's response to RUCO's data request 4-1 is attached as Qwest
17 Corporation—Exhibit PEG-R11. Qwest's response to Staff's data request
18 15-17(c) was similar. The responses explained that in the Company's 1983
19 rate case,[37] Staff witness Kozoman's testimony criticized the Company for

[36] Docket No. T-01051B-03-0454; Direct Testimony of Steven C. Carver; p. 8.
[37] Docket No. E-1051-83-035, Decision No. 53849 (22 Dec. 1983).

failing to apply the adjustment or the annualization of depreciation expense to the accumulated depreciation expense account. At pages 9 and 10, Mr. Kozoman's testimony quoted the orders of six commissions in support of his position. At page 11 Mr. Kozoman summarized Staff's argument as follows:

> Q. What is the impact of not synchronizing accumulated depreciation with the depreciation expense adjustment?
>
> A. **The failure to adjust the accumulated depreciation would distort the return of the utility for the test year. If depreciation expenses are annualized for a full year's depreciation and the accumulated depreciation is not annualized, the net effect is an overstatement of rate base, and hence the return on an annualized basis is lowered, thereby increasing the revenue requirement.** Proper synchronization requires the recognition of this proposed adjustment. (emphasis added)

The Commission agreed with Staff's position in the Company's 1983 rate case. In pertinent part, pages, 16 and 17 of Decision No. 53849 provided:

> Staff made relatively few adjustments to "fair value" rate base and with the exception of Staff's calculation of working capital, there was little controversy surrounding these adjustments. Specifically Staff:
>
> 1) increased the original cost depreciation reserve by $9,169,000 to reflect the annualized effect of the higher depreciation rates authorized by Decision Nos. 53040 and 53261.
>
> * * *
>
> **The first adjustment proposed by Staff appears necessary if we are to accurately set rates for the future. While Mountain States clearly did not "recover" a year's annualized depreciation by the end of the TY, neither did it actually incur the cost. The TY should not be considered a collection of past costs to be recovered in the future, but a reflection of future costs to be recovered concurrently by the reasonable rates established herein. Consequently, we must project those changes to rate base which are consistent with known cost changes.** In this regard, we see no difference between the annualization of those depreciation changes authorized by Decision NO. 43040 and 53261 and the allowance of increased amortization of Account No. 232

authorized herein. Staff's adjustment should be increased by the same $7,200,000. (emphasis added)

Q. DID THE COMMISSION APPLY THE SAME RATIONALE IN THE COMPANY'S NEXT RATE CASE?

A. Yes. In the Company's 1985 rate case[38] Staff's witness Mr. Hein testified:

> **My approach was to reflect the additional depreciation as though it had been provided for on the books of the Company during the test year. The $7,464,000 additional depreciation expense is matched by a corresponding increase in the balance of the account for accumulated depreciation. Such adjustment directly affects test year operating expenses and rate base.** (emphasis added)

It appears that Staff maintained this position until Utilitech became Staff's revenue requirement consultant. The Commission adopted Staff's adjustment in the 1985 rate case. In the discussion of rate base on page 25, Decision No. 54843 observed:

> **Mountain States later increased its depreciation reserve by $7,464,000 to reflect the additional depreciation expense claimed as a result of represcription.** (emphasis added)

Q. WHAT HAPPENED IN THE COMPANY'S 1994 RATE CASE?

A. Neither the Company nor Staff proposed a pro forma adjustment to rate base to reflect the effect of pro forma depreciation expense adjustments and the Commission made no comment on it. Neither the Staff nor any party made any observation about the apparent change in method. It appears the parties and Commission simply acquiesced in the change without comment.

[38] Docket No. E-1051-84-100, Decision No. 54843.

Q. WHAT DO YOU CONCLUDE FROM THIS HISTORY?

A. When one compares 1) the careful reasoning the Staff and Commission articulated in favor of a pro forma adjustment to accumulated depreciation expense and 2) no discussion regarding the lack of an adjustment in the 1994 rate case with 3) the lack of a persuasive argument in Mr. Carver's testimony opposing it, it became clear that when operating income is adjusted with pro forma expense accruals, a corresponding pro forma adjustment to the rate base is required in order to properly harmonize or synchronize the test year. Staff's proposed adjustment B-7, Depreciation Reserve Correction, should be rejected.

Q. WHY DOES RUCO OPPOSE A PRO FORMA ADJUSTMENT TO THE ACCUMULATED DEPRECIATION EXPENSE ACCOUNT?

A. RUCO's witness, Ms. Diaz Cortez argues:

> If Qwest is allowed to restate its test year accumulated depreciation balance, as if this accelerated depreciation had never been in included in test year rates, ratepayers will effectively pay for this portion of Qwest's plant investment twice, once in the test year and again through the rates and tariffs set in this docket.[39]

Q. IS THIS ARGUMENT CORRECT?

A. No. A pro forma post-test-year adjustment to the test year is not recorded on the Company's books of account. The Commission's order in the Company's 1984 rate case explained it this way:

[39] Docket No. T-01051B-03-0454; Direct Testimony of Marylee Diaz Cortez; p. 5.

DISALLOWANCE STANDARDS

Relevance of Disallowance Standards

Q. WHY ARE THE COMMISSION'S DISALLOWANCE STANDARDS RELEVANT?

A. The Commission's disallowance standards are relevant for two reasons. From a policy perspective they are important because they help ensure that the rates the Commission approves are just and reasonable to ratepayers, utilities and their investors. They are important in this case because they are dispositive of two revenue requirement issues involving two adjustments to Qwest's test year worth over $11 million that Staff has proposed.

Staff Adjustment Number	Issue	Revenue Requirement Value ($000)
C-9	Marketing & Advertising Costs	(5,631)
C-17	Incentive Compensation	(5,851)
Total	Revenue Requirement Value	(11,482)

The Commission's Disallowance Standards

Q. DID YOU DISCUSS DISALLOWANCE STANDARDS IN YOUR DIRECT TESTIMONY?

A. Yes. Pages 18 to 37 of my direct testimony are devoted to this subject.

Q. WHY DID YOU DEVOTE NEARLY 20 PAGES OF TESTIMONY TO THIS SUBJECT?

A. I was concerned that the parties to the ratemaking process in Arizona have very different views regarding the standards against which disallowances of utility costs are to be gauged. I believe it is important for the Commission to establish just standards that protect and preserve the rights of ratepayers, the utility, and its investors. In my opinion, some of the standards that have been employed in prior Arizona rate cases provide inadequate protection to investors under current circumstances. The disallowances that are the subject of this portion of my testimony represent ratemaking standards that provide investors inadequate protection.

Q. WHAT DO YOU UNDERSTAND TO BE THE GENERAL STANDARD OF DISALLOWANCE IN ARIZONA?

A. As I explained in my direct testimony. Arizona's ratemaking rules provide that all investments shall be presumed to have been prudently made, and such presumption may be set aside only by clear and convincing evidence that such investments were imprudent, when viewed in the light of all relevant conditions known or which in the exercise of reasonable judgment should have been known, at the time such investments were made.[42] This rule also states that "prudently invested" means investments which under ordinary

[42] Arizona Administrative Code R14-2-103 A. 3. I.

circumstances would be deemed reasonable and not dishonest or obviously wasteful.

In the Company's 1985 rate case, the Commission's Decision said: "Expenditures of a public utility made in the ordinary course of its business have a presumption of legitimacy. See West Ohio Gas Co. v. Pub. Util. Comm. of Ohio, 294 U.S. 63 (1935)".[43] In other words, expenditures are presumed reasonable unless shown to be otherwise.

With regard to the burden of proof the Commission said, "The unsupported assertion that Mountain States had not met a witness' own subjective 'burden of proof' can not substitute for the type of meticulous review undertaken by Staff and Intervenor Phoenix."[44] The Commission must be vigilant against parties who would suggest an incorrect burden of proof to support a disallowance that could not be achieved under the correct burden of proof.

Q. WHY ARE YOU CONCERNED THAT SOME OF THE STANDARDS THAT HAVE BEEN EMPLOYED IN PRIOR ARIZONA RATE CASES PROVIDE INADEQUATE PROTECTION TO INVESTORS?

A. Staff's consultants, Utilitech, regularly advocate that discretionary expenditures be disallowed because they provide no direct tangible benefit to

[43] Docket No. E-1051-84-100, t Decision No. 54843 page 20, line 4.
[44] *Id.*

1 ratepayers. I find this disturbing because disallowances based on the
2 tangible ratepayer benefit standard cannot yield just rates.

3 It must be remembered that, with the possible exception of obligations to
4 government, such as taxes and fees, virtually all costs are incurred at the
5 discretion of management. For example, management exercises its
6 discretion to decide how many people to put on the payroll, what salaries and
7 benefits to offer non-bargained-for employees, what union contracts to sign
8 for the compensation of bargained-for employees, what services to purchase,
9 what leases to sign, what real property to buy and sell and what capital assets
10 to acquire and depreciate. Hence, the tests for disallowance of a particular
11 cost necessarily presume that costs are discretionary. It follows that under
12 widely accepted ratemaking principles, the inquiry for disallowance presumes
13 management discretion and, therefore, the inquiry is directed at whether
14 incurring the cost was an abuse of that discretion.

15 There is no administrative rule of this Commission and no published judicial
16 opinion in Arizona that imposes a presumption that discretionary costs are to
17 be disallowed unless a utility overcomes a burden of proof to show why they
18 should not be. Instead, the Commission's rules articulate a ratemaking
19 principle that presumes costs are reasonable and not dishonest or obviously
20 wasteful. Except in very limited circumstances—such as fines and
21 penalties—the burden must fall to those parties and their representatives who

1 would disallow a cost to provide clear and convincing evidence in support of
2 the disallowance.

3 There is no administrative rule or judicial opinion in Arizona holding that
4 discretionary costs are to be disallowed unless they provide direct, tangible
5 benefits to ratepayers.

6 Utilitech's "direct tangible benefits" standard cannot be reconciled with a
7 regulated entity's right under Arizona law to charge regulated rates that
8 provide a reasonable opportunity to recover its costs and a fair rate of return
9 on its rate base. A wide and abundant variety of prudent, reasonable and
10 necessary costs incurred at the discretion of management in the operation of
11 a regulated entity may provide no direct, tangible benefit to ratepayers. Some
12 examples include employees' paid vacations and sick leave, employees'
13 healthcare benefits and retirement savings plan benefits, employees' post
14 employment benefits, and employee training expenses. Other expenses that
15 may provide no direct tangible ratepayer benefit include the cost of
16 compliance with immigration laws, environmental laws, safety laws, and
17 workers' compensation laws and the costs of operating the Company's
18 accounts receivable department, accounts payable department, customer
19 billing department, customer credit department, legal department, tax
20 department, human resources department, risk management department and
21 real estate department. Application of Utilitech's tangible benefits standard

could render all these costs unrecoverable even absent clear and convincing evidence that overcomes the presumption these costs are commercially reasonable.

Q. HOW DOES UTILITECH APPLY THE TANGIBLE BENEFITS TO RATEPAYERS STANDARD?

A. Utilitech uses it to make piecemeal adjustments to the revenue requirement. They do not apply it consistently to all of the elements of cost of service, because if they did, it would eviscerate the revenue requirement and render ratemaking meaningless. Utilities, like commercial businesses in general, make substantial discretionary expenditures that provide their customers no direct tangible benefit. Consequently, Utilitech must select only a handful of these kinds of expenditures and build a case against them based on policy arguments, not on a comparison to commercial business standards.

Q. WHY IS THIS A PROBLEM?

A. The aim of regulation is to protect consumers from price gouging by utilities unconstrained by competition. The protection ratepayers require is that they not bear more cost than they would be expected to bear in the commercial marketplace. Discretionary costs like incentive compensation based on financial criteria and brand/image advertising are commonplace in the commercial marketplace. When, a review of commercial standards of conduct indicates that these costs are not unreasonably incurred, denying

their recovery on other grounds affords ratepayers below-commercially reasonable rates and forces the utilities and their investors to subsidize ratepayers.

Nevertheless, when the state grants a utility a monopoly over a service, some would argue that the monopoly's quid pro quo is to submit to the state's public policy agenda. If the state's regulator believes monopolies should not spend money on image advertising or certain kinds of incentive compensation it can use ratemaking to proscribe the undesired behavior by making it financially unrewarding.

But when the state has no power to protect the utility's monopoly and the utility is exposed to the economic forces of the commercial marketplace, then the public policy agenda must yield to the standards of that commercial marketplace. Holding the utility to public policy standards of conduct expected of monopolies while also exposing it to the full force of the commercial marketplace plays both sides (customers and competitors) against middle where the investors stand. The investors are compelled by the open marketplace to conduct the utility's business by commercial standards but held to account for monopoly public policy standards. This is a recipe for confiscation.

1 **Q. CAN YOU PROVIDE EXAMPLES?**

2 A. Yes. Qwest cannot afford to not have an incentive compensation plan based
3 heavily on financial incentives. Twenty five years ago such plans may have
4 been rare but today they are widespread. Qwest would be put at a
5 competitive disadvantage in the marketplace for human resources were it not
6 to have such a plan. Yet Staff and RUCO argue that investors should not
7 bear the cost of Qwest's incentive compensation costs because they rely on
8 financial criteria. I will have more to say about this.

9 Similarly, Qwest cannot afford to abstain from advertising to enhance its
10 image and name recognition. Qwest sells commodity services in the face of
11 fierce competition that has quickly taken over 25% of its retail access lines in
12 Arizona. As it was explained to me by one of Qwest's marketing experts,
13 when the Company is selling commodities, differentiating the Company from
14 its competitors is critical to marketing success. It is "Marketing 101" that
15 companies in Qwest's marketplace must advertise to enhance their brand and
16 image in order to differentiate themselves.

17 As much as Utilitech might believe as a policy matter that it should be
18 different, Qwest must continuously advertise to promote a positive image in
19 the commercial sphere in which it does business. The need for image
20 advertising will not go away. There is no choice. Yet Staff urges the

1 Commission to disallow image advertising, as has been the Commission's
2 historical practice.

3 Utilitech and RUCO's personnel have made careers in utility regulation, not
4 commercial business. They have no experience operating large commercial
5 enterprises. They have no substantial marketing expertise, no substantial
6 employee compensation expertise and no experience managing a very large
7 commercial enterprise through the transition from monopoly to full
8 competition. They cling to the disallowance policies articulated in the
9 Commission's prior rulings. But none of the Commission's prior rulings
10 pertained to a utility that has rapidly lost over 25% of its retail customer base.
11 Yet they refuse to acknowledge that fundamentally changed circumstances
12 warrant a different approach.[45]

13 ***Incentive Compensation Costs (Staff C-17; RUCO OA#9)***

14 **Q. TO WHAT ADJUSTMENTS DOES THIS PORTION OF YOUR TESTIMONY**
15 **PERTAIN?**

16 A. This testimony addresses Staff adjustment C-17, Incentive Compensation,
17 which proposes to disallow $ REDACTED of occupational and management
18 incentive compensation pay and RUCO Operating Adjustment #9—Incentive

[45] Q. Does increased competition or do other changed circumstances justify inclusion of corporate advertising costs at this time? A. No. * * * It is not reasonable to burden ratepayers of regulated services with corporate image advertising costs simply because markets have become more competitive. Docket No. T-01051B-03-0454; Direct Testimony of Michael Brosch, p. 13, l.23.

Compensation, which proposes to disallow $ REDACTED of Qwest's adjusted test year incentive compensation pay.

Q. WHY DOES RUCO PROPOSE DISALLOWING MORE THAN STAFF?

A. RUCO's disallowance calculation is different for three reasons:

RUCO does not take into account the downward adjustment to Qwest's incentive compensation cost that Qwest made in adjustment PFN-08. The adjustment trued-up incentive compensation costs accrued in the test year to reflect actual incentive compensation costs paid for the test year. Correcting for this omission would reduce RUCO's expense adjustment by $1.131 million.

RUCO's adjustment calculation does not use the correct capitalization factor to capitalize a portion of incentive compensation costs. Correcting for this omission would reduce RUCO's adjustment by $0.021 million.

RUCO aims to disallow REDACTED Qwest's adjusted total Arizona Intrastate incentive compensation cost while Staff proposes to disallow REDACTED

Q. WHY DOES RUCO PROPOSE DISALLOWING QWEST'S INCENTIVE COMPENSATION COSTS?

A. Ms. Diaz Cortez argues ratepayers should not be required to pay higher rates to fund rewards for poor operating results.[46]

Q. DO YOU BELIEVE MS. DIAZ CORTEZ'S REASONING IS CORRECT?

A. No. Her argument is unsupported by any sound ratemaking theory. Ms. Diaz Cortez has not shown that the test year incentive compensation costs are unreasonable business expenses. While she may believe that Qwest should

[46] Docket No. T-01051B-03-0454; Direct Testimony of Marylee Diaz Cortez; p. 26.

not have paid incentive compensation under its current financial circumstances, she offers no reason why management's judgment should be replaced with her own and no evidence to show why Qwest's 2003 Bonus Plan was unreasonable. RUCO's Operating Adjustment #9–Incentive Compensation, should be rejected.

Q. WHAT REASONS DOES STAFF OFFER TO DISALLOW QWEST'S INCENTIVE COMPENSATION EXPENSES?

A. Staff adjustment C-17, Incentive Compensation, proposes to disallow 83% of Qwest's adjusted test year incentive compensation paid to both management and union represented employees on the grounds that payment of this amount is tied to financial criteria. Mr. Carver offers five reasons in defense of his disallowance.

Q. FIRST, MR. CARVER ARGUES THAT EFFORTS TO ENHANCE CONSOLIDATED FINANCIAL RESULTS MAY NOT BE CONSISTENT WITH THE INTERESTS OF QWEST'S ARIZONA CUSTOMERS.[47] IS THIS AN APPROPRIATE REASON TO DISALLOW QWEST'S INCENTIVE COMPENSATION COSTS?

A. No. Mr. Carver's speculation is not evidence. He has not shown that the criteria in Qwest's bonus plan are harmful to Qwest's ratepayers.

[47] Docket No. T-01051B-03-0454; Direct Testimony of Steven C. Carver; p. 39, ll. 10-13.

1 **Q. SECOND, MR. CARVER ARGUES THAT THE CONSOLIDATED**
2 **FINANCIAL TARGETS ARE NOT LINKED TO CUSTOMER SERVICE,**
3 **EMPLOYEE SAFETY, COST REDUCTIONS OR OPERATIONAL**
4 **ACHIEVEMENTS OR EFFICIENCIES IN QWEST'S ARIZONA SERVICE**
5 **TERRITORY.[48] IS THIS AN APPROPRIATE REASON TO DISALLOW**
6 **QWEST'S INCENTIVE COMPENSATION COSTS?**
7 A. No. The criteria in Qwest's test year incentive compensation plan are
8 commercially reasonable and normal. Attached as Qwest Corporation—
9 Exhibit PEG-R12 is the affidavit of Qwest's Compensation and Benefits
10 Director, Felicity O'Herron. Her affidavit makes clear that Qwest's incentive
11 compensation plan is well within commercial norms and that the level of
12 Qwest's overall employee compensation cost is approximately equal to the
13 average for large commercial enterprises of Qwest's type.

14 Mr. Carver is not an incentive compensation expert. Holding Qwest to Mr.
15 Carver's own subjective and inexpert standards for incentive compensation
16 plans would be inappropriate because it would deny Qwest's investors a full
17 and fair opportunity to recovery the prudently incurred and commercially
18 reasonable costs of the utility.

19 **Q. THIRD, MR. CARVER ARGUES THAT TO THE EXTENT INCLUSION OF**
20 **FINANCIAL TARGETS IN THE BONUS PLAN ASSISTS QWEST IN**

[48] Docket No. T-01051B-03-0454; Direct Testimony of Steven C. Carver; p. 39, ll. 15-17.

1 **ACHIEVING IMPROVED FINANCIAL RESULTS, THE COST OF THE**
2 **COMPANY'S DISCRETIONARY BONUS PLAN SHOULD BE FUNDED BY**
3 **THE INCREASED LEVELS OF NET INCOME, CASH FLOW AND OTHER**
4 **FINANCIAL RESOURCES, RATHER THAN THROUGH THE REVENUE**
5 **REQUIREMENT THAT COULD BE USED TO SUPPORT PRICES**
6 **CHARGED TO QWEST'S ARIZONA CUSTOMERS.[49] HOW DO YOU**
7 **RESPOND?**
8 A. This argument is specious. The improved financial performance of which Mr.
9 Carver speaks is imbedded in the test year for which the incentive
10 compensation payments were made. If Mr. Carver expects Qwest to fund
11 payment of incentive compensation from its financial performance, he needs
12 to adjust the test year to remove all of the effects of that improved
13 performance so that it will be available for Qwest. He has made no such
14 adjustment.

[49] Docket No. T-01051B-03-0454; Direct Testimony of Steven C. Carver; p. 39, l. 19 to p. 40, l. 2.

1 **Q. FOURTH, MR. CARVER ARGUES THAT REGULATORS NEED NOT**
2 **ALLOW ABOVE-THE-LINE ACCOUNTING FOR ALL DISCRETIONARY**
3 **COSTS INCURRED BY MANAGEMENT ABSENT A SHOWING THAT**
4 **SUCH COSTS PROVIDE DIRECT, TANGIBLE BENEFITS TO**
5 **RATEPAYERS.[50] HOW DO YOU RESPOND?**
6 A. As I discuss in an earlier portion of my testimony the direct tangible ratepayer
7 benefit standard is unjust and unreasonable. It does not allow Qwest to
8 recover its commercially reasonable, prudently incurred costs. It cannot be
9 applied to all of the discretionary costs that utilities incur and so Mr. Carver
10 uses this argument to sharp shoot a single element of the revenue
11 requirement.

12 **Q. QUOTING FROM A 1987 FCC REPORT AND ORDER ADOPTING PART 65**
13 **OF THE FCC'S RULES AND REGULATIONS, MR CARVER ARGUES**
14 **THAT IT SUPPORTS HIS USE OF THE TANGIBLE RATEPAYER BENEFIT**
15 **TEST. DOES IT?**
16 A. No. Mr. Carver fails to mention that the 1987 FCC Order on Part 65 that he is
17 citing to support the disallowance of incentive compensation never once
18 applies the "used and useful" standard or the "benefit burden" test to
19 employee compensation. The Order primarily addresses the treatment of rate
20 base items – though it also addresses net income issues. While employee
21 compensation is a key determinant of net income, it is never addressed in the

[50] Docket No. T-01051B-03-0454; Direct Testimony of Steven C. Carver; p. 39, ll. 3-8.

FCC Order that Mr. Carver is citing. In fact, if anything, the absence of any mention of incentive compensation in the Order supports the proposition that the FCC had no problem with incentive compensation plans under rate of return regulation.

It merits noting that the FCC order that Mr. Carver quotes is the very order in which the FCC concluded that pension asset should be included in the calculation of rate base (without Mr. Carver's contrived retrospective ratepayer benefit analysis).[51] Hence, Mr. Carver misapplies the order twice. First by ignoring its inclusion of pension asset in rate base without the application of any ratepayer benefit test and second by attempting to use it to boot strap a ratepayer benefit standard that it does not articulate or support.

In summary, the FCC's Order provides no support for Mr. Carver's position. The passage that he quotes pertains to the inclusion of assets in the rate base, not the disallowance of expenses based on tangible ratepayer benefits. To the best of my knowledge, the FCC does not apply the tangible ratepayer benefit standard to employee compensation and has not disallowed incentive compensation on the basis of this criteria or any other.

[51] Paragraph 43, Report and Order adopted December 17, 1987, released December 24, 1987, Docket 86-497.

Q. FIFTH, MR. CARVER ARGUES THAT RATEPAYERS ARE "AT RISK" FOR INCENTIVE COMPENSATION AND THAT UTILITY INVESTORS ARE NOT.[52] DO YOU AGREE?

A. No. Mr. Carver's argument ignores the reason why financially based incentive compensation would not be paid—poor financial performance. Qwest's investors (not ratepayers) would bear the burden of this poor performance if and until steps can be taken to improve it. By design and necessity, the financial consequences that determine payment of incentive compensation are larger than the payments themselves. Hence, if incentive compensation is not paid because financial targets are missed, the financial benefit to investors of not making the payments is overshadowed by the financial reasons the payments were not made in the first place. Investors are in no way insulated from the risks involved in incentive compensation.

Q. WHAT DO YOU CONCLUDE ABOUT MR. CARVER'S ARGUMENTS?

A. None of Mr. Carver's arguments for disallowance of incentive compensation expenses is based on a commercial standard of reasonableness. Instead, they are based on various public policy arguments that do not adequately protect investors, particularly investors whose businesses are under competitive attack. Qwest's incentive compensation plan is reasonable and the amount it pays its employee in incentive compensation and in total is reasonable. Adjustment C-17 should be rejected.

[52] Docket No. T-01051B-03-0454; Direct Testimony of Steven C. Carver; p. 44, ll. 17-28.

1 ***Marketing and Advertising Costs (Staff C-9)***

2 **Q. IS MR. BROSCH'S PROPOSED DISALLOWANCE OF IMAGE**

3 **ADERTISING BASED ON HIS UNDERSTANDING OF ARIZONA**

4 **REGAULATORY POLICY?**

5 A. Apparently so. He testifies:

6 Q. Is Qwest disputing **the Commission's policy** established in the 1994 rate
7 case Decision in its Rule 103 filing in this Docket?

8 A. Yes.[53] (Emphasis added)

9 * * *

10 Q. Has the Commission or Qwest, in prior cases where image advertising
11 costs were removed, applied any of the new "current market conditions",
12 "dishonesty" or "obviously wasteful" criteria that Mr. Grate now seeks to
13 impose?

14 A. Not to my knowledge. Nor has Mr. Grate offered any "clear and convincing
15 evidence" in support of his **proposed change in regulatory policy**
16 **regarding such costs.**[54] (Emphasis added)

17 **Q. DO YOU BELIEVE IT IS APPROPRIATE FOR THE COMMISSION TO**

18 **HAVE A STANDING POLICY OF DISALLOWING IMAGE ADVERTISING**

19 **COSTS?**

20 A. No. I believe the Commission should evaluate such costs in the light of the

21 circumstances in which the costs are incurred. A standing policy of

22 disallowing image advertising costs is *ipso facto* prejudicial.

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[53] Docket No. T-01051B-03-0454; Direct Testimony of Michael L. Brosch. p. 9, ll. 24-26.
[54] Docket No. T-01051B-03-0454; Direct Testimony of Michael L. Brosch. p. 10 ll. 1-6.

1 Expenditures of a public utility made in the ordinary course of its business
2 have a presumption of legitimacy.[55] The Commission should require clear
3 and convincing evidence to overcome that presumption, not rely on a
4 standing disallowance policy that is prejudicial.

5 **Q. ARE YOU SUGGESTING THAT THE PARTIES SHOULD RE-LITIGATE**
6 **THE COMMISSION'S POLICIES IN EVERY RATE CASE?**
7 A. No. I believe it is prejudicial to maintain standing policies that automatically
8 disallow certain costs without first determining whether those costs are
9 commercially reasonable in the light of all of the relevant circumstances, not
10 the least of which is the level of competition.

11 **Q. MR. BROSCH'S ASSERTS: "TEST YEAR IMAGE ADVERTISING COST**
12 **LEVELS WERE INCREASED RELATIVE TO PRIOR YEARS IN AN**
13 **APPARENT EFFORT TO ENHANCE QWEST'S REPUTATION,**
14 **CREDIBILITY AND IMAGE AFTER EXPERIENCING WIDELY PUBLICIZED**
15 **FINANCIAL DIFFICULTIES, ACCOUNTING INVESTIGATIONS AND SENIOR**
16 **MANAGEMENT TURNOVER."[56] DO YOU AGREE?**
17 A. No. Mr. Brosch presents a chart on page 11 line 11 of his direct testimony
18 that purports to show that Qwest's spending for image advertising was
19 greater in 2003 than in the prior three years. The chart is inaccurate and,
20 therefore, highly misleading.

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[55] Docket No. E-1051-84-100, t Decision No. 54843 page 20, line 4.
[56] Docket No. T-01051B-03-0454; Direct Testimony of Michael Brosch, p. 13, l. 9-12.

Footnote 12 on the same page of testimony reveals that a significant portion of the amount recorded on Qwest's books as image advertising in 2003 was, in fact, product advertising. As his testimony immediately below the chart explains, he adjusted the year 2003 image advertising amount on the line labeled "Less: Disallowed Brand Advertising" for the effect of this accounting error. However, he failed to also adjust the line labeled "Corporate Brand Advertising" and "Product Advertising" for the same phenomenon. When corrected for this defect, the chart shows that test year image advertising was actually REDACTED than the amount incurred by the Company in the years 2000 and 2001, when no financial difficulties or accounting problems had come to light and no top management turnover had occurred. Following is a chart with the 2003 data corrected and with information concerning October 2004 year to date annualized advertising spending.

Arizona Advertising Costs by Category $000	2000	2001	2002	2003	October 2004 Annualized
Product Advertising					
Corporate Brand Advertising			REDACTED		
Total Advertising - AZ Share					

As the chart shows, REDACTED

REDACTED

1 **Q. MR. BROSCH ARGUES THAT INCREASED COMPETITION AND OTHER**
2 **CHANGED CIRCUMSTANCES DO NOT JUSTIFY INCLUSION OF**
3 **CORPORATE ADVERTISING COSTS AT THIS TIME. DO YOU AGREE?**
4
5 A. No. Mr. Brosch also argues "It is not reasonable to burden ratepayers of
6 regulated services with corporate image advertising costs simply because
7 markets have become more competitive."[57] I disagree.

8 Whether a cost is reasonable must be viewed in light of the relevant facts and
9 circumstances. Mr. Bosch clings to a disallowance policy that arose when
10 competition for telecommunications services was in its infancy. The
11 competitive market conditions under which Qwest operates in Arizona are, if
12 not the most, then certainly one of the most important factors affecting
13 Qwest's business today. The appropriateness of Qwest's business
14 expenditures cannot be reasonably evaluated while ignoring this factor.

15 **Q. IS THE EVIDENCE MR. BROSCH OFFERS IN SUPPORT OF**
16 **DISALLOWING QWEST'S IMAGE ADVERTISING COSTS CLEAR AND**
17 **CONVINCING?**
18 A. That is for the Commission to judge. However, I will show that Mr. Brosch's
19 evidence is limited to his opinion supported by his speculation. Mr. Brosch's
20 expertise is regulatory finance and accounting, not marketing and advertising.
21 So is mine. Believing that both Mr. Brosch and I lack the qualifications to

[57]Docket No. T-01051B-03-0454; Direct Testimony of Michael Brosch, p. 13, l. 23.

expertly evaluate Qwest's expenditures for image advertising, I consulted with Qwest's marketing department. The testimony that follows is based on my consultations with Qwest's marketing department and the opinions of Ms. Linda Nielander, Qwest's Director of Marketing, whose affidavit is attached to this testimony as Qwest Corporation—Exhibit PEG-R13.

Q. MR. BROSCH ARGUES THAT EXPENDITURES MADE TO PROMOTE FAVORABLE PUBLIC OPINION, SUCH AS IMAGE ADVERTISING ARE NOT REQUIRED TO PROVIDE REGULATED SERVICES AND PROVIDE NO TANGIBLE DIRECT BENEFIT TO THE COMPANY OR ITS CUSTOMERS.[58] DO YOU AGREE?

A. No. This opinion illustrates Mr. Brosch's lack of marketing and advertising expertise. According to Ms. Nielander's affidavit, it is well known in the advertising profession that image advertising promotes and improves overall product awareness within an enterprise's customer base. In the vernacular of the profession, image advertising "lifts" (improves) response to other advertising. For example, in 2004, the customer response levels to Qwest's printed product advertising levels dropped when not supported by television image advertising.

Q. MR. BROSCH ASSERTS THAT SIMPLY PROVIDING GOOD SERVICE AT REASONABLE RATE LEVELS WILL CONTRIBUTE TO FAVORABLE

[58] Docket No. T-01051B-03-0454; Direct Testimony of Michael Brosch, p. 12, l. 19.

PUBLIC OPINION WITH NO NEED FOR SELF PROMOTION WITH IMAGE ADVERTISING.[59] DO YOU AGREE?

A. No. Good service at reasonable prices is not enough in competitive markets. As, Ms. Nielander's affidavit explains, Qwest must maintain a visible brand/image presence to combat the competitive marketplace. This is accomplished through a combination of brand and image advertising.

Q. MR. BROSCH ASSERTS THAT IF THE REPUTATION OF A REGULATED ENTITY HAS BEEN HARMED BY POOR SERVICE QUALITY OR QUESTIONABLE BUSINESS PRACTICES, CUSTOMERS OF REGULATED SERVICES SHOULD NOT BE REQUIRED TO BEAR IMAGE ADVERTISING COSTS DESIGNED TO IMPROVE THE CORPORATE IMAGE.[60] WHAT IS YOUR RESONSE?

A. Mr. Brosch has not shown that Qwest's service quality is poor. Mr. Brosch has not shown that customers perceive Qwest engaging in questionable business practices or that they believe the questionable business practices that Mr. Brosch alleges have any effect on them as customers. As, Ms. Nielander's affidavit explains, Qwest's brand/image advertising provides a customer benefit message, not just a brand message.

Q. MR. BROSCH ASSERTS THAT IMAGE ADVERTISING IS REDUNDANT TO PRODUCT SPECIFIC ADVERTISING AND THAT PRODUCT SPECIFIC

[59] Docket No. T-01051B-03-0454; Direct Testimony of Michael Brosch, p. 12, l. 23.
[60] Docket No. T-01051B-03-0454; Direct Testimony of Michael Brosch, p. 12, l. 26.

ADVERTISING CAN BE USED TO MAINTAIN PUBLIC AWARENESS OF THE AVAILABILITY AND VALUE ASSOCIATED WITH USING REGULATED PRODUCTS AND SERVICES.[61] HOW DO YOU RESPOND?

A. Mr. Brosch does not understand advertising. As Ms. Nielander's affidavit explains, image advertising is not redundant to product specific advertising. Product and image advertising work in harmony with one another. Pure product advertising is not as effective without an image advertising overlay.

Q. MR. BROSCH ARGUES THAT PROMOTION OF THE CORPORATE BRAND OR IMAGE MAY PROVIDE A SUBSIDY FOR NON-REGULATED SERVICES OFFERED BY CORPORATE AFFILIATES.[62] HOW DO YOU RESPOND?

A. Mr. Brosch's speculation is not evidence. It is certainly not an appropriate basis for a disallowance.

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[61] Docket No. T-01051B-03-0454; Direct Testimony of Michael Brosch, p. 13, l. 1.
[62] Docket No. T-01051B-03-0454; Direct Testimony of Michael Brosch, p. 13, l. 5.

1 **Q. MR. BROSCH ASSERTS THAT TEST YEAR IMAGE ADVERTISING COST**
2 **LEVELS WERE INCREASED RELATIVE TO PRIOR YEARS, IN AN**
3 **APPARENT EFFORT TO ENHANCE QWEST'S REPUTATION,**
4 **CREDIBILITY AND IMAGE AFTER EXPERIENCING WIDELY PUBLICIZED**
5 **FINANCIAL DIFFICULTIES, ACCOUNTING INVESTIGATIONS AND**
6 **SENIOR MANAGEMENT TURNOVER. HOW DO YOU RESPOND?**
7 A. The premise of Mr. Brosch's position is incorrect. As I have already testified,
8 the level of image advertising in Qwest's test year was REDACTED
9 REDACTED . Mr. Brosch has not shown that
10 customers for telephone service base their purchase decisions on Qwest's
11 financial difficulties, accounting investigations or senior management
12 turnover. Mr. Brosch's argument is incorrect both because he is speculating
13 about the reason for Qwest's increase in image advertising and because the
14 increases about which he speculates did not occur.

15 **Q. WHAT SHOULD THE COMMISSION DO WITH REGARD TO STAFF'S**
16 **ADJUSTMENT C-9?**
17 A. Staff has not offered substantial evidence or expert opinion to show that
18 Qwest's test year image advertising expenditures were commercially
19 unreasonable or wasteful or imprudent. The Commission should reject Staff
20 adjustment C-9.

OTHER REVENUE REQUIREMENT ISSUES

DSL (Staff B-3, C-6)

Q. DOES QWEST AGREE WITH MR. DUNKEL'S CLAIM THAT THE PART 36 RULES REQUIRE THE DIRECT ASSIGNMENT OF DSL INVESTMENT AND ASSOCIATED COSTS TO THE INTERSTATE JURISDICTION AFTER FCC'S "FREEZE" ORDER THAT FIXED JURISDICTIONAL (STATE/INTERSTATE) ALLOCATION FACTORS AND CATEGORY RELATIONSHIPS BASED ON 2000 SEPARATED RESULTS?[63]

A. No, Qwest disagrees with Mr. Dunkel's assertion that the FCC's Part 36 rules require the direct assignment of DSL investment and associated costs to the interstate jurisdiction.

Q. DOES QWEST AGREE WITH MR. DUNKEL'S ASSERTION THAT DSL INVESTMENT SHOULD BE MOVED TO THE INTERSTATE JURISDICTION AND DOES QWEST AGREE WITH STAFF'S PROPOSED ACCOUNTING ADJUSTMENT SHOWN ON SCHEDULE WDA -15 AND STAFF ACCOUNTING ADJUSTMENTS B-3 AND B-6?

A. No, Mr. Dunkel is mistaken in his interpretation of the FCC's Freeze Order's requirements with respect to DSL. As such, Qwest disagrees with the adjustment WDA-15 and the Staff accounting adjustments B-3 and B-6. This

[63]The Federal-State Joint board recommended a separations freeze of categories and jurisdictional allocation factors in FCC 00J-2. This recommendation was subsequently adopted with modifications by the FCC, FCC 01-162, on May 11, 2001.

adjustment is an incorrect interpretation of the Part 36 rules and is an unwarranted adjustment to Qwest's revenue requirement.

Q. HOW DOES MR. DUNKEL SUPPORT HIS CLAIM THAT QWEST MUST DIRECTLY ASSIGN MAJOR DSL INVESTMENTS TO THE INTERSTATE JURISDICTION ANNUALLY AFTER THE FCC'S FREEZE ORDER WENT INTO EFFECTIVE ON JULY 1, 2001?

A. Mr. Dunkel argues:

> The FCC Order does not freeze the "direct" assignments. In fact the Order specifically states "direct assigned" costs are not frozen, and the Order requires "Direct assignment of private line service costs between jurisdictions shall be updated annually."[64]

In addition, Mr. Dunkel quotes liberally from 47 CFR 36.3(a).

Q. DOES QWEST AGREE THAT MR. DUNKEL IS INTERPRETING THE FREEZE ORDER AND PART 36.3(A) CORRECTLY IN APPLYING IT TO QWEST'S ASSIGNMENT OF DSL INVESTMENT?

A. No, Qwest disagrees with Mr. Dunkel's interpretation of the rules. Contrary to Mr. Dunkel's claims, Qwest, as a LEC subject to federal price cap regulation, is prohibited from directly assigning DSL investment to the Interstate jurisdiction "post freeze" under Part 36.3 (b) of CFR Title 47[65]

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[64] Docket No. T-01051B-03-0454; Direct Testimony of William Dunkel, pp. 9-10.
[65] This rule is: "Effective July, 2001, through June 30, 2006, local exchange carriers subject to price cap regulation, pursuant to ¶ 61.41, shall assign costs from the Part 32 accounts to the

Q. WHY DOES THIS SECTION OF THE RULES APPLY TO QWEST RATHER THAN THE SECTION CITED BY MR. DUNKEL?

A. The language in Part 36.3(a) that Mr. Dunkel cites applies generally to all local exchange carriers subject to Part 36 while Part 36.3(b) applies specifically to LECs subject to price cap regulation under 47 CFR ¶ 61.41. Needless to say, if there is a conflict between a general rule and a specific rule, the specific rule controls. As a carrier subject to price cap regulation, Qwest must comply with Part 36.3(b). Qwest's compliance is not elective. This rule specifically requires that all investment categories and sub-categories be frozen. Qwest has complied with this freeze requirement for all components of investment including DSL.

Q. PLEASE DESCRIBE WHAT IS INVOLVED IN THE FCC'S JURISDICATIONAL SEPARATIONS PROCESS.

A. Jurisdictional Separations is the process by which incumbent local exchange carriers (ILECs) apportion regulated costs between the intrastate and interstate jurisdictions.[66] Jurisdictional separations is the third step of a multi-

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separations categories/sub-categories, as specified herein, based on the percentage relationships of the categorized/sub-categorized costs to their associated Part 32 accounts for the twelve month period ending December 31, 2000. If a Part 32 account for separations purposes is categorized into more than one category, the percentage relationship among the categories shall be utilized as well. Local exchange carriers that invest in types of telecommunications plant during the period July 1, 2001, through June 30, 2006, for which they had no separations category investment for the twelve month period ending December 31, 2000, shall assign such investment to separations categories in accordance with the separations procedures in effect as of December 31, 2000."

[66]For purposes of section 251 of the Act, a local exchange carrier (LEC) is regarded as an "incumbent local exchange carrier" (ILEC) for a specific area if, on the date of enactment of the Act, the carrier provided telephone exchange service in that area and was deemed to be a

step regulatory process that begins with an ILEC's accounting system and ends with the establishment of rates for the ILEC's interstate and intrastate regulated services. The multi-step process is as follows:

- First, revenues and costs, including investments and expenses, are recorded in various accounts in accordance with the Uniform System of Accounts (USOA) prescribed by Part 32 of the FCC's rules.[67]

- Second, costs in these accounts are assigned to either regulated or non-regulated activities in accordance with Part 64 of the FCC's rules to ensure that the costs of non-regulated activities will not be recovered in regulated interstate service rates.[68]

- Third, regulated costs are separated between the intrastate and interstate jurisdictions in accordance with the FCC's Part 36 separations rules.[69] This process requires that regulated costs be

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member of the National Exchange Carrier Association, Inc. (NECA), or if the carrier "became a successor or assign" of such a member on or after that date. 47 U.S.C. § 251(h)(1). Pursuant to section 69.601(b) of the Commission's rules, "[a]ll telephone companies that participate in the distribution of Carrier Common Line revenue requirement, pay long term support to association Common Line tariff participants, or receive payments from the transitional support fund administered by [NECA] shall be deemed to be members." 47 C.F.R. § 69.601(b). For purposes of this *Recommended Decision*, the term "carriers" refers to ILECs. We note that, unlike the ILECs, competitive local exchange carriers (CLECs) are not subject to the requirements of Parts 36, 61, 64, and 69 of the Commission's rules. *See* 47 C.F.R. §§ 36, 61,64, and 69.

[67] 47 C.F.R. Part 32.

[68] The Part 64 cost allocation rules are codified at 47 C.F.R. §§ 64.901-904. Non-regulated activities generally consist of activities that have never been subject to regulation under Title II; activities formerly subject to Title II regulation that the Commission has preemptively deregulated; and activities formerly subject to Title II regulation that have been deregulated at the interstate level, but not preemptively deregulated at the intrastate level, that the Commission decides should be classified as non-regulated activities for Title II accounting purposes. *See* 47 C.F.R. § 32.23(a). *See Accounting Safeguards under the Telecommunications Act of 1996*, Report and Order, CC Docket No. 96-150, 11 FCC Rcd 17539, 17573 (1996), *recon. granted, in part, and denied, in part*, Report and Order in CC Docket No. 98-81, First Order on Reconsideration in CC Docket No. 96-150, Fourth Memorandum Opinion and Order in AAD File No. 98-43, 14 FCC Rcd 11396 (1999) (granting petitions for reconsideration in part and adopting changes to section 274(f) reporting requirements), *recon. denied*, Second Order on Reconsideration, FCC 00-9 (rel. January 18, 2000) (rejecting petitions for reconsideration on the grounds that the petitions raised no new arguments). Similarly, state jurisdictions have the ability to remove the costs of state non-regulated activities so that those costs will not be recovered in regulated intrastate service rates.

[69] 47 C.F.R. Part 36. *See also MCI Telecommunications Corp. v. FCC*, 750 F.2d 135, 137 (D.C. Cir. 1984) (stating that "'[j]urisdictional separations is a procedure that determines what proportion of jointly used plant should be allocated to the interstate and intrastate jurisdictions for ratemaking purposes").

assigned to various categories of plant and expenses. In certain instances, costs are further disaggregated among service categories.[70] These jurisdictional apportionments of categorized costs are based upon either a relative use factor, a fixed allocator[71], or, when specifically allowed in the Part 36 rules, by direct assignment.[72]

- Finally, the interstate regulated costs are apportioned between the interexchange services and rate elements that comprise the cost basis for interstate access tariffs. This apportionment is made in accordance with Part 69 of the FCC's rules.[73] The costs that are deemed not to be interstate in the process are therefore deemed to be *"intrastate"* costs -- costs that form the basis for determining intrastate rates.

From its early inception, the separations process served to prevent the recovery of the same costs in both the interstate and intrastate jurisdictions. This premise has been reinforced by opinions from the Supreme Court.[74] In addition, the Supreme Court has also stated that "the proper regulation of rates can be had only by maintaining the limits of state and federal jurisdiction."[75]

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[70] For example, central office equipment (COE) Category 1 is Operator Systems Equipment, Account 2220. The Operator Systems Equipment account is further disaggregated or classified according to the following arrangements: (i) separate toll boards; (ii) separate local manual boards; (iii) combined local manual boards; (iv) combined toll and DSA boards; (v) separate DSA and DSB boards; (vi) service observing boards; (vii) auxiliary service boards; and (viii) traffic service positions. *See* 47 C.F.R. § 36.123.

[71] For example, loop costs are allocated by a fixed allocator, which allocates 25% of the loop costs to the interstate jurisdiction and 75% of the costs to the intrastate jurisdiction. *See* 47 C.F.R. § 36.154(c).

[72] Because some costs are directly assigned to a jurisdictionally pure service category, *i.e.* a category used exclusively for either intrastate or interstate communications, both steps are often effectively performed simultaneously. For example, the cost of private line service that is wholly intrastate in nature is assigned directly to the intrastate jurisdiction. *See* 47 C.F.R. § 36.154(a).

[73] 47 C.F.R. Part 69.

[74] See *Smith v. Illinois Bell Tel. Co.*, 282 U.S. 133, 148 (1930) (*Smith v. Illinois*). In this case, separations procedures for the separation of intrastate and interstate property, revenues, and expenses, were deemed necessary for the appropriate recognition of authority between the interstate and intrastate jurisdictions.

[75] *Id.* at 149.

Q. PLEASE EXPLAIN MORE FULLY WHAT IS MEANT BY THE TERM FROZEN SEPARATIONS PROCESS.

A. The freezing of the jurisdictional separations process meant simply that the FCC froze the jurisdictional separations process, cost categories, allocation factors and the work involved in the underlying special study requirements. The freeze meant there would be no change in the separations subcategories frozen at calendar year 2000 proportions and that allocation factors calculated for year 2000 will be frozen. Only the categories or portions of categories previously direct-assigned would continue to be direct assigned.

A freeze of allocations factors[76] meant that such factors, as of a specific point in time, were locked in, or "frozen", and were to be used for determining the cost allocations for a set period of time. A freeze of category relationships is implemented by retaining the relationships of the categories within a particular investment account to the total account balance. The freeze of category relationships applies to all levels of categorization listed in Appendix B of the Separations Freeze Order. Any Part 36 requirement to segregate costs recorded in Part 32 accounts into categories, subcategories, or further sub-

[76] "Jurisdictional allocation factors" are the percentage relationships that allocate costs assigned to Part 32 accounts for jointly used plant between the interstate (federal) and intrastate (state) jurisdictions.

classifications will be frozen at the percentage relationships from the calendar year 2000 cost separations study.[77]

Q. WAS THE JURISDICTIONAL ALLOCATION OF CATEGORIES OR PORTIONS OF CATEGORIES THAT WERE DIRECTLY ASSIGNED IN THE PAST AFFECTED BY THE FCC'S FREEZE?

A. No. Frozen allocation factors were not intended to have an effect on the direct assignment of costs for categories that were defined prior to the freeze.[78] Furthermore, and contrary to Mr. Dunkel's claims, Qwest, who is subject to interstate price cap regulation, was prohibited from directly assigning DSL investment to the Interstate jurisdiction "post freeze" under Part 36.3 (b) of CFR Title 47 rules.[79]

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[77] *In the Matter of Jurisdictional Separations and Referral to the Federal-State joint Board*, Report and Order, CC Docket No. 80-286, released May 22, 2001.

[78] See June 19, 2001memo to all Member Companies, *Separations Category Freeze Election – Please Respond by June 29, SEPARATIONS FREEZE FREQUENTLY ASKED QUESTIONS (FAQs)*, at page 3, A8. Frozen allocation factors will not have an effect on the direct assignment of costs for categories, or portions of categories, that were previously directly assigned to jurisdictions. These will not have an effect on the direct assignment of costs for categories, or portions of categories, that were previously directly assigned to jurisdictions. These categories or portions of category~ will continue to be directly assigned to each jurisdiction in the same manner as before the freeze. It is important to note, however, that if a company elects to freeze its category relationships at the calendar year 2000 cost study levels, the proportion of costs assigned to categories or portions of categories that are directly assigned (e.g., DSL costs in COB Category 4.11) will also be affected. This could result in some costs tl1at are typically directly assigned being apportioned based on the frozen category relationships to categories of costs that are not directly assigned.

[79] This rule is: "Effective July, 2001, through June 30, 2006, local exchange carriers subject to price cap regulation, pursuant to ¶ 61.41, shall assign costs from the Part 32 accounts to the separations categories/sub-categories, as specified herein, based on the percentage relationships of the categorized/sub-categorized costs to their associated Part 32 accounts for the twelve month period ending December 31, 2000. If a Part 32 account for separations purposes is categorized into more than one category, the percentage relationship among the categories shall be utilized as well. Local exchange carriers that invest in types of telecommunications plant

Q. DOES THE FCC OFFER ANY GUIDANCE RELATED TO THE DIRECT ASSIGNMENT OF COSTS TO THE INTERSTATE JURISDICTION?

A. Yes, the FCC has indicated that it expects the category relationships to be frozen. Qwest reports the categorization of investment to the FCC in its ARMIS reports. Qwest recently received a letter from Fatina Franklin, Assistant Division Chief, Industry Analysis and Technology Division, of the FCC requesting an investigation into Cable and Wire Relationships in one of Qwest's states because the Categorization of Cable and Wire Facilities Investment in Categories 1, 2, 3 and 4 for 2003 differed from the Category relationships that Qwest reported for 2000. Ms. Franklin indicated that the FCC expected the Categories to be frozen for Cable and Wire and asked Qwest to investigate the matter and re-file its ARMIS reports. After investigating the issue, Qwest agreed and revised the ARMIS reports. Based on this experience with the FCC for Cable and Wire Investment, it is clear to Qwest that the FCC expects the same result for the Categorization of COE, Categories 1, 2 and 3.

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during the period July 1, 2001, through June 30, 2006, for which they had no separations category investment for the twelve month period ending December 31, 2000, shall assign such investment to separations categories in accordance with the separations procedures in effect as of December 31, 2000."

Q. WHAT EFFECT WOULD MR. DUNKEL'S PROPOSED "DIRECT ASSIGNMENT" OF DSL HAVE ON THE CATEGORIES OF COE AND ALLOCATION OF JURISDICTIONAL COSTS?

A. Direct assignment of costs would distort not only the frozen categories but the jurisdictional assignment of costs. An example is in order. Qwest Corporation—Exhibit PEG-R14 depicts a hypothetical assignment of COE Circuit Equipment to the Categories and Jurisdictions. In this hypothetical, the year 2000 relationship of Category 4.1 Exchange Line Circuit Equipment is 92.2% of Total Exchange Line Circuit Equipment and this same equipment has a 61.8% assignment to the intrastate jurisdiction. Adding an additional $1 million of equipment to the base and using Qwest's methodology results in exactly the same categorization and separations of the investment to the interstate jurisdiction. This result is intended by the freeze.

Adding the same investment but assuming that $300 thousand of this $1 million in incremental investment is to be directly assigned to Wideband Exchange Line Circuit Equipment Category—Interstate results in a distortion of the frozen categories and allocations. Referring again to Exhibit PEG-R14, the Category 4.1 Exchange Line Circuit Equipment that is suppose to be frozen has changed from 92.2% to 92.7% and the interstate assignment of the same category has changed from 38.2% Interstate to 40.8%, a distortion not intended by the order.

Q. HOW DOES QWEST INTERPRET PARAGRAPH 23 OF THE FCC'S FREEZE ORDER?

A. Qwest believes that paragraph 23 can not be interpreted as Mr. Dunkel has in his testimony – otherwise it would not be possible to freeze category relationships, as the Order clearly requires. While Qwest acknowledges that there is an inherent conflict between the FCC's language regarding "frozen category relationships" and "direct assignment" of costs in paragraph 23, Qwest believes that the specific language applying to price cap carriers in Part 36.3(b) controls over any conflicting general requirements with respect to the direct assignment of costs.

If equipment that was directly assigned to the jurisdictions prior to the freeze is directly assigned after the Freeze Order, then the category relationships described in 36.3 (b) could not be maintained. Direct assignment post freeze will not only distort the frozen relationship of the COE Category 4 equipment but would also distort the frozen jurisdictional allocations. Furthermore, the FCC's recent inquiry into information that Qwest reported on Cable and Wire investment in its ARMIS reports and Qwest's subsequent revision of these reports, should remove any doubt as to whether Qwest is properly applying the FCC's order.

Q. DOES MR. DUNKEL'S READING AND INTERPRETATION OF THE FCC'S SEPARATIONS FREEZE AND THE POST-FREEZE JURIDICTIONAL

1 **SEPARATION OF DSL-RELATED COSTS SUPPORT THE ADJUSTMENT**
2 **TREATMENT HE PROPOSES?**
3 A. No. There are a number of reasons why Mr. Dunkel's assessment of the
4 separations process is flawed. First and foremost is that state regulatory
5 agencies do not have authority to reassign costs between jurisdictions.
6 Qwest will make this point in its legal arguments in this case. What I can
7 speak to is the need, and the sound policy basis, for consistent apportionment
8 between interstate and intrastate operations.

9 If the Commission were to find that it disagrees with Qwest's application of
10 the FCC's Freeze Order, it could file a petition for declaratory ruling with the
11 FCC. The FCC is in a position to ensure that the Separations rules are
12 uniformly applied and that the sum of the interstate and intrastate
13 percentages of the regulated rate base equal 100 percent. In my view, the
14 Commission should advocate its position on how DSL costs should be
15 assigned between jurisdictions through the Federal-State Joint Board on
16 Separations.

17 In fact, in the very near future, the Joint Board is expected to begin
18 addressing policies/options that should be pursued when the Separations
19 freeze expires on June 30, 2006. In December 2001, the Separations Joint
20 Board issued its "Glide Path' document which framed many of the
21 Separations issues that must be faced in the post-freeze environment. It is

anticipated that the Joint Board will be issuing a notice requesting information and comment on how the Separations freeze is working and what problems have been encountered. Thus, rather than follow Mr. Dunkel's approach, which would create a jurisdictional battle, Staff's efforts would be better spent influencing the Joint Board's recommendations on the appropriate assignment of DSL costs after the expiration of the current separations freeze.

Q. SINCE THE FCC ADOPTED THE FEDERAL-STATE JOINT BOARD'S RECOMMENDATION TO FREEZE SEPARATIONS FACTORS AND CATEGORIES AS OF THE END OF 2000, WHAT SPECIFIC GUIDANCE DID THE FCC PROVIDE RELATED TO DSL INVESTMENT?

A. The Freeze order addresses new technologies including DSL and the resulting distortion that these technologies may have on the jurisdictional assignment of costs not necessarily contemplated by existing rules.[80] Regulators recognized that the current separations rules were starting to distort the allocation of costs and took appropriate action to freeze both the category/subcategory relationships as well as the jurisdictional

[80] The Freeze Order recognized the impact that new technologies had in assignment of investment, reserves and expenses to the categorizations and jurisdictions: "Since the NPRM was released in 1997, there have been rapid changes in the telecommunications infrastructure, such as the growth in Internet usage and the increased usage of packet switching. We believe that these types of changes may produce cost shifts in separations results because these and other new technologies, such as digital subscriber line (DSL) services, as well as a competitive local exchange marketplace are not sufficiently contemplated by the current Part 36 rules. We believe, therefore, that the most effective action at this time will be to freeze the separations process on interim basis, until the Commission and the Joint Board have had the opportunity to more comprehensively reform Part 36."

(state/interstate) assignment of costs pending comprehensive reform of the rules. The FCC also recognized the impact that the Internet was having on the state/interstate assignment of costs. Jurisdictional allocation factors associated with Dial Internet Traffic were driving more and more costs to the intrastate jurisdiction as this traffic increased at a higher rate than interstate traffic. This trend was recognized and the FCC's Freeze effectively stopped this trend pending additional review by the Federal/State Joint Board and the FCC.

Q. WHY DOES QWEST BELIEVE THAT IT IS PROPERLY FOLLOWING THE FCC'S ORDER FREEZING SEPARATIONS FACTORS AND CATEGORIES AS IT APPLIES TO PRICE CAP COMPANIES?

A. In addition to the numerous references in the Freeze Order itself, Qwest has correspondence from both the FCC and the National Exchange Carrier Association that indicate that Qwest is interpreting the Freeze Order in the same manner as the FCC.

Q. ARE THERE OTHER AUTHORITATIVE ORGANIZATIONS THAT HAVE PROVIDED GUIDANCE ON THIS ISSUE?

A. Yes, the National Exchange Carrier Association that is responsible for administering the FCC's Access Charge Plans and related Part 36 cost

allocations has addressed this subject in a letter to member companies.[81] NECA recognizes that "if a company elects[82] to freeze category relationships as of the calendar year 2000 cost study levels, the proportion of costs assigned to categories or portions of categories that are directly assigned (e.g., DSL costs in COE Category 4.11) will also be affected. This could result in some costs that are typically directly assigned being apportioned based on the frozen category relationships to categories of costs that are not directly assigned." NECA recognized that if a carrier elected the freeze, some of the DSL costs would be allocated based on the frozen category relationships and not directly assigned to the interstate portion of Category 4.11. Qwest is following this same interpretation as NECA.

Q. CAN YOU BE MORE SPECIFIC REGARDING WHAT THE JOINT BOARD OR THE FCC SAID REGARDING THE SEPARATIONS FREEZE AND SEPARATIONS REFORM?

A. In adopting a five-year interim separations freeze the FCC indicated that some category relationships and all allocation factors would be frozen for a period of five years or until comprehensive separations reform could be completed. With limited exceptions" no adjustments to the frozen category relationships and allocation; factors were allowed during the freeze. The freeze was intended to stabilize and simplify the Part 36 separations process

[81] National Exchange Carrier Association, June 19, 2001 letter to Member Companies A8.
[82] Qwest's election is compulsory under Part 36.3(b).

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7 ¶2 ***Specifically, the Joint Board recommends that the Commission***
8 ***institute a five-year freeze of all Part 36 category relationships and***
9 ***allocation factors for price cap carriers,*** and a freeze of the allocation
10 factors for rate-of-return carriers. As discussed further below, we
11 recommend that the Commission adopt a freeze calculated based on
12 carriers' data from the twelve months prior to the Commission's issuance
13 of an order on this *Recommended Decision*. The freeze should be
14 mandatory and apply to all carriers subject to the Part 36 rules. ***The Joint***
15 ***Board recommends that the freeze remain in effect for five years, or***
16 ***until the Commission takes further action pursuant to a***
17 ***recommendation from the Joint Board, whichever occurs first.*** The
18 Joint Board also recommends that, if the Commission finds that Internet
19 traffic is jurisdictionally interstate in the proceeding that has been initiated
20 as a result of the remand by the United States Court of Appeals for the
21 D.C. Circuit on the Commission's *Reciprocal Compensation Ruling*,[84] the
22 Commission freeze the local DEM factor for the duration of the freeze at
23 some substantial portion of the current year level based on data from the
24 twelve months preceding the implementation of the freeze.[85] Based on
25 the record established in connection with this *Recommended Decision*,
26 the precise percentage of the current year's local DEM should be
27 established according to how much of a reduction in local DEM is

[83] See FCC 00J-2, In the Matter of Jurisdictional Separations Reform and Referral to the Federal-State Joint Board, CC Docket No. 80-286, released July 21, 2000.
[84] *See Implementation of the Local Competition Provisions of the Telecommunications Act of 1996; Inter-Carrier Compensation for ISP-Bound Traffic*, Declaratory Ruling in CC Docket No. 96-98 and Notice of Proposed Rulemaking in CC Docket No. 99-68, FCC 99-38, 14 FCC Rcd 3689, 3701-3703, 3710 (1999) (*Reciprocal Compensation Ruling*); Bell Atl. Tel. Companies v. F.C.C., 206 F.3d 1 (D.C. Cir. 2000) (*Bell Atlantic v. F.C.C.*); *Implementation of the Local Competition Provisions of the Telecommunications Act of 1996; Inter-Carrier Compensation for ISP-Bound Traffic*, Public Notice, CC Docket Nos. 96-98 and 99-68, FCC 00-227 (rel. June 23, 2000) (*Reciprocal Compensation Ruling Remand Public Notice*).
[85] *See infra*, Section III.B.2.

warranted in light of any effects that Internet usage has had on jurisdictional allocations or consumers. ***We also recommend that, during the interim freeze period, the Joint Board and the Commission continue to review issues regarding separations reform, as specified in this Recommended Decision.***[86]
(Emphasis added)

¶14 We believe that instituting ***a mandatory interim freeze of both the Part 36 category relationships and jurisdictional allocation factors for price cap carriers is consistent with our goals of stabilizing and simplifying the Part 36 separations process, pending comprehensive reform.***[87]
(Emphasis added)

¶15 ***One primary goal of an interim freeze at this time is to provide stability for all carriers while the Joint Board evaluates comprehensive reform of jurisdictional separations.*** We believe that ***a freeze of the jurisdictional allocation factors and categories would achieve this goal by minimizing any cost shift impacts on separations results that might occur as a result of circumstances not contemplated by the Commission's current Part 36 rules*, such as growth in local competition and new technologies**. Since the *NPRM* was released in 1997, there have been rapid changes in the telecommunications infrastructure, ***such as the growth in Internet usage and the increased usage of packet switching. We believe that these types of changes may produce cost shifts in separations results because these and other new technologies, such as digital subscriber line (DSL) services that combine voice and high speed data circuits over shared copper facilities, as well as a competitive local exchange marketplace, are not sufficiently contemplated by the current Part 36 rules.***[88]

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[86] *See infra*, para. 27.

[87] We agree with commenters who support an interim freeze of jurisdictional allocation factors as an effort to simplify the existing separations rules and to address the impact of new technologies on network usage. *See, e.g.*, Ameritech *NPRM* Comments at 8-13; Bell Atlantic *NPRM* Comments at 4-9; RTC *NPRM* Comments at 5-10; NECA *NPRM* Reply Comments at 4-5; USTA *NPRM* Comments at 9-12.

[88] For example, the increased use of packet-switched technologies may call into question the continued validity of usage-based separations procedures designed for circuit-switched technologies and services. Packet-switched networks use a switching technique in which data is divided into packets for routing through the network. Packet switching enables a single transmission path, *i.e.*, a circuit, to carry packets from many different customers during the same period. In contrast, circuit-switching dedicates a single transmission path to one customer for the duration of a call. Given that the current Part 36 rules do not appropriately address newer technologies such as packet switching, carriers are left to their own discretion as to the method of

(Emphasis added)

¶17 By freezing categories and factors, we believe that greater stability and predictability for separations results will be realized than under a factors-only freeze since costs would be assigned based on both fixed jurisdictional allocation factors and fixed category relationships. We also believe that a freeze will supply all telecommunications carriers with more predictable separations results as they deploy new services and technologies in the marketplace. ***Some commenters oppose a freeze on grounds that a freeze would not account for major changes in the telecommunications marketplace and would only serve to continue what they claim is a current misallocation of costs to the interstate jurisdiction.***[89] ***We believe that such concerns are mitigated by the interim nature of the freeze.*** (Emphasis added)

¶27 During the freeze, we recommend that the Commission continue its comprehensive review of the separations process. ***Specifically, we believe that several issues must be addressed by the Joint Board and the Commission in the near future as a result of the emergence of new technologies and local exchange service competition.*** These issues include the appropriate separations treatment of 1) unbundled network elements (UNEs), ***2) digital subscriber line (DSL) services,*** 3) private lines, and 4) Internet traffic. We also believe that the Joint Board and the Commission should work towards providing a clear path for comprehensive reform of separations with the possible, future target of the elimination of separations. ***Accordingly, we recommend that the Commission commit to addressing these issues and a path to comprehensive reform in the near term.*** (Emphasis added)

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allocation of facility costs among Part 36 categories. As a result, we believe that there may be inconsistencies among carriers as to how such new equipment is treated for separations purposes.

[89] *See, e.g.*, NASUCA *NPRM* Comments at 8-9 (claiming that a freeze will not recognize changes in the telecommunications marketplace, such as different usage patterns for the local loop); NASUCA *NPRM* Reply Comments at 2-3 (contending that a freeze would shield an ILEC's future interLATA toll services and broadband services from supporting a reasonable share of the cost of the facilities that these services will utilize and assumes the unreasonable position that the telecommunications market will remain unchanged); MCI *NPRM* Comments at 2-6 (arguing that NYNEX's proposal to freeze allocations at their current levels does not correct misallocations or recognize the usage-sensitive nature of some telecommunications costs); AT&T *NPRM* Reply Comments at 14-15 (arguing that a freeze would lock in an artificially high assignment of costs to the interstate jurisdiction (and vice versa) if intrastate calling grows more quickly relative to interstate calling in the coming years).

Q. PLEASE EXPLAIN FURTHER WHY MR. DUNKEL'S ADJUSTMENT TO JURISDICTIONALLY SEPARATED COSTS FOR DSL IS UNWARRATED.

A. DSL service was not, and is not, maintained in a separate Separations category nor was it, or is it currently, uniquely identifiable within the Separations categories as a result of the frozen Separations investment identification methodologies that were established by the FCC at the time of its mandated freeze of the Separations process. Although the frozen categories, which would have contained DSL-related investments, were, at least in part under FCC Part 36 separations rules, directly assigned to interstate service, no separate procedure for the identification of DSL-related service investments had been made prior to the time the FCC ordered its Separations freeze in 2001.

In order to comply with the FCC's "Separations Freeze" order, FCC 01-162, CC Docket No. 80-286, and specifically paragraph 14, Qwest, as a price cap carrier, was required to maintain the FCC's frozen categories and not to modify or expand the underlying analysis in any manner that would alter the frozen FCC Separations factors effected in 2001. As a result of this preemptive FCC directive, no new studies or analyses were required and none have been initiated that would uniquely identify and separately categorize the DSL investment for the purpose of direct assignment and factor modification,

Moreover, in FCC 01-162, CC Docket 80-286, the FCC indicated that it would address the handling of services such as DSL, as well as other emerging technologies, at some point in the future. In its Separations freeze order, the FCC specifically addressed the freeze period handling of DSL, and other emerging telecommunications issues. As I noted earlier, the FCC has stated that:

> 2. .... Specifically, pending comprehensive reform of the Part 36 separations rules, we adopt a freeze of all Part 36 category relationships and allocation factors for price cap carriers ... The interim freeze will be in effect for five years or until the Commission has completed comprehensive separations reform, whichever comes first. We further conclude that several issues, including the separations treatment of Internet traffic, should be addressed in the context of comprehensive separations reform.
>
> * * *
>
> 12. ...Since the NPRM was released in 1997, there have been rapid changes in the telecommunications infrastructure ... We believe that these types of changes may produce cost shifts in separations results because these and other new technologies, such as digital subscriber line (DSL) services, as well as a competitive local exchange marketplace, are not sufficiently contemplated by the current Part 36 rules.

The FCC also stated that:

> In this *Recommended Decision*, the Federal-State Joint Board established in CC Docket No. 80-286 (Joint Board) recommends that, until such time as comprehensive reform of jurisdictional separations can be implemented, the Federal Communications Commission (Commission) should institute an interim freeze of the Part 36 category relationships and jurisdictional allocation factors.[90]

[90] Section 410 of the Communications Act of 1934, as amended (the Act), requires that the Commission refer any proceeding regarding the jurisdictional separation of common carrier

Q. ARE THERE OTHER REASONS WHY MR. DUNKEL'S PROPOSED ADJUSTMENT IS UNWARRANTED?

A. Yes. Mr. Dunkel's adjustment is also unwarranted given its very one sided nature. There are currently many issues that confound a complex process of jurisdictional assignment. In many respects, the process can be characterized as outdated and often one that is filled with offsetting misassignments. The state members of the Joint Board stated in their "Glide Path" document that:

> In 1986, the Commission required some costs assigned to the interstate jurisdiction to be recovered from end users through the SLC. For all practical purposes, the SLC became part of the basic monthly charge. This means that since at least 1986, there has been no direct relationship between the level of costs assigned to either jurisdiction and the level of basic monthly charges paid by customers. The separations process may once have provided a forum for addressing the fundamental rate design issue of flat rate usage based charges. In its current form, separations no longer provides that forum.

They also went on to point out the following advantages and disadvantages of the freeze. Several of which point to the one sided handling of Mr. Dunkel's proposed adjustment for DSL:[91]

Advantages of the Freeze

1. Eliminates the need for basic studies and traffic studies.

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property and expenses between interstate and intrastate operations to a Federal-State Joint Board. 47 U.S.C. §410(c). The Joint Board for jurisdictional separations was established in CC Docket No. 80-286. *See Amendment of Part 67 of the Commission's Rules*, Notice of Proposed Rulemaking and Order Establishing a Joint Board, CC Docket No. 80-286, 78 FCC 2d 837 (1980) (proposing changes to the separations rules and establishing a Federal-State Joint Board).

[91] *Id.* at page 8 -9.

2. ***Prevents further misallocation of costs associated with dial-up Internet traffic to the state jurisdiction, assuming this traffic continues to grow.*** (Emphasis added)

3. Recognizes the disconnect between separations and pricing.

Disadvantages of the Freeze

1. ***Does not reflect increased interstate usage which could offset or mitigate the, effects of the dial-up internet effect.*** (Emphasis added)

2. ***Fails to correct any existing misallocation-problems.*** (Emphasis added)

3. ***Fails to reflect the impact of new' technologies***. (Emphasis added)

4. When all measurements are lost, we will be unable to know or measure, in the future, the impacts of moving to other options.

Q. WHAT FINAL CONCLUSION DO YOU HAVE REGARDING STAFF'S PROPOSED DSL ADJUSTMENT?

A. Based on a proper interpretation of the FCC's "Freeze" Order, Staff's adjustments B-3 and C-6 must be rejected.

BSI – Construction Related Charges (Staff B-4, C-7)

Q. WHAT ISSUE ARE YOU ADDRESSING IN THIS PORTION OF YOUR TESTIMONY?

A. This testimony responds to Staff's proposed adjustments B-4 and C-7 which would effectively remove from Qwest's Arizona regulated rate base Qwest's investment in cabinets and connecting cable for remote terminal locations that Mr. Dunkel's testimony labels "'video only' USAMs".

Q. WHAT IS A REMOTE TERMINAL?

A. Remote Terminal (RT) is a term for telecommunications equipment that is located outside the central office, in the outside plant network. The term RT may also refer to the enclosure where the equipment is located, or installed, to deliver service. The RT may be a cabinet, a Controlled Environment Vault (CEV) or a small building/equipment "hut."

An RT is located between the Qwest central office and the customers premises, generally installed very close to the cross box/FDI. RTs are designed to support many types of equipment including Digital Loop Carrier (DLC) systems, DSL equipment, multiplexing equipment, etc.

Q. WHAT IS A "USAM?"

A. USAM is an acronym for Universal Services Access Multiplexer. The USAM equipment is manufactured by Motorola/Nextlevel Communications and is an equipment shelf that can be used for any of three service applications depending on what cards (i.e., plug-ins) are used.

Qwest uses the USAM shelves for three applications: (1) equipped with plain old telephone service (POTS) line cards, the shelves can deliver 96 POTS services, including designed services, (2) equipped with ADSL cards, the shelves can deliver 48 DSL services, or (3) equipped with VDSL cards, the shelves can deliver 36 video services. Qwest does not mix the different types

of services on one shelf but installs a separate shelf for each type of service required.

Q. PLEASE DESCRIBE THE BACKGROUND FOR THE INSTALLATION OF REMOTE TERMINAL LOCATIONS:

A. Under the federal Telecommunications Act of 1996 (FTA), an incumbent local telecommunications carrier (ILEC) may operate on a fully integrated basis with its cable television operations offering service pursuant to Title VI of the Act. Initially, Qwest (then U S WEST) opted to keep its cable operations in the ILEC. In 1999, however, Qwest formed Broadband Services, Inc. (BSI) and operated its cable television and cable modem services out of this entity, an affiliate of the ILEC.

BSI's services use a "Very high bit rate digital subscriber line" (VDSL) architecture. The VDSL architecture uses fiber feeder between the central office and a remote terminal/USAM. The video and high-speed data signals are then sent to the premises over a copper sub-loop.

Based on various legal and regulatory rulings, Qwest determined that it should own the cabinets and connecting cable at the remote terminal locations and that BSI should own its shelves and cards used to provide its cable services that were placed in the cabinets. Consequently, although dollars for the construction of the cabinets and cable were allocated by the

1 parent company specifically to meet VDSL program requirements, Qwest, as
2 the entity who would own the cabinets and cable, incurred the construction
3 costs and placed the investment on its books. BSI, as the entity who would
4 own any shelves and cards needed to provide its cable services, incurred the
5 costs for purchasing and placing the electronics and placed the investment on
6 its books.

7 **Q. WHY DID QWEST DETERMINE THAT IT SHOULD OWN THE CABINETS**
8 **AND CABLE FOR THE REMOTE TERMINAL LOCATIONS?**
9 A. Qwest needs to own the cabinets and cable for the remote terminal locations
10 so that it can meet its obligations to allow Competitive Local Exchange
11 Carriers (CLECs) access to the cabinets, upon a bona fide request from
12 them.

13 **Q. IS MR. DUNKEL'S ASSERTION CORRECT THAT SOME REMOTE**
14 **TERMINAL CABINETS AND CABLE, THOSE HE TERMS "VIDEO ONLY"**
15 **USAMS, ARE USED ONLY BY BSI?**
16 A. Yes, at the current time there are some locations where BSI is the cabinets'
17 only user.

18 **Q. WHEN MR. DUNKEL REFERS TO THE USAMS IN QUESTION, HE**
19 **CONSISTENTLY PLACES QUOTATION MARKS AROUND THE WORDS**

"VIDEO ONLY." IS IT TRUE THAT THE USAMS CAN ONLY BE USED FOR VIDEO?

A. No. If Qwest has a need to augment its voice services, it can "upsize" a 4-shelf cabinet to an 8-shelf cabinet through a process known as a "hot slide" so that the Next Level cabinets can accommodate its shelves with POTS cards. All of the USAMs can be used to provide telephone service. In addition, a CLEC may collocate its DSLAM in a remote terminal under the terms of the SGAT.

Q. IS MR. DUNKEL CORRECT THAT BSI DID NOT PAY CONSTRUCTION CHARGES FOR THE "VIDEO ONLY" USAM CABINETS AND FEEDER CABLES OWNED BY QWEST?

A. Yes. When BSI requested the use of USAM cabinets and cable that were not already in place Qwest purchased and placed the facilities and now owns the facilities. However, Mr. Dunkel's characterization of these cabinets as "video only" cabinets is incorrect. Any CLEC who requests space in these cabinets is entitled under the SGAT to receive the requested access. If Qwest requires space in the cabinet to provide its own services, the cabinets can be used for that purpose as well. Qwest's response to Staff's data request WDA 12-009, (r) explained this as follows:

> USAMs could be used for not only video but POTs and DATA should the need arise. For these reasons Qwest does not feel that it is appropriate to refer to these USAMs as video only USAMs.

Q. WHAT SERVICES AND FACILITIES DOES QWEST PROVIDE TO BSI AND ON WHAT BASIS?

A. Transactions between Qwest and BSI are governed by Part 32 of the FCC's accounting rules. A Summary of Affiliate Transactions (SAT) document describes the services that Qwest provides to BSI. In this regard, BSI leases space from Qwest in central offices, leases IOF fiber that runs from central offices to BSI's head end, leases fiber that runs from the central office to a remote terminal (RT) in a distribution area, leases space in an RT and installs shelves that contain VDSL cards.[92] Qwest performs all engineering, installation, and maintenance functions for BSI.

Q. HOW DOES QWEST PRICE THE SERVICES AND FACILITIES PROVIDED TO BSI?

A. Qwest prices the services and facilities provided to BSI according to affiliate pricing guidelines found in 47 CFR Section 32.27. The SGAT provides the basis for the monthly recurring rates for the use of Qwest facilities.[93] These rates are updated annually at the beginning of each year for affiliate billing. Qwest employees who perform engineering, installation and maintenance functions for BSI track their time and bill labor charges to BSI at Fully Distributed Cost.

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[92] See Qwest's response to Staff data request WDA 04-26.
[93] See Qwest's response to Staff data request WDA 04-26.

Q. WHAT DOES BSI PAY FOR NEW REMOTE COLLOCATION LOCATIONS?

A. REDACTED

REDACTED

REDACTED

REDACTED

Q. IS MR. DUNKEL'S CLAIM REGARDING PAYMENTS FOR REMOTE COLLOCATIONS CORRECT?

A. No. Mr. Dunkel claims that BSI has REDACTED

REDACTED

REDACTED This claim is incorrect. Mr. Dunkel wrongly assumes that the REDACTED

REDACTED

REDACTED

REDACTED

REDACTED

REDACTED

REDACTED

REDACTED

REDACTED

REDACTED

Q. IS IT PROPER FOR QWEST'S INVESTMENT IN THE MULTIUSE CABINETS AND CABLES TO BE IN QWEST'S ARIZONA REGULATED RATE BASE?

A. Yes. Qwest owns the cabinets and cable. They are available for use by any CLEC that makes a bona fide request to use them. They are available for Qwest to use as the need arises. REDACTED

REDACTED

Mr. Dunkel bases his proposed disallowance of the cables and cabinets on the mistaken belief that REDACTED

REDACTED

REDACTED

REDACTED

REDACTED

Disallowing the cost of the cabinets and cables, which are available for CLEC and Qwest to use, is, therefore, inappropriate and would unjustly penalize Qwest for integrated activities that are fully sanction by the FTA. Staff's proposed adjustments B-4 and C-7 should be rejected.

1 ***FCC Deregulated Products (Staff C-19)***

2 **Q. WHAT IS THE NATURE OF THIS ADJUSTMENT?**

3 A. Staff Adjustment C-19 imputes additional revenues above-the line for
4 intrastate regulatory purposes. Mr. Carver argues these services have an
5 earnings deficiency, that is, they do not earn the same rate of return as
6 Qwest's other services. He believes that because these services were
7 deregulated by the FCC, ratepayers should not cross-subsidize their earnings
8 deficiency.

9 **Q. DO YOU AGREE WITH MR. CARVER?**

10 A. I disagree with Mr. Carver for several reasons. First, these services do not
11 have an earnings deficiency. Compared to Qwest's other intrastate regulated
12 services in Arizona they have an earnings surplus. The figures Mr. Carver
13 uses in his testimony are incorrect. Second, the calculation of adjustment
14 C-19 is fundamentally flawed. When corrected for this flaw, the adjustment
15 increases revenue requirement instead of decreasing it. Third, I disagree that
16 ratepayers should be financially insulated from these Arizona regulated
17 services.

18 **Q. WHY DO YOU BELIEVE THE CALCULATION OF ADJUSTMENT C-19 IS**
19 **FUNDAMENTALLY FLAWED?**

20 A, According to Staff, the aim of adjustment C-19 is to prevent ratepayers from
21 cross subsidizing FCC deregulated services (FCCDS). However Staff's

adjustment C-19 does not identify cross subsidy between FCCDS and Qwest's other intrastate regulated services. Instead adjustment C-19 imputes sufficient additional revenues for intrastate regulatory purposes so that, in the aggregate, the test year earnings of the FCC deregulated services (FCCDS) equal the overall 9.5% return on investment that Staff recommends ACC ultimately adopt for Qwest's intrastate regulated services.

real rate of return they actually achieved in the test year, not the 9.5% target Staff has set for them.

Staff adjusted the FCCDS to reflect the effect of exactly three adjustments: 1) annualization of test year revenues and expenses (Qwest adjustment PFN-03); 2) out of period revenues (Qwest adjustment PFN-01) and 3) a correction to Enhanced Services (Qwest adjustment PFN-12). Staff made no other adjustments to the FCCDS.

Before Staff could arrive at a $3.5 million revenue requirement on a 9.5% overall rate of return Staff had to adjust the test year with dozens of adjustments proposed both by Staff and by Qwest. Without all of these adjustments (and an additional $3.5 million in new rates) the services against which the FCCDS are to be evaluated for subsidy flows would yield a return far below the 9.5% target Staff has set for them.

For example, Staff's test year is adjusted with a total of $246 million of pro forma (i.e. after the test year) reductions in depreciation expense (Qwest's revised adjustment PFA-01 plus Staff adjustment C-23) and $72 million of directory revenue imputation (Qwest adjustment PFR-01). Reducing test year depreciation expense by $246 million and imputing $72 million to revenues increases the test year's rate of return results by 11.36%.

Adjustment C-19 fails to adjust FCCDS for the effect of PFA-01, C-23 and PFR-01. So Staff's Adjustment C-19 denies the FCCDS the lift to their achieved return from pro forma depreciation expense adjustments and revenue imputations that contribute 11.36% toward Staff's 9.50% target. Adjustment C-19 similarly ignores literally dozen's of adjustments (such as the $72 million directory imputation) that in aggregate would provide an additional lift to the test year earnings of the FCCDS.

If Adjustment C-19 is to measure whether FCCDS receive a subsidy or provide one, the services being evaluated for cross-subsidy must be consistently adjusted so that the comparison is "apples to apples." As Staff calculates it, Adjustment C-19 gives the non-FCCDS services a huge advantage over the FCCDS because the 9.5% rate of return that Staff ascribes to the non-FCCDS is achieved only by with dozen's of pro-forma adjustments. Consequently, as Mr. Carver has prepared it, Adjustment C-19 does not measure subsidy. It compares the relatively lightly adjusted FCCDS

against relatively heavily adjusted test year results that are fortified with, among other adjustment, $246 million of pro forma depreciation expense adjustments and $72 million of directory imputation adjustments. In other words, C-19 compares almost unfertilized apples to heavily fertilized apples.

Q. WHAT MUST BE DONE TO CORRECT THIS DEFECT?

A. In order for adjustment C-19 to correctly measure subsidy, an aliquot share all of Qwest's and Staff's test year adjustment would need to be assigned to the FCCDS so that the "apples" (results) being compared are "fertilized" (adjusted) by the same set of adjustments. This allocation would be burdensome to compute and is unnecessary. There is a simpler but equally valid method to correct this defect.

Adjustment C-19 can evaluate subsidy flows, "apples to apples," by adjusting the non-FCCDS test year results and the FCCDS test year results by the same three adjustments. Instead of using a fully adjusted rate of return of 9.5% (that itself requires $3.5 million in additional rates to be achieved) Adjustment C-19 should be computed using the rate of return achieved when the test year is adjusted for the same three adjustments (PFN-01, PFN-03 and PFN-12) that Adjustment C-19 applies to the FCCDS.

Adjusted for PFN-01, PFN-03 and PFN-12 only, the test year rate of return is negative 4.48%, not positive 9.50%. It is the helpful effect of all the other test

year adjustments that Qwest and Staff have proposed (and an additional $3.5 million in rates) that allows the non-FCCDS financial results to achieve Staff's 9.50% target.

When adjustment C-19 is corrected to reflect this negative 4.48% return instead of the target return of 9.5% it shows that the FCCDS subsidize the non-FCCDS and it yields a revenue requirement increase of $6.298 million instead of a revenue requirement decrease of $6.589 million. Qwest Corporation—Exhibit PEG-R15 shows the computation of this corrected amount.

Q. DO YOU BELIEVE THAT STAFF'S ADJUSTMENT C-19 SHOULD BE ACCEPTED?

A. No. the cross-subsidy that Adjustment C-19 purports to correct is between services all of which are regulated by this Commission. I do not believe an adjustment for them is appropriate. However, if the Commission believes an adjustment is required for them, the calculation of adjustment C-19 must be corrected as shown in my Exhibit PEG-R15.

Telephone Plant Under Construction (Staff B-5, C-7; RUCO RBA#3, OA#7)

Q. WHAT ISSUE ARE YOU ADDRESSING IN THIS PORTION OF YOUR TESTIMONY?

A. This testimony responds to Staff's proposed adjustments B-5, Telephone Plant Under Construction (TPUC), and C-8, Telephone Plant Under Construction (TPUC). It also responds to RUCO's proposed Rate Base Adjustment #3 – Construction Work in Progress and Operating Adjustment #7 – AFUDC Offset Adjustment. All four of these adjustments aim to reverse Qwest's proposed adjustment PFA-04, Plan Under Construction, which is a pro forma accounting adjustment for a change in accounting method. It adjusts the test year to reflect changing from the "capitalization" method to the "revenue requirement offset" method of accounting for the financing costs of telephone plant under construction ("TPUC" also know as Construction Work in Progress of "CWIP"). At pages 65 to 67, my direct testimony explains the differences between these methods and the FCC's history of adoption.

Q. WHY DID QWEST PROPOSE THIS CHANGE IN ACCOUNTING FOR TPUC?

A. As I explained in my direct testimony the revenue requirement offset method has several advantages over either of the other two available methods.

Q. MR. CARVER ARGUES THAT YOUR DIRECT TESTIMONY WAS INCORRECT WHERE IT ASSERTED THE COMMISSION ORDERED THE INCLUSION OF TELEPHONE PLANT UNDER CONSTRUCTION IN RATE BASE IN 1982? WERE YOU INCORRECT?

A. No. Mr. Carver's testimony claims to quote the Commission's Decision No. 53040. It does not. Mr. Carver's testimony quotes the Stipulation to Form of Order which was signed not by the Commission but by the parties on April 23, 1982. A month later, on May 21, 1982 the Commission issued Decision No. 53040 which, in pertinent part, read:

> ORDER
>
> The Commission hereby orders that:
>
> * * *
>
> 4. Interest during construction shall no longer be accrued by Mountain Bell on short-term plant under construction; **henceforth, short-term plant under construction shall be included in the rate base**, pursuant to the Arizona Constitution, Arizona Revised Statutes, and as supported by Sections 2(b) and 221(b) of the Communications Act of 1934, as amended.
>
> 5. The Stipulation to Form of Order attached hereto and all of the terms and provisions thereof are hereby accepted and approved without modification or condition. (emphasis added)

The Commission clearly ordered adoption of all of the terms and provisions of the Stipulation to Form of Order quoted by Mr. Carver and also unambiguously ordered that "henceforth, short term plant under construction shall be included in the rate base." Asserting that the Form of Stipulation "means what it says" Mr. Carver argues the Commission did not officially

adopt the rate base method of accounting for STPUC.[94] The Commission's Decision proves otherwise. It adopts the Form of Stipulation and, in the adjoining ordering clause, also adopts the rate base method of accounting for STPUC.

Q. DID THE COMMISSION USE THE RATE BASE METHOD IN THE RATE CASES THAT FOLLOWED?

A. Yes. Mr. Carver[95] and I agree that the parties used and the Commission accepted the rate base method in Docket No. E-I051-83-035 (Decision No. 53849) and Docket No. E-I051-84-100 (Decision No. 54843).

Q. WHEN DID THE COMMISSION STOP INCLUDING TELEPHONE PLANT UNDER CONSTRUCTION IN RATE BASE?

A. In the Company's 1994 rate case, Docket No. E-1051-93-183, the Company's revenue requirement witness, Mr. Thompson, included short term telephone plant under construction in rate base in accordance with Decision No 53040 and as practiced in Decisions No. 53849 and 54843. It was, in fact, Staff's witness, Mr. Carver, who proposed an adjustment—Staff's Jurisdictional Rate Base Adjustment B-5—to the calculation of revenue requirement in the Company's 1994 rate case to change from the rate base method to the

[94] Docket No. T-01051B-03-0454; Direct Testimony of Steven C. Carver; p. 17.
[95] Docket No. T-01051B-03-0454; Direct Testimony of Steven C. Carver; pp. 17-18.

capitalization method to account for STPUC.[96] The Commission adopted Staff's proposal.[97]

Q. WHY IS THE COMMISSION'S ORDER APPROVING THE RATE BASE METHOD IN 1982 AND THE COMMISSION'S RELIANCE ON THAT METHOD UNTIL ITS ORDER IN 1995 SIGNIFICANT?

A. It is significant because it demonstrates that including plant under construction in rate base is an acceptable accounting method and appropriate under the Arizona Constitution and Arizona Revised Statutes. There is no accounting or legal impediment to the inclusion of telephone plant under construction in rate base in Arizona.[98] Nor is changing the accounting method used for the financing cost of TPUC (known as Allowance for Funds Used During Construction or "AFUDC") impermissible. The Commission has changed it twice in recent times. The remaining question is which of the three available methods of accounting for AFUDC is preferable.

Q. WHICH METHOD IS PREFERABLE?

A. In the last two instances where the Commission changed the method of accounting for TPUC, it was not considering the revenue requirement offset

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[96] *See* ACC Docket No. E-1051-93-183, Direct Testimony of Steven C. Carver, page 13, line 10 through page 14, line 5.
[97] See A.C.C. Docket No. E-1051-93-183, Decision No. 58927 (January 3, 1995) pages 5 and 6.
[98] On page 20, starting at line 3, in Decision No. 53761 in Arizona Public Service Company's 1983 rate case, Docket No. U-1345-82-266 the Commission said: "Arizona is not a 'prudent investment' state. Property must be used and useful <u>or under construction</u> to be considered for inclusion in rate base." (emphasis added).

method. This method is preferable to the rate base method and the capitalization method for several reasons. However, if for no other reason, it is preferable because it is the method of the USOA. Because Arizona's regulatory accounting rule adheres to the USOA as amended, it would seem appropriate to change to the method that the USOA now employs.

The FCC's 1995 Report and Order in CC Docket No. 93-50 carefully analyzed the three available methods of accounting for TPUC and concluded the revenue requirement offset method is preferable. It complies with Generally Accepted Accounting Principles for both short-term and long-term construction projects. It gives carriers an incentive to invest in new plant because both short-and long-term plant under construction and the capitalized AFUDC are included in rate base and, as a result, carriers are allowed to earn a rate of return on the total investment. Including the amount of AFUDC capitalized both in the rate base and in current income has the effect of mitigating the increase in revenue requirement that results from including all TPUC in the rate base.

Q. WHY DOES MR. CARVER OPPOSE THE REVENUE REQUIREMENT OFFSET METHOD?

A. He argues that "it would be inappropriate to include in rate base any expenditures for uncompleted plant because of the **inherent mismatch** such

1 inclusion would introduce into the ratemaking process."[99] He also argues that
2 "the used and useful standard is 'key' to the matching concept often applied
3 for ratemaking purposes, as discussed earlier, to avoid **inherent distortions**
4 introduced into the revenue requirement formula."[100]

5 **Q. WHAT DOES MR. CARVER MEAN BY "INHERENT MISMATCH" AND**
6 **"INHERENT DISTORTIONS?"**

7 A. He does not say. His testimony recites these concepts at several points[101]
8 but never explains how they apply to accounting for TPUC. However, I
9 believe he means that if ratepayers are paying rates that provide for recovery
10 of the cost of capital on plant that is not yet providing service because it is
11 under construction then a mismatch has occurred. The mismatch, or
12 distortion, is one of timing where rates include costs for plant that is not
13 providing the service for which the rates are paying.

14 **Q. IS THERE A SUCH A MISMATCH?**

15 A. It depends on which of the three methods is used. From 1982 until 1995, the
16 Commission prescribed the rate base method for STPUC. Under the rate
17 base method, it is fair to say there is a mismatch because plant is included in
18 rate base that is not yet being used to provide service. The rate base method

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[99] Docket No. T-01051B-03-0454; Direct Testimony of Steven C. Carver; p. 13.
[100] Docket No. T-01051B-03-0454; Direct Testimony of Steven C. Carver; p. 21.
[101] In Mr. Carver's direct testimony the phrase "inherent mismatch" appears on page 13, line 28, page 15, line 32 and page 19, line 33. "Inherent distortion" appears on pages 21 line 30. The phrase "test year distortions and mismatched components of the ratemaking equation" appears on page 28, lines 16-17.

was considered acceptable because the STPUC projects were of short duration and would soon be providing service so that the mismatch was deemed immaterial. If Mr. Carver's criticisms were aimed at the rate base method, I would concede that there is a mismatch. However Qwest is not proposing the rate base method.

Qwest is proposing the revenue requirement offset method. The FCC observed that under this method, recognition of AFUDC in current income mitigates the increase in revenue requirement resulting from including all TPUC in rate base. In other words, for revenue requirement purposes, they offset one another, hence the method's name.

Mr. Carver never explains the mechanics of the claimed mismatch because there is none. Instead, he would have the Commission believe that somehow, the FCC's analysis missed this critical defect. The FCC didn't overlook a mismatch; it understood there was no mismatch. The mismatch argument is a red herring.

1 **Q. MR. CARVER ALSO ARGUES THE FCC'S CONCLUSIONS ARE**
2 **INAPPLICABLE TO ARIZONA BECAUSE IN THE FEDERAL**
3 **JURISDICTION, THE ADOPTION OF THE REVENUE REQUIREMENT**
4 **OFFSET METHOD REDUCED REVENUE REQUIREMENT.[102] HOW DO**
5 **YOU RESPOND?**
6 A. Apparently, Mr. Carver does not realize that in the period leading up to the
7 adoption of the revenue requirement offset method, the FCC was using the
8 rate base method for STPUC. Today, Arizona requires Qwest to use the
9 capitalization method (other utilities may be using other methods). So, in
10 Qwest's case, the conversion to the revenue requirement offset method is
11 from the capitalization method, not the rate base method. Converting to the
12 revenue requirement offset method from the rate base method instead of the
13 capitalization method accounts for the differences in the jurisdictions.

14 When the Commission accepted Mr. Carver's proposal to adopt the
15 capitalization method for STPUC in the Company's 1994 rate case, the
16 adjustment reduced revenue requirement over $4.84 million[103]. Compared to
17 Qwest's proposal in this docket the revenue requirement effect of Mr. Carver's
18 proposal in the 1994 rate case was 56% larger.[104]

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[102] Docket No. T-01051B-03-0454; Direct Testimony of Steven C. Carver; p. 21.
[103] $29,282,000 * 9.75% *1.695.
[104] Using Staff's own calculation: "Adoption of the revenue requirement offset method would increase overall revenue requirement by about $2.7 million (see Staff Schedule E, based on Staff

1 Arizona ratepayers enjoyed the benefit of discontinuing the rate base method
2 ten years ago. Interstate ratepayers had not yet enjoyed that benefit when
3 the FCC released its order changing from the rate base method to the
4 revenue requirement offset method. Mr. Carver missed this difference.

5 **Q. DO YOU AGREE WITH MR. CARVER'S CRITICISMS OF YOUR ANALYSIS**
6 **OF AFUDC ALTERNATIVES?**

7 A. While I agree that the analysis assumed cost rates that are inconsistent with
8 the Company's proposed weighted cost of capital, does not reflect the actual
9 AFUDC rates recently employed by Qwest in Arizona, and fails to recognize
10 the gross-up for income taxes that result from rate base inclusion, I can think
11 of no reason why changing these inputs would lead to any different
12 conclusion. If changing the inputs made any difference to the conclusion, Mr.
13 Carver would have presented that difference; he has the spreadsheet file
14 from which the analysis was taken. Mr. Carver's argument is a red herring.

15 Mr. Carver all but admits the analysis is correct when he states "His analysis
16 only demonstrates the obvious. * * * AFUDC is not and has never been
17 intended to compensate the utility for the full return on investment during and
18 after construction is complete." Whether the intent of AFUDC is to fully or
19 partially compensate utilities for their cost of capital is a question of policy.

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proposed capital structure and cost rates)" Response of Steven Carver to Qwest Data request 14-5. $4.839M / $2.698M = 55.8%.

The FCC concluded that the revenue requirement offset method "best balances ratepayer and carrier interests." If that is the Commission's policy goal in Arizona, then the revenue requirement offset method should be employed. If, on the other hand, the policy goal is to provide utilities something less than their actual cost of capital on TPUC, the capitalization method achieves this goal.

On the assumption that the Commission aims to fairly balance the interest of ratepayers and the Company's investors, I recommend the Commission reject Staff's proposed adjustments B-5, Telephone Plant Under Construction (TPUC), and C-8, Telephone Plant Under Construction (TPUC) and reject RUCO's proposed Rate Base Adjustment #3 – Construction Work in Progress and Operating Adjustment #7 – AFUDC Offset Adjustment.

Q. MS. DIAZ CORTEZ ARGUES THAT EXHIBIT PEG-D4 TO YOUR DIRECT TESTIMONY MERELY DEMONSTRATES THAT THERE IS A TIMING DIFFERENCE BETWEEN WHEN RECOVERY BEGINS UNDER THE OFFSET METHOD AND UNDER THE CAPITALIZATION METHOD. DO YOU AGREE?

A. No that is not what the exhibit demonstrates. The analysis also shows that unlike the rate base method and the revenue requirement offset method, the capitalization method does not provide an opportunity for full recovery of the costs of construction.

Q. MS. DIAZ CORTEZ ARGUES THAT YOUR EXHIBIT PEG-D4 ANALYSIS IS MISLEADING BECAUSE IT ASSUMES THAT NEW RATES ARE SET ANNUALLY, AND THAT THERE IS NO REGULATORY LAG. DO YOU AGREE?

A. The exhibit is not misleading. It does not assume that new rates are set annually and it does not assume an absence of regulatory lag. These issues are neutral to the analysis because all three methods are treated the same with regard to them. Ms. Diaz Cortez made no attempt to demonstrate how regulatory lag would change the outcome. Nor could she. Her argument is a red herring. RUCO's proposed Rate Base Adjustment #3 – Construction Work in Progress and Operating Adjustment #7 – AFUDC Offset Adjustment should be rejected.

Property Taxes (RUCO OA#8)

Q. WHAT DOES RUCO OPERATING ADJUSTMENT #8 PURPORT TO DO?

A. RUCO's Operating Adjustment #8—Property Taxes, purports to use a formula utilized by the Arizona Department of Revenue (ADR) to Qwest's that applies current ADR property tax rates to Qwest's adjusted test year plant.

Q. DO YOU AGREE WITH THIS ADJUSTMENT?

A. No. It uses the wrong property tax rate and the wrong plant balances.

Qwest's calculation of property taxes as set forth in Adjustment PFN-10 uses a rate of 0.133 which is the actual weighted average tax rate Qwest paid across all taxing jurisdictions in the state of Arizona in 2003. RUCO used a rate of 0.1218. That rate is not the rate Qwest pays but is instead the average rate paid by all Arizona taxpayers for all properties both residential and commercial in all jurisdictions in Arizona. For purposes of computing Qwest's test year property tax expense, the rate Qwest actually pays is a more accurate than the rate RUCO used.

Qwest's adjustment PFN-10 uses the actual assessed value as determined by the ADR. RUCO used Qwest's adjusted net book value. Qwest pays property taxes based on its actual assessed value, not its adjusted net book value. For purposes of computing Qwest's test year property tax expense, the value upon which Qwest actually pays property taxes is more accurate than the net book value that RUCO used.

Q. ARE THERE ANY OTHER PROBLEMS WITH RUCO'S CALCULATION?

A. Yes. RUCO's adjustment separates property tax expense incorrectly. Property taxes are separated in accordance with Part 36 separations rules. RUCO incorrectly calculated the taxes on Qwest's net book value that had been subject to separations. Qwest correctly calculated property taxes on assessed value and then applied the appropriate intrastate factor to the resulting tax expense.

Finally, RUCO's proposed adjustment ignores the updates to Qwest's property tax expense adjustment PFN-10. RUCO's Operating Adjustment #8 should be rejected.

Pension Asset (RUCO RBA#5)

Q. MS. DIAZ CORTEZ'S DIRECT TESTIMONY CLAIMS THAT A LIABILITY PLUG FIGURE APPEARING ON SCHEDULE E OF QWEST'S RULE 103 FILING SHOULD BE INCLUDED IN RATE BASE BEFORE THE PENSION ASSET IS ALLOWED TO BE INCLUDED IN RATE BASE. [105]. DO YOU AGREE?

A. No. This argument is a red herring. Ms. Diaz Cortez relies on Schedule E prescribed by A.A.C R14-2-103. As Qwest explained in response to RUCO Data Request 3-023, the Schedule E is an anachronism. It reflects assets and liabilities computed on an original cost basis and elements of capital structure computed using market values. These two disparate items must be reconciled with a plug to the liability account. No weight can be given to Schedule E for purposes of determining rate base. See Qwest's response to RUCO data request 3-23.

[105] Docket No. T-01051B-03-0454; Direct Testimony of Marylee Diaz Cortez; p. 11.

Q. MS. DIAZ CORTEZ'S DIRECT TESTIMONY ASSERTS THAT QWEST'S ARIZONA BALANCE SHEET DOES NOT INCLUDE A PENSION ASSET[106]). DO YOU AGREE?

A. No. My direct testimony regarding the Company's Adjustment PFR-05 explains that the amounts that have been funded for the Pension Asset are recorded in USOA Account 1410. The purpose of the Company's adjustment is to reflect these recorded assets in rate base, as prescribed by Part 65 of the FCC's rules. The Company's response to RUCO Data Request 3-19 clearly identifies the accounting methods required under Arizona's regulatory accounting rule to account for this asset. RUCO's Rate Base Adjustment #5—Pension Asset, should be rejected.

Fair Value Rate Base (Staff A-2 and RUCO)

Q. WHAT METHOD OF RATE BASE VALUATION MUST BE USED IN ARIZONA?

A. In Arizona, rate base valuation is established using the "fair value" method.

Q. WHAT IS THE FAIR VALUE METHOD OF RATE BASE VALUATION?

A. The fair value method of rate base valuation measures the rate base by its fair value. In Arizona, fair value is the average of the rate base computed at its prudently invested historical cost less accumulated depreciation (PIHCLAD) and its replacement cost new less depreciation (RCNLD).

[106] Docket No. T-01051B-03-0454; Direct Testimony of Marylee Diaz Cortez; p. 11.

1 **Q. ARE ARIZONA UTILITIES ENTITLED TO EARN THEIR COST OF CAPITAL**
2 **ON THEIR FAIR VALUE RATE BASE INSTEAD OF HISTORICAL COST**
3 **RATE BASE?**
4 A. Yes. The Arizona Constitution as interpreted by Arizona case law provides
5 that utilities in Arizona are permitted to earn their cost of capital on fair value
6 rate base instead of historical cost rate base.

7 **Q. MUST THE COMMISSION USE THE FAIR VALUE METHOD OF VALUING**
8 **RATE BASE INSTEAD OF THE PRUDENTLY INVESTED HISTORICAL**
9 **COST METHOD?**
10 A. Yes. Arizona law requires it.

11 **Q. CAN THE COMMISSION CONSIDER FAIR VALUE RATE BASE**
12 **SYNONYMOUS WITH PIHCLAD RATE BASE?**
13 A. No. They are not the same and the Arizona Supreme Court forbade the
14 Commission's use of PIHCLAD rate base.

15 **Q. MR. BROSCH ARGUES THAT "TO THE EXTENT THE VALUATION OF**
16 **RATE BASE IS INCREASED TO ACCOUNT FOR ESTIMATED FAIR**
17 **VALUE, A CORRESPONDING REDUCTION IN THE REQUIRED RATE OF**
18 **RETURN IS NECESSARY TO RECOGNIZE THAT THE INCOME**
19 **REQUIRED TO MEET INVESTORS' REQUIREMENTS DOES NOT**

1 **CHANGE WHEN PROPERTY VALUATION APPROACHES ARE**
2 **CHANGED.[107] IS HE CORRECT?**

3 A. No. This is an indirect but obvious way of skirting Arizona's requirement. Mr.
4 Brosch and Ms. Diaz Cortez both back into a return for fair value rate base by
5 first determining what Staff and RUCO believe the company should be
6 allowed to earn on a PIHCLAD rate base and having established that amount
7 of revenue requirement, calculate the rate of return on a fair value rate base
8 necessary to achieve that same revenue requirement. This neutralizes the
9 effect of using the fair value rate base and provides Qwest its cost of capital
10 on its PIHCLAD rate base, not its fair value rate base. The adjustments to the
11 required rate of return that Staff and RUCO use for purpose of computing
12 revenue requirement on a fair value rate base must be rejected.

13 ***Accumulated Depreciation – Station Apparatus (RUCO RBA#4)***

14 **Q. MS. DIAZ CORTEZ ASSERTS THAT QWEST INCLUDES STATION**
15 **APPARATUS INVESTMENT, BUT DOES NOT INCLUDE THE RELATED**
16 **DEPRECIATION RESERVE. DO YOU AGREE?**

17 A. No. Ms. Diaz Cortez testifies:

18 ... Qwest has included the Station Apparatus plant account balance of
19 $32.899 million in its requested rate base, yet failed to included the
20 accumulated depreciation associated with this account. * * * I have

[107] Docket No. T-01051B-03-0454; Direct Testimony of Michael Brosch, p. 54.

decreased rate base by $12.363 million to include the accumulated depreciation balance for the Station Account.[108]

Ms. Diaz Cortez's assertion is incorrect. Station Apparatus accumulated depreciation balances were included in developing Qwest's rate base.

Q. CAN YOU DEMONSTRATE THAT QWEST INCLUDED THE BALANCE OF ACCUMULATED DEPRECIATION ON STATION APPARATUS IN QWEST'S CALCULATION OF RATE BASE?

A. Yes. The end-of-period balance of total Arizona accumulated depreciation (prior to interstate/intrastate separations) that Qwest used to calculate the rate base is set forth on the following schedule:

Depn Res Account	Description	($000's) Amount
3121	Veh, Tools,Bldg & Equip	$ 219,320
3122	Central Office	1,774,419
3123	**Term & Public Tel**	**58,893**
3124	Outside Plant	1,923,672
3410	Capital Leases	4,111
3420	Leasehold Improvement	27,593
3500	Intangibles	51,940
Total Depn & Amort Reserve		$4,059,949

The above Depreciation and Amortization Reserve total was provided in the response to UTI 001-01 in the spreadsheet titled, "az1203.xls", Tab "Interface – 1990 Financials", Column C, Line 51. Supplemental updates to UTI 001-01 and the source spreadsheet do not affect total Depreciation and Amortization Reserve amounts. The end-of-test-year balance of Account 3123 Total

[108] Docket Nos. T-01051B-03-0454, Direct Testimony of Marylee Diaz Cortez, p. 10, ll. 9 – 17.

Terminal and Public Telephone is further broken down into the following components:

Depn Res Account	Description		($000's) Amount
3123.1	**Station Apparatus**	**$**	**12,363**
3123.5	Public Tel		11,505
3523.6	Other Term Equip		35,025
Total Acct 3123		$	58,893

Q. CAN YOU SUMMARIZE THE PRECEDING ACCUMULATED DEPRECIATION RECONCILIATION TABLES?

A. The tables demonstrate that Qwest includes the proper Station Apparatus investment and reserve components in the calculation of its Arizona rate base. RUCO Rate Base Adjustment #4 should be rejected.

FUTURE REPORTING REQUIREMENTS

Q. MR. BROSCH SUGGESTS THAT QWEST SHOULD BE REQUIRED TO PREPARE AND SUBMIT ANNUALLY DETAILED FINANCIAL INFORMATION INDICATING ITS ACHIEVED OPERATING INCOME, RATE BASE AND RETURN ON INVESTMENT INCLUDING RATEMAKING ADJUSTMENTS.[109] DO YOU AGREE?

A. No. Mr. Brosch argues intrastate revenue requirement data will continue to be useful in the future for Commission reviews and modifications of Price Cap Plan regulation in Arizona. He suggests that Qwest provide annual reports of

[109] Docket No. T-01051B-03-0454; Direct Testimony of Michael Brosch, p. 6.

earnings and revenue requirement data for each calendar year. However, he fails to explain why Qwest should be obligated to make annual filings if no review or modification of the price cap plan is pending.

Q. WHAT DOES MR. BROSCH SUGGEST HIS PROPOSED FILINGS SHOULD PRESENT?

A. He suggests that Qwest be obliged to provide detailed test period intrastate earnings and rate base results prepared on a basis of accounting consistent with ratemaking principles established by the Commission, inclusive of a variety of ratemaking adjustments he and Mr. Carver have proposed including:

- Imputation of $72 million of directory revenues
- Calculation of Depreciation expense/reserves at ACC approved rates
- Accrual basis accounting for OPEBs (per Carver testimony)
- Fixed cash working capital amount (per Brosch testimony)
- SOP 98-01 accounting for software (per Carver testimony)
- Pension asset in rate base (per Carver testimony)
- FCC Nonreguated Services revenue imputation (per Carver testimony)[110]

Q. WHY DO YOU DISAGREE WITH MR. BROSCH'S PROPOSAL?

A. I disagree for several reasons. First, preparing a detailed revenue requirement is burdensome and expensive. When Qwest was obliged to prepare a detailed revenue requirement calculation for this docket, I found it necessary to engage the services of a former employee to assist me because

[110] *Ibid.*

1 my department no longer maintains the resources necessary to regularly
2 prepare detailed revenue requirements.

3 In Qwest's territory, telephone rate cases are now rare. The last time Qwest
4 prepared a detailed revenue requirement for a regulatory commission was
5 Qwest's 1999 rate case in Arizona. There have been no Qwest rate cases
6 since that case.

7 Second, given the financial cost involved, Qwest should not be yoked with the
8 burden of preparing a revenue requirement unless there is a compelling need
9 for one. Annual informational reporting for the convenience and edification of
10 Staff does not rise to that level of need.

11 Third, if Staff wished to calculate the adjustments that it would include in a
12 revenue requirement calculation, nothing prevents its. Qwest routinely
13 provides its unadjusted separated results of operations to regulatory
14 commission staffs. Staff can use Qwest's standard reports to make its own
15 revenue requirement calculations if it so chooses.

16 Fourth, Mr. Brosch's proposal runs directly counter to the direction regulatory
17 reporting requirements are headed. I receive regular reports of reductions in
18 reporting requirements. Recently Oregon and Utah (both states with price
19 cap forms of regulation) eliminated the bulk of Qwest's financial reporting
20 requirements.

1 Finally, Qwest should not be saddled with new additional reporting
2 requirements when its competitors in Arizona are not also made to bear those
3 same burdens. The Commission should not give Qwest's competitors a
4 competitive advantage by making Qwest bear the cost of new administrative
5 burdens that its competitors are not also made to bear.

6 MINISTERIAL MATTERS

7 *Revenue Requirement Update*

8 **Q. HAS QWEST UPDATED ITS CALCULATION OF REVENUE**
9 **REQUIERMENT SINCE YOUR DIRECT TESTIMONY WAS FILED?**

10 A. Yes. The Company updated its calculation of revenue requirement to reflect
11 information revealed in discovery and the pre-filed direct testimony of the
12 witnesses. The following Qwest Corporation Exhibits set forth Qwest's
13 current revenue requirement calculation:

14 PEG-R1 is the "rolldown" of Qwest's revenue requirement calculation. It
15 shows the financial effect of each of the 29 adjustments Qwest is
16 now proposing. It reports a $271.258 million revenue requirement
17 on a rate base valued using the prudently invested historical cost
18 less depreciation (original cost) method.

19 PEG-R2 is Qwest's "detail of adjustments." It shows the financial
20 components of each of the 29 adjustments Qwest is now proposing.

21 PEG-R3 is a summary of Qwest's revenue requirement revisions. It shows
22 the progression of Qwest's development of its current revenue
23 requirement calculation since the May 20, 2004 filing of my direct
24 testimony. In the lower left hand corner is data entitled "column
25 sources" that identifies the vehicle by which Qwest made its revised

revenue requirement calculations available to the parties. The "rebuttal revisions" are explained in my testimony under the subheading "Method of Pro Forma Depreciation Rate Adjustment (Staff C-22)."

PEG-R4 provides the rate base and NOI detail of the revisions reported on PEG-R3.

PEG-R5 is a copy of Qwest's second supplemental response to Staff's data request UTI 7-2. It contains a recitation of the changes Qwest made to its revenue requirement calculation and explanations of the reasons for making them.

PEG-R6 is revised schedules A-1, B-1, B2P1, B3, B4A, to Qwest's filing under A.A.C. R14-2-103 and a summary schedule showing the effect of replacing vintage group (VG) depreciation procedure with the equal life group (ELG) depreciation procedure for purposes of calculating Qwest's Replacement Cost New Less Depreciation rate base and the effect of the other revisions to Qwest's revenue requirement calculation as set forth in Exhibits PEG-R2, PEG-R3, PEG-R4 and PEG-R5. Ms. Heller Hughes rebuttal testimony explains the reasons for changing to the ELG depreciation procedure. Schedule A-1, Line 10, Column A reports Qwest's $271.258 million revenue requirement on its original cost rate base. Schedule A-1, Line 10, Column B reports Qwest's $351.665 million revenue requirement on its Fair Value rate base

Un-rebutted Adjustments

Q. IN YOUR INTRODUCTION, YOU MENTIONED THAT YOU DID NOT PREPARE REBUTTAL TESTIMONY ON EVERY REVENUE REQUIREMENT ISSUE IN THIS CASE. ON WHAT ISSUES DID YOU NOT PREPARE REBUTTAL?

A. I did not preparing rebuttal on the following subjects and proposed adjustments:

- Voice Messaging (Staff B-9, C-24);
- FCC Deregulated Services – Separations Adjustments (Staff B-10, C-20);
- Cash Working Capital (Staff B-2; RUCO RBA#8);

Proposed Adjustment	Description	Qwest Adjustment	Discovery Reference
RUCO Rate Base Adjustment #2	SOP-98 Adoption	PFA-03	USI 1-S1
RUCO Rate Base Adjustment #6	Out of Period	PFN-01	UTI 14-001
RUCO Rate Base Adjustment #7	Post Employment Benefits	PFA-02	RUCO 3-10
RUCO Operating Adjustment #1	Out of Period	PFN-01	UTI 1-S1; UTI 3-36; UTI 4-31; UTI 4-32; UTI 4-33; UTI 7-02; UTI 8-01
RUCO Operating Adjustment #3	Planning for Enhanced Services	PFN-12	UTI 1-S1
RUCO Operating Adjustment #4	SOP-98 Adoption	PFA-03	UTI 1-S1
RUCO Operating Adjustment #5	Post Employment Benefits	PFA-02	UTI 1-S1
RUCO Operating Adjustment #6	Depreciation Represcription	PFA-01	UTI 1-S1
Staff B-1	Updates and Corrections	Various	UTI 1-S1; UTI 2-13
Staff C-1	Updates and Corrections	Various	UTI 1-S1; UTI 2-06; UTI 7-02, et al.
Staff C-13	Allocation Factor Updates	PFN-06	UTI 1-S1; UTI 8-44; UTI 8-46
Staff C-22	Depreciation Annualization - Reserve	PFA-02; PFN-11	UTI 1-S1

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

BEFORE THE ARIZONA CORPORATION COMMISSION

MARC SPITZER
Chairman

WILLIAM A. MUNDELL
Commissioner

JEFF HATCH-MILLER
Commissioner

MIKE GLEASON
Commissioner

KRISTIN K. MAYES
Commissioner

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

REBUTTAL EXHIBITS OF

PHILIP E. GRATE

ON BEHALF OF

QWEST CORPORATION

DECEMBER 20, 2004

INDEX OF EXHIBITS

DESCRIPTION	EXHIBIT
Qwest's revenue requirement "rolldown"	PEG-R1
Qwest's detail of adjustments	PEG-R2
Summary of Qwest's revenue requirement revisions	PEG-R3
Detail of Qwest's revenue requirement revisions	PEG-R4
Qwest's second supplemental response to data request UTI 7-002	PEG-R5
Revised schedules A-1, B-1, B2P1, B3, B4A, to Qwest's Rule 103 filing and a summary schedule showing the effect of replacing VG with ELG depreciation procedure	PEG-R6
Description of Philip E. Grate's review and analysis of the Company's history regarding accounting method changes in Arizona	PEG-R7
E-mails between Steven C. Carver and Philip E. Grate regarding Qwet's OPEBs accounting procedures	PEG-R8
Corrected calculation of Staff's proposed Adjustment C-16, Year-end Wage and Salary Annualization	PEG-R9
Comparison of intrastate operating expenses to equivalent employees during a 36 month regression period from January 1, 2001 to December 31, 2003	PEG-R10
Qwest's response to RUCO's data request 4-1	PEG-R11
Affidavit of Felicity O'Herron, Qwest's Compensation and Benefits Director	PEG-R12
Affidavit of Linda Nielander, Qwest's Director of Marketing	PEG-R13
Depiction of a hypothetical assignment of COE Circuit Equipment to Categories and Jurisdictions	PEG-R14
Corrected calculation of Staff's proposed Adjustment C-19, FCC Deregulated Services – Revenue Imputation	PEG-R15
Staff's response to Set 10 of Qwest's data requests	PEG-R16

QWEST CORPORATION
Arizona Intrastate Operations
Test Year Ending December 31, 2003
ROLLDOWN OF REVENUE REQUIREMENT

		A	B	C=A*B	D	E	F #
		Rate Base	Rate of Return	Earnings Required	Earnings Available	Added Earnings Required	Added Revenues Required
A.	Earned Return Per Books	1,647,109	-3.76%	(62,010)	(62,010)	0	0
B.	Revenue Requirement Authorized	1,647,109	11.18%	184,147	(62,010)	246,157	417,448
	Accounting Adjustments						
	PFA-01 Depreciation	96,622	11.18%	10,802	96,622	(85,820)	(145,538)
	PFA-02 Post Employment Benefits Other Than Pensions	(117,706)	11.18%	(13,160)	(36,748)	23,588	40,002
	PFA-03 REVISED SOP98 Adoption	47,135	11.18%	5,270	(5,937)	11,207	19,005
	PFA-04 Plant Under Construction	20,148	11.18%	2,253	(157)	2,410	4,087
C.	**Total Accounting Adjustments**	**46,199**		**5,165**	**53,780**	**(48,615)**	**(82,444)**
	Normalizing Adjustments						
	PFN-01 Out of Period Revenue and Expense	(12,712)	11.18%	(1,421)	10,243	(11,665)	(19,781)
	PFN-02 In-Test-Year Rate Changes	0	11.18%	0	(4,288)	4,288	7,272
	PFN-03 Operating Income Annualization	0	11.18%	0	(26,362)	26,362	44,706
	PFN-04 Post-Test-Year Rate Changes	0	11.18%	0	(11,120)	11,120	18,858
	PFN-05 Wage and Salary Rates	0	11.18%	0	(124)	124	211
	PFN-06 Headquarters Factors Update	0	11.18%	0	2,623	(2,623)	(4,447)
	PFN-07 Rent Compensation Update	0	11.18%	0	1,724	(1,724)	(2,924)
	PFN-08 Incentive Compensation True-Up	(278)	11.18%	(31)	665	(697)	(1,181)
	PFN-09 Call Centers	0	11.18%	0	2,753	(2,753)	(4,669)
	PFN-10 Property Tax Update	0	11.18%	0	471	(471)	(798)
	PFN-11 Depreciation Synchronization	(3,065)	11.18%	(343)	(3,065)	2,722	4,616
	PFN-12 Planning for Enhanced Services TrueUp	(322)	11.18%	(36)	4,870	(4,906)	(8,320)
	PFN-13 Contingency Accruals	0	11.18%	0	3,545	(3,545)	(6,011)
	PFN-14 Separations Factors	(56)	11.18%	(6)	197	(204)	(345)
	PFN-15 Effective Income Tax Rates	0	11.18%	0	(195)	195	330
	PFN-16 Sponsorships	0	11.18%	0	291	(291)	(493)
	PFN-17 Separations Changes	(4,392)	11.18%	(491)	1,384	(1,876)	(3,181)
D.	**Total Normalizing Adjustments**	**(20,824)**		**(2,328)**	**(16,387)**	**14,059**	**23,843**
	Ratemaking Adjustments						
	PFR-01 Directory Revenue Imputation	0	11.18%	0	43,751	(43,751)	(74,196)
	PFR-02 Fines and Penalties	0	11.18%	0	828	(828)	(1,405)
	PFR-03 Interest Synchronization	0	11.18%	0	11,514	(11,514)	(19,526)
	PFR-04 Cash Working Capital	(52,173)	11.18%	(5,833)	0	(5,833)	(9,892)
	PFR-05 Pension Asset	97,377	11.18%	10,887	0	10,887	18,462
	PFR-06 Remove 1991 Merger Cost	0	11.18%	0	2	(2)	(4)
	PFR-07 Charitable Contributions	0	11.18%	0	683	(683)	(1,159)
	PFR-08 Customer Deposits	(891)	11.18%	(100)	(176)	77	130
E.	**Total Ratemaking Adjustments**	**44,313**		**4,954**	**56,603**	**(51,649)**	**(87,589)**
F.	**Total Adjustments**	69,687		7,791	93,995	(86,204)	(146,190)
G.	**Adjusted Revenue Requirement**	1,716,797		191,938	31,985	159,953	271,258

Column F, Added Revenues Required, uses the revised Revenue Multiplier of 1.6958580 as provided in UTI 15-18 Att A.

QWEST CORPORATION
ARIZONA INTRASTATE OPERATIONS - Detail of Adjustments
Test Year Ending December 31, 2003
(IN THOUSANDS OF DOLLARS)
[As provided in UTI 1-1S2 Attachment A.]

		TOTAL	Total PFR	Total PFA	Total PFN	PFR-01	PFR-02	PFR-03	PFR-04	PFR-05
			Commission Adjustment Summary Total	Accounting Adjustment Summary Total	Proforma Adjustment Summary Total	Directory Revenue Imputation	Fines and Penalties	Interest Synchronization	Cash Working Capital	Pension Asset
Revenues										
1	Local Service Revenues	(58,350)	0	0	(58,350)	0	0	0	0	0
2	Network Access Service Revenues	(3,886)	0	0	(3,886)	0	0	0	0	0
3	Long Distance Network Service Rev.	(2,343)	0	0	(2,343)	0	0	0	0	0
4	Miscellaneous	79,765	73,363	(329)	6,731	72,000	1,363	0	0	0
5	Total Oper. Rev. (L1 thru L4)	15,185	73,363	(329)	(57,849)	72,000	1,363	0	0	0
Expenses										
6	Maintenance	8,655	0	21,871	(13,216)	0	0	0	0	0
7	Engineering Expense	1,472	0	1,636	(164)	0	0	0	0	0
8	Network Operations	14,403	0	14,308	95	0	0	0	0	0
9	Network Administration	227	0	229	(3)	0	0	0	0	0
10	Access Expense	0	0	0	0	0	0	0	0	0
11	Other	141	0	142	(1)	0	0	0	0	0
12	Total Cost of Services & Products(L6 thru L11)	24,898	0	38,187	(13,289)	0	0	0	0	0
13	Customer Operations	(49)	0	0	(49)	0	0	0	0	0
14	Corporate Operations	(18,696)	(1,125)	3,576	(21,147)	0	0	0	0	0
15	Property & Other Taxes	(897)	0	52	(949)	0	0	0	0	0
16	Uncollectibles	(2,209)	0	0	(2,209)	0	0	0	0	0
17	Tot Selling, General & Admin.(L13 thru L16)	(21,851)	(1,125)	3,628	(24,355)	0	0	0	0	0
18	Other Operating Income & Expense	(10)	198	0	(208)	0	0	0	0	0
19	Depreciation Expense	(127,212)	(14)	(131,654)	4,456	0	0	0	0	0
20	Universal Service Fund	0	0	0	0	0	0	0	0	0
21	Link Up America	0	0	0	0	0	0	0	0	0
22	Total Operating Expense(L12+L17 thru L21)	(124,175)	(940)	(89,838)	(33,396)	0	0	0	0	0
23	Income From Operations (L5-L22)	139,360	74,304	89,509	(24,453)	72,000	1,363	0	0	0
Taxes										
24	Federal Income Tax	35,900	14,762	29,187	(8,048)	23,558	446	(9,602)	0	0
25	State & Local Income Tax	9,464	2,939	6,542	(17)	4,690	89	(1,912)	0	0
26	Net Operating Income (L23-L24-L25)	93,995	56,603	53,780	(16,387)	43,751	828	11,514	0	0
Other										
27	Nonoperating Income & Expense	1,218	0	0	1,218	0	0	0	0	0
28	Nonoperating Income Tax	(393)	0	0	(393)	0	0	0	0	0
29	Net Operating Earnings (L26-L27-L28)	93,170	56,603	53,780	(17,213)	43,751	828	11,514	0	0
30	Interest Expense	28,830	29,188	0	(358)	0	0	29,346	0	0
31	Juris Diff & Nonreg Net Income	0	0	0	0	0	0	0	0	0
32	Extraordinary Items	(154)	0	0	(154)	0	0	0	0	0
33	Net Income (L29-L30-L31-L32)	64,186	27,415	53,780	(17,009)	43,751	828	(17,833)	0	0
Rate Base										
34	Telephone Plant In Service	16,205	0	25,239	(9,034)	0	0	0	0	0
35	Short-Term Plant Under Construction	20,981	0	21,023	(43)	0	0	0	0	0
36	Materials and Supplies	(13,365)	0	0	(13,365)	0	0	0	0	0
37	Allowance for Cash Working Capital	(52,173)	(52,173)	0	0	0	0	0	(52,173)	0
38	Accumulated Depreciation & Amortization Reserve	(90,588)	0	(91,520)	933	0	0	0	0	0
39	Accumulated Deferred Income Tax	88,770	0	91,584	(2,814)	0	0	0	0	0
40	Customer Deposits	884	891	0	(7)	0	0	0	0	0
41	Land Development Agreement Deposits	(4)	0	0	(4)	0	0	0	0	0
42	Other Assets & Liabilities	97,102	97,377	0	(275)	0	0	0	0	97,377
43	End-of-Period Rate Base (L34+L35+L36+L37-L38-L39-L40-L41+L42)	69,687	44,313	46,199	(20,824)	0	0	0	(52,173)	97,377

QWEST CORPORATION
ARIZONA INTRASTATE OPERATIONS - Detail of Adjustments
Test Year Ending December 31, 2003
(IN THOUSANDS OF DOLLARS)
[As provided in UT1 1-1S2 Attachment A.]

	PFR-06	PFR-07	PFR-08	PFA-01	PFA-02	PFA-03	PFA-04	PFN-01	PFN-02
	Remove 1991 Merger Cost	Charitable Contributions	Customer Deposits	Depreciation	Post Employment Benefits Other Than Pensions	SOP98 Adoption	Plant Under Construction	Out of Period Revenue and Expense	In-Test-Year Rate Changes
Revenues									
1 Local Service Revenues	0	0	0	0	0	0	0	(1,324)	(7,057)
2 Network Access Service Revenues	0	0	0	0	0	0	0	(2,035)	0
3 Long Distance Network Service Rev.	0	0	0	0	0	0	0	0	0
4 Miscellaneous	0	0	0	0	0	0	(329)	(657)	0
5 Total Oper. Rev. (L1 thru L4)	0	0	0	0	0	0	(329)	(4,016)	(7,057)
Expenses									
6 Maintenance	0	0	0	0	21,871	0	0	(12,030)	0
7 Engineering Expense	0	0	0	0	1,636	0	0	1	0
8 Network Operations	0	0	0	0	14,308	0	0	193	0
9 Network Administration	0	0	0	0	229	0	0	0	0
10 Access Expense	0	0	0	0	0	0	0	0	0
11 Other	0	0	0	0	142	0	0	0	0
12 Total Cost of Services & Products(L6 thru L11)	0	0	0	0	38,187	0	0	(11,836)	0
13 Customer Operations	0	0	0	0	0	0	0	1	0
14 Corporate Operations	0	(1,125)	0	0	22,235	(18,659)	0	(8,827)	0
15 Property & Other Taxes	0	0	0	0	52	0	0	(54)	0
16 Uncollectibles	0	0	0	0	0	0	0	135	0
17 Tot Selling, General & Admin.(L13 thru L16)	0	(1,125)	0	0	22,287	(18,659)	0	(8,746)	0
18 Other Operating Income & Expense	0	0	198	0	0	0	0	(208)	0
19 Depreciation Expense	(14)	0	0	(159,783)	0	28,200	(71)	(83)	0
20 Universal Service Fund	0	0	0	0	0	0	0	0	0
21 Link Up America	0	0	0	0	0	0	0	0	0
22 Total Operating Expense(L12+L17 thru L21)	(14)	(1,125)	198	(159,783)	60,474	9,541	(71)	(20,873)	0
23 Income From Operations (L5-L22)	14	1,125	(198)	159,783	(60,474)	(9,541)	(259)	16,857	(7,057)
Taxes									
24 Federal Income Tax	10	368	(18)	52,027	(19,787)	(2,968)	(85)	5,516	(2,309)
25 State & Local Income Tax	2	73	(4)	11,134	(3,939)	(635)	(17)	1,098	(460)
26 Net Operating Income (L23-L24-L25)	2	683	(176)	96,622	(36,748)	(5,937)	(157)	10,243	(4,288)
Other									
27 Nonoperating Income & Expense	0	0	0	0	0	0	0	793	0
28 Nonoperating Income Tax	0	0	0	0	0	0	0	0	0
29 Net Operating Earnings (L26-L27-L28)	2	683	(176)	96,622	(36,748)	(5,937)	(157)	9,451	(4,288)
30 Interest Expense	(16)	0	(142)	0	0	0	0	0	0
31 Juris Diff & Nonreg Net Income	0	0	0	0	0	0	0	0	0
32 Extraordinary Items	0	0	0	0	0	0	0	0	0
33 Net Income (L29-L30-L31-L32)	18	683	(34)	96,622	(36,748)	(5,937)	(157)	9,451	(4,288)
Rate Base									
34 Telephone Plant In Service	0	0	0	0	(120,371)	146,657	(1,047)	2,376	0
35 Short-Term Plant Under Construction	0	0	0	0	0	0	21,023	0	0
36 Materials and Supplies	0	0	0	0	0	0	0	(13,342)	0
37 Allowance for Cash Working Capital	0	0	0	0	0	0	0	0	0
38 Accumulated Depreciation & Amortization Reserve	0	0	0	(159,783)	(300)	68,633	(71)	1,745	0
39 Accumulated Deferred Income Tax	0	0	0	63,161	(2,365)	30,889	(101)	0	0
40 Customer Deposits	0	0	891	0	0	0	0	0	0
41 Land Development Agreement Deposits	0	0	0	0	0	0	0	0	0
42 Other Assets & Liabilities	0	0	0	0	0	0	0	0	0
43 End-of-Period Rate Base (L34+L35+L36+L37-L38-L39-L40-L41+L42)	0	0	(891)	96,622	(117,706)	47,135	20,148	(12,712)	0

QWEST CORPORATION
ARIZONA INTRASTATE OPERATIONS - Detail of Adjustments
Test Year Ending December 31, 2003
(IN THOUSANDS OF DOLLARS)
[As provided in UT11-1S2 Attachment A.]

	PFN-03	PFN-04	PFN-05	PFN-06	PFN-07	PFN-08	PFN-09	PFN-10	PFN-11
	Operating Income Annualization	Post-Test-Year Rate Changes	Wage and Salary Rates	Headquarters Factors Update	Rent Compensation Update	Incentive Compensation True-Up	Call Centers	Property Tax Update	Depreciation Synchronization
Revenues									
1 Local Service Revenues	(36,670)	(13,300)	0	0	0	0	0	0	0
2 Network Access Service Revenues	3,149	(5,000)	0	0	0	0	0	0	0
3 Long Distance Network Service Rev.	(2,343)	0	0	0	0	0	0	0	0
4 Miscellaneous	(9,925)	0	0	(231)	2,909	0	7,664	0	0
5 Total Oper. Rev. (L1 thru L4)	(45,789)	(18,300)	0	(231)	2,909	0	7,664	0	0
Expenses									
6 Maintenance	0	0	66	(10)	0	(611)	0	0	0
7 Engineering Expense	0	0	20	57	0	(220)	0	0	0
8 Network Operations	0	0	29	0	0	0	0	0	0
9 Network Administration	0	0	1	0	0	0	0	0	0
10 Access Expense	0	0	0	0	0	0	0	0	0
11 Other	0	0	0	0	0	0	0	0	0
12 Total Cost of Services & Products(L6 thru L11)	0	0	116	47	0	(831)	0	0	0
13 Customer Operations	0	0	72	(2,772)	0	(234)	3,132	0	0
14 Corporate Operations	0	0	16	(1,892)	0	(30)	0	0	0
15 Property & Other Taxes	0	0	0	0	11	0	0	(774)	0
16 Uncollectibles	(2,405)	0	0	0	62	0	0	0	0
17 Tot Selling, General & Admin.(L13 thru L16)	(2,405)	0	89	(4,664)	72	(264)	3,132	(774)	0
18 Other Operating Income & Expense	0	0	0	0	0	0	0	0	0
19 Depreciation Expense	0	0	0	0	0	0	0	0	5,068
20 Universal Service Fund	0	0	0	0	0	0	0	0	0
21 Link Up America	0	0	0	0	0	0	0	0	0
22 Total Operating Expense(L12+L17 thru L21)	(2,405)	0	205	(4,617)	72	(1,095)	3,132	(774)	5,068
23 Income From Operations (L5-L22)	(43,383)	(18,300)	(205)	4,386	2,837	1,095	4,531	774	(5,068)
Taxes									
24 Federal Income Tax	(14,195)	(5,988)	(67)	1,471	928	358	1,483	253	(1,650)
25 State & Local Income Tax	(2,826)	(1,192)	(13)	293	185	71	295	50	(353)
26 Net Operating Income (L23-L24-L25)	(26,362)	(11,120)	(124)	2,623	1,724	665	2,753	471	(3,065)
Other									
27 Nonoperating Income & Expense	0	0	0	(529)	0	0	0	0	0
28 Nonoperating Income Tax	0	0	0	0	0	0	0	0	0
29 Net Operating Earnings (L26-L27-L28)	(26,362)	(11,120)	(124)	3,151	1,724	665	2,753	471	(3,065)
30 Interest Expense	0	0	0	(109)	0	0	0	0	0
31 Juris Diff & Nonreg Net Income	0	0	0	0	0	0	0	0	0
32 Extraordinary Items	0	0	0	0	0	0	0	0	0
33 Net Income (L29-L30-L31-L32)	(26,362)	(11,120)	(124)	3,260	1,724	665	2,753	471	(3,065)
Rate Base									
34 Telephone Plant In Service	0	0	0	0	0	(278)	0	0	0
35 Short-Term Plant Under Construction	0	0	0	0	0	0	0	0	0
36 Materials and Supplies	0	0	0	0	0	0	0	0	0
37 Allowance for Cash Working Capital	0	0	0	0	0	0	0	0	0
38 Accumulated Depreciation & Amortization Reserve	0	0	0	0	0	0	0	0	5,068
39 Accumulated Deferred Income Tax	0	0	0	0	0	0	0	0	(2,003)
40 Customer Deposits	0	0	0	0	0	0	0	0	0
41 Land Development Agreement Deposits	0	0	0	0	0	0	0	0	0
42 Other Assets & Liabilities	0	0	0	0	0	0	0	0	0
43 End-of-Period Rate Base (L34+L35+L36+L37-L38-L39-L40-L41+L42)	0	0	0	0	0	(278)	0	0	(3,065)

QWEST CORPORATION
ARIZONA INTRASTATE OPERATIONS - Detail of Adjustments
Test Year Ending December 31, 2003
(IN THOUSANDS OF DOLLARS)
[As provided in UTI 1-1S2 Attachment A.]

		PFN-12	PFN-13	PFN-14	PFN-15	PFN-16	PFN-17
		Planning for Enhanced Services TrueUp	Contingency Accruals	Separations Factors	Effective Income Tax Rates	Sponsorships	Separations Changes
Revenues							
1	Local Service Revenues	0	0	0	0	0	0
2	Network Access Service Revenues	0	0	0	0	0	0
3	Long Distance Network Service Rev.	0	0	0	0	0	0
4	Miscellaneous	0	5,700	1	0	0	1,270
5	Total Oper. Rev. (L1 thru L4)	0	5,700	1	0	0	1,270
Expenses							
6	Maintenance	(85)	0	(24)	0	0	(522)
7	Engineering Expense	(0)	0	(3)	0	0	(19)
8	Network Operations	(1)	0	(27)	0	0	(100)
9	Network Administration	(0)	0	(1)	0	0	(3)
10	Access Expense	0	0	0	0	0	0
11	Other	(0)	0	(0)	0	0	(1)
12	Total Cost of Services & Products(L6 thru L11)	(86)	0	(55)	0	0	(645)
13	Customer Operations	(331)	0	(0)	0	(159)	241
14	Corporate Operations	(9,375)	(133)	(471)	0	(273)	(162)
15	Property & Other Taxes	(6)	0	2	0	0	(127)
16	Uncollectibles	0	0	0	0	0	0
17	Tot Selling, General & Admin.(L13 thru L16)	(9,712)	(133)	(469)	0	(432)	(47)
18	Other Operating Income & Expense	(0)	0	0	0	0	0
19	Depreciation Expense	(95)	0	153	0	0	(587)
20	Universal Service Fund	0	0	0	0	0	0
21	Link Up America	0	0	0	0	0	0
22	Total Operating Expense(L12+L17 thru L21)	(9,892)	(133)	(372)	0	(432)	(1,279)
23	Income From Operations (L5-L22)	9,892	5,833	372	0	432	2,549
Taxes							
24	Federal Income Tax	3,186	1,909	146	(90)	141	859
25	State & Local Income Tax	1,836	380	29	284	0	305
26	Net Operating Income (L23-L24-L25)	4,870	3,545	197	(195)	291	1,384
Other							
27	Nonoperating Income & Expense	(36)	0	0	0	0	991
28	Nonoperating Income Tax	9	0	0	0	0	(402)
29	Net Operating Earnings (L26-L27-L28)	4,897	3,545	197	(195)	291	796
30	Interest Expense	(17)	0	(73)	0	0	(159)
31	Juris Diff & Nonreg Net Income	0	0	0	0	0	0
32	Extraordinary Items	(154)	0	0	0	0	(0)
33	Net Income (L29-L30-L31-L32)	4,760	3,545	271	(195)	291	955
Rate Base							
34	Telephone Plant In Service	(810)	0	280	0	0	(10,602)
35	Short-Term Plant Under Construction	0	0	(43)	0	0	0
36	Materials and Supplies	(2)	0	60	0	0	(81)
37	Allowance for Cash Working Capital	0	0	0	0	0	0
38	Accumulated Depreciation & Amortization Reserve	(445)	0	206	0	0	(5,642)
39	Accumulated Deferred Income Tax	(45)	0	(126)	0	0	(640)
40	Customer Deposits	0	0	(2)	0	0	(5)
41	Land Development Agreement Deposits	0	0	0	0	0	(4)
42	Other Assets & Liabilities	0	0	(275)	0	0	0
43	End-of-Period Rate Base (L34+L35+L36+L37-L38-L39-L40-L41+L42)	(322)	0	(56)	0	0	(4,392)

QWEST CORPORATION
Arizona Intrastate Operations
Test Year Ending December 31, 2003
Qwest Revenue Requirement Revisions

	(IN THOUSANDS OF DOLLARS)	(A) May Revenue Requirement	(B) June Revisions	(C=A+B) June Revenue Requirement	(D) October Revisions	(E=C+D) October Revenue Requirement	(F) November Revisions	(G=E+F) November Revenue Requirement	(H) November Revisions	(I=G+H) Rebuttal Revenue Requirement
A.	Earned Return Per Books	0	0	0	0	0	0	0	0	0
B.	Revenue Requirement Authorized	415,421	0	415,421	2,026	417,448	0	417,448	0	417,448
	Accounting Adjustments									
	PFA-01 Depreciation	(99,921)	0	(99,921)	(487)	(100,408)	0	(100,408)	(45,129)	(145,538)
	PFA-02 Post Employment Benefits Other Than Pensions	44,512	0	44,512	(4,510)	40,002	0	40,002	0	40,002
	PFA-03 REVISED SOP98 Adoption	(12,736)	0	(12,736)	31,741	19,005	0	19,005	0	19,005
	PFA-04 Plant Under Construction	3,680	0	3,680	407	4,087	0	4,087	0	4,087
C.	**Total Accounting Adjustments**	(64,465)	0	(64,465)	27,150	(37,314)	0	(37,314)	(45,129)	(82,444)
	Normalizing Adjustments									
	PFN-01 Out of Period Revenue and Expense	(12,690)	0	(12,690)	(8,516)	(21,206)	1,424	(19,781)	0	(19,781)
	PFN-02 In-Test-Year Rate Changes	7,237	0	7,237	35	7,272	0	7,272	0	7,272
	PFN-03 Operating Income Annualization	45,785	0	45,785	(263)	45,522	(816)	44,706	0	44,706
	PFN-04 Post-Test-Year Rate Changes	18,767	0	18,767	92	18,858	0	18,858	0	18,858
	PFN-05 Wage and Salary Rates	210	0	210	1	211	0	211	0	211
	PFN-06 Headquarters Factors Update	(4,426)	0	(4,426)	(22)	(4,447)	0	(4,447)	0	(4,447)
	PFN-07 Rent Compensation Update	(2,385)	0	(2,385)	(539)	(2,924)	0	(2,924)	0	(2,924)
	PFN-08 Incentive Compensation True-Up	(1,175)	0	(1,175)	(6)	(1,181)	0	(1,181)	0	(1,181)
	PFN-09 Call Centers	(4,647)	0	(4,647)	(23)	(4,669)	0	(4,669)	0	(4,669)
	PFN-10 Property Tax Update	1,493	0	1,493	(2,291)	(798)	0	(798)	0	(798)
	PFN-11 Depreciation Synchronization	5,466	0	5,466	27	5,493	0	5,493	(877)	4,616
	PFN-12 Planning for Enhanced Services TrueUp		0		(8,320)	(8,320)	0	(8,320)	0	(8,320)
	PFN-13 Contingency Accruals		0		(6,011)	(6,011)	0	(6,011)	0	(6,011)
	PFN-14 Separations Factors		0		899	899	(1,245)	(345)	0	(345)
	PFN-15 Effective Income Tax Rates		0		160	160	170	330	0	330
	PFN-16 Sponsorships		0		(493)	(493)	0	(493)	0	(493)
	PFN-17 Separations Changes		0		(1,763)	(1,763)	(1,417)	(3,181)	0	(3,181)
D.	**Total Normalizing Adjustments**	53,634	0	53,634	(27,031)	26,603	(1,884)	24,719	(877)	23,843
	Ratemaking Adjustments									
	PFR-01 Directory Revenue Imputation	(73,836)	0	(73,836)	(360)	(74,196)	0	(74,196)	0	(74,196)
	PFR-02 Fines and Penalties	(1,398)	0	(1,398)	(7)	(1,405)	0	(1,405)	0	(1,405)
	PFR-03 Interest Synchronization	(18,487)	0	(18,487)	(1,032)	(19,519)	(6)	(19,526)	0	(19,526)
	PFR-04 Cash Working Capital	(6,070)	(3,774)	(9,844)	(48)	(9,892)	0	(9,892)	0	(9,892)
	PFR-05 Pension Asset	18,373	0	18,373	90	18,462	0	18,462	0	18,462
	PFR-06 Remove 1991 Merger Cost	(4)	0	(4)	(0)	(4)	0	(4)	0	(4)
	PFR-07 Charitable Contributions	(999)	0	(999)	(160)	(1,159)	0	(1,159)	0	(1,159)
	PFR-08 Customer Deposits	129	0	129	1	130	0	130	0	130
E.	**Total Ratemaking Adjustments**	(82,291)	(3,774)	(86,066)	(1,517)	(87,583)	(6)	(87,589)	0	(87,589)
F.	**Total Adjustments**	(93,122)	(3,774)	(96,896)	(1,397)	(98,294)	(1,890)	(100,184)	(46,006)	(146,190)
G.	**Adjusted Revenue Requirement**	322,299	(3,774)	318,525	629	319,154	(1,890)	317,263	(46,006)	271,258

Column Sources:
(A): 5-20-04 filing and UTI 1-1 and UTI 7-2
(B) & (C): June refiling.
(D) & (E): UTI 1-1S1 and UTI 7-2S1
(F) & (G): UTI 1-1S2 and UTI 7-2S2

QWEST CORPORATION
Arizona Intrastate Operations
Test Year Ending December 31, 2003
Qwest Revenue Requirement Revisions

	(IN THOUSANDS OF DOLLARS)	(A) May Rolldown			(B) June Revisions			(C) October Revisions			(D) November Revisions			(E=A+B+C+D) Rebuttal Revisions			(E=A+B+C+D) Rebuttal Rolldown		
		Rate Base	NOI	Revenue Requirement	Rate Base	NOI	Revenue Requirement	Rate Base	NOI	Revenue Requirement	Rate Base	NOI	Revenue Requirement	Rate Base	NOI	Revenue Requirement	Rate Base	NOI	Revenue Requirement
A.	Earned Return Per Books	1,647,109	(62,010)	0	0	0	0	0	0	0	0	0	0	0	0	0	1,647,109	(62,010)	0
B.	Revenue Requirement Authorized	1,647,109	(62,010)	415,421	0	0	0	0	0	2,026	0	0	0	0	0	0	1,647,109	(62,010)	417,448
	Accounting Adjustments																		
	PFA-01 Depreciation	66,661	66,661	(99,921)	0	0	0	0	0	(487)	0	0	0	29,961	29,961	(45,129)	96,622	96,622	(145,538)
	PFA-02 Post Employment Benefits Other Than Pensions	(129,553)	(40,860)	44,512	0	0	0	11,847	4,112	(4,510)	0	0	0	0	0	0	(117,706)	(36,748)	40,002
	PFA-03 REVISED SOP98 Adoption	8,496	8,496	(12,736)	0	0	0	38,638	(14,434)	31,741	0	0	0	0	0	0	47,135	(5,937)	19,005
	PFA-04 Plant Under Construction	20,406	101	3,680	0	0	0	(258)	(258)	407	0	0	0	0	0	0	20,148	(157)	4,087
C.	**Total Accounting Adjustments**	(33,990)	34,398	(64,465)	0	0	0	50,228	(10,580)	27,150	0	0	0	29,961	29,961	(45,129)	46,199	53,780	(82,444)
	Normalizing Adjustments																		
	PFN-01 Out of Period Revenue and Expense	(10,508)	6,345	(12,690)	0	0	0	(2,204)	4,738	(8,516)	0	(840)	1,424	0	0	0	(12,712)	10,243	(19,781)
	PFN-02 In-Test-Year Rate Changes	0	(4,288)	7,237	0	0	0	0	0	35	0	0	0	0	0	0	0	(4,288)	7,272
	PFN-03 Operating Income Annualization	0	(27,130)	45,785	0	0	0	0	287	(263)	0	481	(816)	0	0	0	0	(26,362)	44,706
	PFN-04 Post-Test-Year Rate Changes	0	(11,120)	18,767	0	0	0	0	0	92	0	0	0	0	0	0	0	(11,120)	18,858
	PFN-05 Wage and Salary Rates	0	(124)	210	0	0	0	0	0	1	0	0	0	0	0	0	0	(124)	211
	PFN-06 Headquarters Factors Update	0	2,623	(4,426)	0	0	0	0	0	(22)	0	0	0	0	0	0	0	2,623	(4,447)
	PFN-07 Rent Compensation Update	0	1,413	(2,385)	0	0	0	0	311	(539)	0	0	0	0	0	0	0	1,724	(2,924)
	PFN-08 Incentive Compensation True-Up	(278)	665	(1,175)	0	0	0	0	0	(6)	0	0	0	0	0	0	(278)	665	(1,181)
	PFN-09 Call Centers	0	2,753	(4,647)	0	0	0	0	0	(23)	0	0	0	0	0	0	0	2,753	(4,669)
	PFN-10 Property Tax Update	0	(884)	1,493	0	0	0	0	1,355	(2,291)	0	0	0	0	0	0	0	471	(798)
	PFN-11 Depreciation Synchronization	(3,647)	(3,647)	5,466	0	0	0	0	0	27	0	0	0	582	582	(877)	(3,065)	(3,065)	4,616
	PFN-12 Planning for Enhanced Services TrueUp							(322)	4,870	(8,320)	0	0	0	0	0	0	(322)	4,870	(8,320)
	PFN-13 Contingency Accruals							0	3,545	(6,011)	0	0	0	0	0	0	0	3,545	(6,011)
	PFN-14 Separations Factors							(185)	(551)	899	129	748	(1,245)	0	0	0	(56)	197	(345)
	PFN-15 Effective Income Tax Rates							0	(95)	160	0	(100)	170	0	0	0	0	(195)	330
	PFN-16 Sponsorships							0	291	(493)	0	0	0	0	0	0	0	291	(493)
	PFN-17 Separations Changes							(4,429)	545	(1,763)	37	840	(1,417)	0	0	0	(4,392)	1,384	(3,181)
D.	**Total Normalizing Adjustments**	(14,432)	(33,394)	53,634	0	0	0	(7,140)	15,295	(27,031)	166	1,129	(1,884)	582	582	(877)	(20,824)	(16,387)	23,843
	Ratemaking Adjustments																		
	PFR-01 Directory Revenue Imputation	0	43,751	(73,836)	0	0	0	0	0	(360)	0	0	0	0	0	0	0	43,751	(74,196)
	PFR-02 Fines and Penalties	0	828	(1,398)	0	0	0	0	0	(7)	0	0	0	0	0	0	0	828	(1,405)
	PFR-03 Interest Synchronization	0	10,955	(18,487)	0	0	0	0	555	(1,032)	0	4	(6)	0	0	0	0	11,514	(19,526)
	PFR-04 Cash Working Capital	(32,169)	0	(6,070)	(20,004)	0	(3,774)	0	0	(48)	0	0	0	0	0	0	(52,173)	0	(9,892)
	PFR-05 Pension Asset	97,377	0	18,373	0	0	0	0	0	90	0	0	0	0	0	0	97,377	0	18,462
	PFR-06 Remove 1991 Merger Cost	0	2	(4)	0	0	0	0	0	(0)	0	0	0	0	0	0	0	2	(4)
	PFR-07 Charitable Contributions	0	592	(999)	0	0	0	0	92	(160)	0	0	0	0	0	0	0	683	(1,159)
	PFR-08 Customer Deposits	(891)	(176)	129	0	0	0	0	0	1	0	0	0	0	0	0	(891)	(176)	130
E.	**Total Ratemaking Adjustments**	64,317	55,952	(82,291)	(20,004)	0	(3,774)	0	647	(1,517)	0	4	(6)	0	0	0	44,313	56,603	(87,589)
F.	**Total Adjustments**	15,896	56,956	(93,122)	(20,004)	0	(3,774)	43,088	5,363	(1,397)	166	1,133	(1,890)	30,543	30,543	(46,006)	69,687	93,995	(146,190)
G.	**Adjusted Revenue Requirement**	1,663,005	(5,054)	322,299	(20,004)	0	(3,774)	43,088	5,363	629	166	1,133	(1,890)	30,543	30,543	(46,006)	1,716,797	31,985	271,258

Section Sources:
(A): 5-20-04 filing and UTI 1-1 and UTI 7-2
(B): June refiling and UTI 7-2S2
(C): UTI 1-1S1 and UTI 7-2S1
(D) & (E): UTI 1-1S2 and UTI 7-2S2

Arizona
T-01051B-03-0454 and T-00000D-00-0672
UTI 07-002S2

INTERVENOR: Utilitech, Inc.

REQUEST NO: 002S2

Ref. Qwest responses to UTI 4-31 Please state when Qwest intends to submit the "supplemental rule 103 filing" that is referenced in this response and describe each known change to be included in such filing. To the extent any of the planned changes are presently quantified, please provide advance documentation supportive of same.

RESPONSE:

See Qwest's response to UTI 01-001 and all supplements thereto. Attachment A to this response lists those issues that have been identified subsequent to the filing of the Company's test year on May 20, 2004 along with their individual impacts on the Company's revenue requirement.

Respondent: Phil Grate, Staff Director - State Finance
Mike Hudson

SUPPLEMENTAL RESPONSE DATED 10/28/2004:

Please see non-confidential Attachment A for an update of the impacts on the Company's revenue requirement for those issues that have been identified subsequent to the filing of the Company's test year on May 20, 2004.

Table 1 is a summary showing the revenue requirement in Qwest's May 20, 2004 Rule 103 filing, Qwest's June 18, 2004 update to the revenue requirement and the revenue requirement as currently calculated.

Table 2 is a schedule of the changes to the revenue requirement reflected in Table 1. The columns in Table 2 provide the following:

1. Column A provides reference line numbers within Table 2.
2. Column B identifies the adjustment number in Qwest's Rule 103 filing to which a change relates or provides a new adjustment number for new adjustments not previously included in Qwest's Rule 103 filing.
3. Column C provides descriptive information either identifying the adjustment name or indicating calculations internal to Table 2.
4. Column D shows the data request(s) that address the change.
5. The column entitled "Purpose" provides a narrative description of the change.
6. Column E provides the original or "old" revenue requirement previously provided in Qwest's May 20, 2004 Rule 103 filing.
7. Column F provides the revenue requirement for the revised or new adjustment using the revenue multiplier (1.687627) from Qwest's May 20, 2004 Rule 103 filing.
8. Column G provides the revenue requirement for the revised or new adjustment using the new revenue multiplier (1.695858) identified in UTI 15-18 and whose application in UTI 7-2S1 was advised in UTI 18-10.
9. Column H identifies the incremental change in revenue requirement for each new or revised adjustment (Column G less Column E).

Please also see the response in UTI 1-1S1 which provides the backup files for the updated or new adjustments identified in Table 2.

Respondent: Kevin MacWilliams, Qwest Manager

SUPPLEMENTAL RESPONSE DATED 11/10/2004:

Please see Non-Confidential Attachment A, Table 3, for an update of the impacts on the Company's revenue requirement for revisions that have been identified subsequent to the filing of UTI 7-2S1 Attachment A. Please also see the response to UTI 1-1S2 for the underlying files supporting these revisions.

The revisions include:

1. PFN-01 Out of Period Revenue and Expense: Revised to exclude the out-of-period portion of the Wireless B&C issue. This amount is now recognized in PFN-17. This revision will eliminate any confusion regarding a double count.

2. PFN-03 Operating Income Annualization: Revises the treatment of an out-of-period in year 2002 data for account 5060.121. This revises the regression for account 5060.121 and revises the total PFN-03 adjustment.

3. PFN-14 Separations Factors: Three revisions have been made to PFN-14. These include:
   1. In the tab named "Original Factors & Adjusted" the calculation of the revised factors has been corrected to reflect the fact that total FCC Deregulated amounts added back to derive Regulated Intrastate does not change and is unaffected by PFN-12 "Planning for Enhanced Services". PFN-12 affects only Regulated Intrastate.
   2. This adjustment has been revised to exclude from consideration the test year adjustments that are not based on separation factors [i.e. direct or 100% intrastate assignments, intrastate booked amounts that are being subtracted from the test year (SOP-98), and amounts relating to changes in Separations factors already included in PFN-12 and PFN-17.]. Much like PFN-15, the adjustment workpapers have been modified to show the determination of which test year adjustment are included or excluded.
   3. This adjustment has been revised to include the effects from all other revisions indicated in UTI 7-2S2 Attachment A.

4. PFN-15 Effective Income Taxes: This revision excludes the effects of PFN-17 Separations Changes from the effective income tax adjustment. Also, included are the effects from all other revisions indicated in UTI 7-2S2 Attachment A.

5. PFN-17 Separations Changes: This adjustment was revised to recognize all Separations changes including the Wireless B&C issue no longer recognized in PFN-01.

6. PFR-03 Interest Synchronization: This revision includes the effects from all other revisions indicated in UTI 7-2S2 Attachment A.

Respondent: Kevin MacWilliams

Qwest Corporation
ARIZONA
R-14-2-103 Test Year Revisions

Table 1:

Summary of Intrastate Revenue Requirement Changes:

Description	Line	As of	Amount $000's
Total Intrastate Revenue Requirement	A	May 20, 2004	322,299
Cash Working Capital (Non cash items)	1	June 18, 2004	(3,774)
Total Intrastate Revenue Requirement	B	June 18, 2004	318,525
Additional Adjustments	35	October 2004	629
Total Intrastate Revenue Requirement .	C	October 2004	319,154
Additional Adjustments	7	November 5, 2004	(1,890)
Total Intrastate Revenue Requirement	D	November 5, 2004	317,263

Table 2:

(A) Line	(B) Adjust #	(C) Description	(D) Data Req #	Purpose	(E) Old Rev Req't	(F) Revised Rev Req't at Old RevMultiplier (1)	G Revised Rev Req't at Revised RevMultiplier (2)	(H)=G-E Rev Reqt Increase (Decrease)
A	Total	Total Intrastate Revenue Requirement	May 20, 2004		322,299,393			
1	PFR-04	Cash Working Capital (Non cash items)	UTI 02-013		(6,069,523)	(9,843,889)		(3,774,366)
B	Total	Total Intrastate Revenue Requirement (LnA + Ln1colH	June 18, 2004		318,525,028			
2	PFA-03	SOP-98 - Reflects 1999 adoption	UTI 04-002		(12,735,737)	18,913,018	19,005,262	31,740,999
3	PFA-04	Adust Plant Under Construction Adjustment for removal of SOP 98-1	UTI 01-001 S1		3,680,123	4,066,815	4,086,650	406,527
4	PFN-01	Out of Period Revenue and Expense	Sum L4a + L4b		(12,690,156)	(21,102,734)	(21,205,658)	(8,515,502)
4a		Effect of Change in RevMultiplier on Unadjusted portion of PFN-1			(12,690,156)	(12,690,156)	(12,752,050)	(61,894)
4a		Subtotal of Changes L5 thru L20			0	(8,412,578)	(8,453,608)	(8,453,608)
5		Non-regulated out of period	UTI 10-8Att A	FCC non-regulated revenue: This out-of-period adjustment removes revenue related to 2002 & adds revenue related to 2003 booked in 2004.	0	777,572	781,365	781,365
6		BRI Rent TrueUp	UTI 08-001 Confidential Att A	In-year price adjustment: Adjustment to reverse BRI flat rate billing for building space (method ended May billing) and apply headcount/Rent Comp method which began with June billing for entire test year.	0	(345,060)	(346,743)	(346,743)
7		QLDC (2002 ONLY)	UTI 7-2 Att A; UTI 17-6 Conf Att C; UTI 4-23	This out-of period adjustment removes from the test period miscellaneous revenue from an affiliate and associated late payment fees relating to year 2002 for CRIS development work performed on behalf of QLDC.	0	132,438	133,084	133,084
8		QCC (2001 and 2002)	UTI 7-2 Att A; UTI 17-6 Conf Att B; UTI 4-32	This out-of period adjustment removes from the test period miscellaneous revenue from an affiliate and associated late payment fees relating to years 2001 and 2002 for CRIS development work performed on behalf of QCC.	0	130,996	131,637	131,637
9		BSI July 2003 Remote collocation bill true up for 2002	UTI 7-2 Att A; UTI 17-6 Conf Att A, UTI 01-001 S1	This out-of-period adjustment removes from the test period miscellaneous revenue from an affiliate relating to prior year 2002. As described in UTI 3-33(e), in 2003, QC began billing BSI for physical remote co-location. In 2003 a true-up to 2002 and 2003 was recorded.	0	543,309	545,959	545,959

10		QSC Payable, Attachment A	UTI 04-031 Conf Att A	QSC billing true-up out-of-period adjustment: Each year an estimate is booked for November and December of that year and reversed in the following year. This adjustment removes the 2002 true up booked in 2003 and adds the 2003 true up booked in 2004.	0	110,093	110,630	110,630
11		BRI Adjustment, Attachment D	UTI 04-031 Conf Att D	BRI billing true-up out-of-period adjustment: BRI updates its Cost Model and Trues-Up annually in arrears. This adjustment removes the 2002 true-up booked in 2003 and adds the true-up for 2003 booked in 2004.	0	163,690	164,488	164,488
12		QIT Adjustment, Attachment C	UTI 04-031	QIT billing true-up out-of-period adjustment: QIT bills QC monthly in arrears, and QC has an estimated standing accrual to accommodate for the delay. This adjustment removes the 2002 amounts booked in 2003 and adds the amounts for 2003 booked in 2004.	0	(9,326,041)	(9,371,527)	(9,371,527)
13		BRI Adjustment, Lease from Space to Headcount Basis	NA	This adjustment has been deleted. The adjustment, listed in UTI 7-2 on line 11 of Att A, is a duplicate of the 'BRI Rent True-Up' also provided in UTI 7-2 and listed above in item #6	0	0	0	0
14		Wireless Operator Services Revenue	UTI 3-36S1 Att B #	Out of period Wireless Operator Services dereg revenue adjustment. This adjustment removes 2002 revenue for FCC deregulated Operator Services recorded in 2003.	0	308,704	310,210	310,210
15		Wireless B&C Revenue	UTI 3-36S1 Att C	Out-of-period Wireless Billing & Collection adjustment: This adjustment captures changes in billing related to 2003 that will be recorded in 2004 for B&C services provided to Wireless.	0	(2,175,944)	(2,186,557)	(2,186,557)
16		BSI M&S Inventory Adjustment	UTI 14-001	This adjustment removes Material & Suplies investment from rate base. The inestment was removed from the books in 2004	0	(415,908)	(417,937)	(417,937)
17		Remove Wide Area Calling Backbilling (acct 5060.43)	UTI 12-18 Conf Att A	This out-of-period adjustments removes revenue recorded for prior years in September 2003 to account 5060.43 for backbilling of Wide Area Calling.	0	1,336,855	1,343,376	1,343,376
18		BSI Collocation Billing Adjustment	WDA 17-2/WDA 10"C"-18S1	This adjustment adjusts billing to BSI for cageless colocation to match the lower AZ SGAT recurring and nonrecurring rates. This out-of-period adjustment reduces AZ intrastate revenue.	0	213,103	214,142	214,142
19		Reconciliation of State Access Revenue	UTI 13-12	This adjustment reclassifies test period Intrastate Access Revenue to Interstate Access Revenue.	0	133,613	134,265	134,265
20		blank	blank	blank	0	0	0	0
21	PFN-03	Operating Income Annualization (Constant prices)	UTI 02-006 S1 & S2	This revision to PFN-03 includes the effects on regression analysis at constant pricing; deletion of 5264.7 adjustment made in error; intrastate factors changes for 5240.5 and 5270.	45,784,968	45,301,290	45,522,237	(262,731)
22	PFN-07	Rent Compensation TrueUp	UTI 3-16S1; UTI 01-001 S1	This adjustment reflects the effect of applying the corrected January 2004 Rent Comp study to the test year.	(2,384,864)	(2,909,443)	(2,923,633)	(538,769)
23	PFN-10	Property Tax True-Up	UTI 04-006(c)	This revision to PFN-10 reflects an updated tax valuation and current estimate of taxes.	1,492,637	(794,177)	(798,050)	(2,290,687)
24	PFN-12	Planning for Enhanced Services TrueUp	UTI 15-7(a) / UTI 9-8 Att A	This adjustment reflects the reclassification of costs between FCC deregulated products. Amounts are reclassified from the Planning for Enhanced Services product to the Payphone product.	0	(8,279,443)	(8,319,824)	(8,319,824)
25	PFN-13	Contingency Accruals	UTI 19-3/UTI 3-23 / UTI 07-016	This adjustment removes SFAS 5 contingency accruals from the test period.	0	(5,962,101)	(6,011,277)	(6,011,277)
26	PFN-14	Separations Factors	UTI 15-7(b) / UTI 9-8 Att A	This adjustment quantifies the impact on all adjustments from the change in Seperations factors as the result of adjustments PFN-12 and PFN-17.	0	894,701	899,065	899,065
27	PFN-15	Effective Income Tax Rates	UTI 15-18 / UTI 18-10	This adjustment computes the effect on all adjustments of revisions to the effective income tax rates.	0	159,667	160,466	160,466
28	PFR-03	Interest Synchronization		Updated to reflect the changes above.	(18,467,358)	(19,424,657)	(19,519,397)	(1,032,039)
29								
30	PFR-07	Charitable Contributions	UTI 8-25	This adjustment eliminates 2003 Contributions and Qwest Foundation expenses billed to QC by QSC.	(998,808)	(1,153,255)	(1,158,880)	(160,072)
31	PFN-16	Sponsorships	UTI 15-24 Conf Att A	This adjustment removes from the test period certain sponsorship fees.	0	(490,507)	(492,899)	(492,899)
32	PFA-02	Post Employment Benefits Other Than Pensions	RUCO 3-10	Revisions: correction to the ratebase calculation; update to use the actual APBO and apportion the APBO on the AZ TBO factor.	44,512,133	39,806,087	40,002,242	(4,509,891)

33	PFN-17	Separations Changes	WDA 14-6, WDA 18-2, WDA 18-3	This adjustment quantifies the impact of changes in Separations.	0	(1,754,725)	(1,763,283)	(1,763,283)
34	All other	Effect of Change in RevMultiplier on Unadjusted portion of Line B Total Revenue Requirement			270,352,090	270,352,090	271,670,675	1,318,585
35		Total Revenue Requirement Increase (Decrease) = Sum L2:L4 + L21:34						628,667
36								
C	Total	Total Intrastate Revenue Requirement (Ln B + L35)						319,153,695

NOTES to Table 2:		
(1)	Revenue Multiplier for Col E and F (per R-14 form C-3)	1.6876270
(2)	Revised Revenue Multiplier for Col G (per UTI 15-18)	1.6958580
	Formula in Col G = Col F/OldRevMult x Revised RevMult.	

Table 3:

(A) Line	(B) Adjust #	(C) Description	(D) Data Req #	Purpose	(E) Old Rev Req't at Revised RevMultiplier (3)	(F)	G Revised Rev Req't at Revised RevMultiplier (3)	(H)=G-E Rev Reqt Increase (Decrease)
1	PFN-01	Out of Period Revenue and Expense	Revision to Line 15	Proforma Wireless Billing & Collection price change adjustment: This adjustment was modified 11-5-04 to remove the out-of period portion of the original adjustment (Col L) since the OOP is now a part of PFN-17 Separations Changes. While the remaining po	(21,205,658)		(19,781,410)	1,424,248
2	PFN-03	Operating Income Annualization (Constant prices)	UTI 02-006 S1 & S2	This revision to PFN-03 includes change to regression analysis for account 5060.121.	45,522,237		44,706,471	(815,767)
3	PFN-14	Separations Factors	UTI 15-7(b) / UTI 9-8 Att A	This revision excludes adjustments not subject to changes in separations factors.	899,065		(345,474)	(1,244,539)
4	PFN-15	Effective Income Tax Rates	UTI 15-18 / UTI 18-10	This revision incorporates (a) exclusion of the Separations Change (PFN-17) from this adjustment and (b) the effects on income taxes from all other adjustments in Table 3.	160,466		330,074	169,609
5	PFN-17	Separations Changes	WDA 14-6, WDA 18-2, WDA 18-3	This revision is an offsetting change to the Wireless B&C revision in PFN-01. In this way the change in Separations data for Wireless B&C is fully and only reflected here.	(1,763,283)		(3,180,589)	(1,417,306)
6	PFR-03	Interest Synchronization		Updated to reflect the changes above.	(19,519,397)		(19,525,869)	(6,473)
7		Total Revenue Requirement Increase (Decrease) = Sum L1 : L6						(1,890,227)
8								
D	Total	Total Intrastate Revenue Requirement (Ln C + L7)						317,263,468

NOTE to Table 3:

(1) Table 3 Revenue Requirements are shown at the Revised Revenue Multiplier Only

Effects on Fair Value (Note 1):

Sched B-4		A	B	C=D/B	D	
		Original Cost	Reproduction Cost New	Condition Percent	Reproduction Cost New Less Depreciation	
Total State						
1 Total Plant in Service	REVISED for ELG	6,736,354	8,321,020	44.63%	3,713,340	
	FILED	6,736,354	8,321,020	56.15%	4,672,478	
	Difference	-	-	-11.53%	(959,138)	Note 2
Arizona Intrastate Operations						
47 Revised - Intrastate Ratio (Note 1)	REVISED Factor	72.03%	72.03%		72.03%	
48 Intrastate Plant in Service (L27 x L29)	REVISED Intra	4,852,196	5,993,631		2,674,719	
47 Intrastate Ratio	FILED	72.20%	72.20%		72.20%	
48 Intrastate Plant in Service (L27 x L29)	FILED	4,863,469	6,007,556		3,373,405	
Intrastate Ratio	Diff (Factor & ELG)	-0.17%	-0.17%		-0.17%	
Intrastate Plant in Service (L27 x L29)	Diff (Factor & ELG)	(11,274)	(13,926)		(698,687)	Note 3

Schedule A-1	June Filing Fair Value	Revised Fair Value	Difference	
1 Adjusted Rate Base (a)	2,386,363	2,140,896	(245,468)	
2 Adjusted Net Operating Income (b)	(5,054)	31,985	37,039	
3 Current Rate of Return (L.2/L.1)	-0.21%	1.49%	1.71%	
4 Required Operating Income (L.1*L5)	266,795	239,352	(27,443)	
5 Required Rate of Return (c)	11.18%	11.18%	0.00%	
6 Operating Income Deficiency (L.4-L.2)	271,849	207,367	(64,482)	
7 Gross Revenue Conversion Factor (d)	1.687627	1.695858	0.008231	
8 Increase in Gross Revenue Requirements (L.6*L7)	458,780	351,665	(107,115)	
9 Surcharge	$ -	$ -	$ -	
10 Total Increase in Revenue Requirement	$458,780	$351,665	($107,115)	Note 4

Note 1: The Following Changes Were Made in Recalculating Fair Value:
RCNLD uses ELG rather than VG (Sched B-4).
Update Intra Factor on B-4 to the Novemeber filing UTI 1-1S2.
Correct FV to include the adjustment for TPUC on sched B-1
Update Intra Test Year adjustments to the Novemeber filing UTI 1-1S2 on Sched B2P1.
Update adjusted NOI on Sched A-1 to November filing UTI 1-1S2.
Update Revenue Multiplier on Sched A-1 to the revised multiplier in UTI 15-18.

Note 2: Total State RCNLD Change
Note 3: Intrastate RCNLD Change
Note 4: Intrastate Revenue Requirement Change

QWEST CORPORATION
ARIZONA INTRASTATE OPERATIONS
Test Year Ending December 31, 2003
$(000)

Arizona Corporation Commission
Arizona Regulation R14-2-103

Schedule A-1

Title: Computation of Increase in Gross Revenue Requirements

Date: Dec 07, 2004

	A	B
	Test Year Ending December 31, 2003	
	Original Cost	Fair Value
1 Adjusted Rate Base (a)	1,716,797	2,140,896
2 Adjusted Net Operating Income (b)	31,985	31,985
3 Current Rate of Return (L.2/L.1)	1.86%	1.49%
4 Required Operating Income (L.1*L5)	191,938	239,352
5 Required Rate of Return (c)	11.18%	11.18%
6 Operating Income Deficiency (L.4-L.2)	159,953	207,367
7 Gross Revenue Conversion Factor (d)	1.695858	1.695858
8 Increase in Gross Revenue Requirements (L.6*L7)	271,258	351,665
9 Surcharge		$ -
10 Total Increase in Revenue Requirement (L8+L9)	$271,258	$351,665
Customer Classification	Projected Revenue *Increase due to Rates*	Percent *Increase*
11 Access Services	46	0.06%
12 Private Line Transport Services Tariff	748	2.29%
13 Competitive Exchange & Network Svcs Tariff	9,807	4.98%
14 Advanced Communications Services		0.00%
15 Exchange & Network Services Tariff	(3,283)	-0.51%
16 Exchange & Network Services Catalog		0.00%
17 Total Gross Revenues (Lines 11-16)	7,318	0.00%

Supporting Schedules:
(a) B-1
(b) Source: Exhibit PEG-R1
(c) D-1
(d) Revised revenue multiplier as provided in UTI 15-18, 18-10 & 1-1S1.
(e) H-1

Recap Schedules:
None

QWEST CORPORATION
ARIZONA INTRASTATE OPERATIONS
Test Year Ending December 31, 2003
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Arizona Corporation Commission

Schedule B-1
Title: Summary of Original Cost and Fair Value Rate Base Elements

Date: Dec 07, 2004

		A	B
		Test Year Ending December 31, 2003	
		Original Cost Rate Base* (a)	Fair Value Rate Base* (b)
1	Plant in Service	4,879,674	5,441,024
2	Less - Depreciation Reserve	2,932,512	3,069,763
3	Net Plant in Service	1,947,162	2,371,261
4	Short Term Plant Under Construction	20,981	20,981
5	Materials and Supplies	5,028	5,028
6	Allowance for Cash Working Capital	(52,173)	(52,173)
7	Deferred Income Taxes	295,992	295,992
8	Customer Deposits	3,292	3,292
9	Land Development Agreement Deposits	2,019	2,019
10	Other Assets and Liabilities	97,102	97,102
11	Total Rate Base (L.3 thru 6 less 7 thru 9)	1,716,797	2,140,896

* Including Ratemaking, Accounting, and Normalizing Adjustments

Supporting Schedules:
(a) B-2 P1
(b) B-3

Recap Schedule:
A-1

Note 1: Line 4 corrected to include adjustment in column B. [Staff/UTI Schedule A-2 footnote (a)].

QWEST CORPORATION
ARIZONA INTRASTATE OPERATIONS
Test Year Ending December 31, 2003
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Arizona Corporation Commission

Schedule B-2, Page 1 of 4
Title: Original Cost Rate Base As Adjusted

Date: Dec 07, 2004

	(A)	(B)	(C)	(D)	[E]=Sum(A:D)
	Intrastate End of Period Rate Base	Accounting Adjustment Summary Total	Ratemaking Summary Total	Normalizing Adjustment Summary Total	Intrastate Adjusted End of Period Rate Base
1 Telephone Plant In Service	4,863,469	25,239		(9,034)	4,879,674
2 Short-Term Plant Under Construction		21,023		(43)	20,981
3 Materials and Supplies	18,393			(13,365)	5,028
4 Allowance for Cash Working Capital			(52,173)		(52,173)
5 Accumulated Depr & Amort Reserve	3,023,100	(91,520)		933	2,932,512
6 Accumulated Deferred Income Tax	207,222	91,584		(2,814)	295,992
7 Customer Deposits	2,408		891	(7)	3,292
8 Land Development Agreement Deposits	2,023			(4)	2,019
9 Other Assets & Liabilities			97,377	(275)	97,102
10 **End-of-Period Rate Base** (L1+L2+L3+L4-L5-L6-L7-L8+L9)	1,647,109	46,199	44,313	(20,824)	1,716,797

Source:
Column A – UTI 1-1S2 file "az1203_Revised_11-05-04.xls tab: "TestYear Summary"
Column B-D – Exhibit PEG-R2

QWEST CORPORATION
ARIZONA INTRASTATE OPERATIONS
Test Year Ending December 31, 2003
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Arizona Corporation Commission

Schedule B-3
Title: Fair Value Rate Base As Adjusted

Date: Dec 07, 2004

Fair Value	A Fair Value Rate Base (a)	B Adjustments (b)	C = A + B Fair Value Rate Base As Adjusted (c)
1 Plant in Service	5,422,913	18,111	5,441,024
2 Less - Depreciation Reserve	3,171,006	(101,243)	3,069,763
3 Net Plant in Service (Note 1)	2,251,907	119,354	2,371,261
4 Short Term Plant Under Construction		21,023	21,023
5 Materials and Supplies	18,393	(13,365)	5,028
6 Allowance for Cash Working Capital		(52,173)	(52,173)
7 Deferred Income Taxes	207,222	88,770	295,992
8 Customer Deposits	2,408	884	3,292
9 Land Development Agreement Deposits	2,023	(4)	2,019
10 Other Assets and Liabilities		97,102	97,102
11 Total Rate Base (L.3 thru 6 less 7 thru 9 plus 10)	2,058,647	82,291	2,140,938

Note: The fair value of the adjustments in Column B is assumed to equal to their original cost for purpose of this Schedule.

Supporting Schedules: B2, P1; B4

Note 1: RCND Net Plant in Service	A	B	C = A * B
12 100% RCND (a)	2,674,719	50%	1,337,359
13 Original Cost Net (b)	1,840,369	50%	920,185
14 Fair Value Net Plant in Service (L. 12 + L13)			2,257,544

Supporting Schedule:
(a) B-4
(b) B-2

Recap Schedule:
(c) B-1

Notes:
Ln 1A - From Sched B-4, L 3(D)

QWEST CORPORATION
ARIZONA INTRASTATE OPERATIONS
Test Year Ending December 31, 2003
$(000)

Arizona Corporation Commission

Schedule B-4
Title: RCND by Major Plant Accounts

Date: Dec 07, 2004

- Includes Embedded, FCC Deregulated & Other Plant -

Description	A Original Cost	B Reproduction Cost New	C=D/B Condition Percent	D Reproduction Cost New Less Depreciation
	- Incl Offbook -			
TOTAL STATE				
1 2111 - Land	12,813	12,813	100.00%	12,813
2 2112 - Motor Vehicles	71,269	74,251	41.31%	30,672
3 2114 - Special Purpose Vehicles	26	33	27.41%	9
4 2115 - Garage Work Equipment	1,519	1,821	64.93%	1,182
5 2116 - Other Work Equipment	38,319	40,359	59.30%	23,932
6 2121 - Buildings	238,452	432,300	59.83%	258,624
7 2122 - Furniture	1,897	1,897	60.66%	1,151
8 2123 - Office Equipment	5,913	6,123	19.89%	1,218
9 2123 - Company Communication Equipment	2,429	2,566		
10 2124 - General Purpose Computers	96,514	18,005	26.61%	4,792
11 2211 - Analog Switching				
12 2212 - Digital Switching	1,192,379	914,690	50.96%	466,127
13 2220 - Operator Systems	2,534	2,902	31.01%	900
14 2231 - Radio Systems	32,937	36,886	27.76%	10,238
15 2232 - Circuit DDS	1,757,337	5,401	34.15%	1,844
16 2232 - Circuit Digital		1,690,094	51.67%	873,256
17 2232 - Circuit Analog		39,638	18.74%	7,427
18 2311 - Station Apparatus	32,899	32,899	62.43%	20,538
19 2321 - Customer Premises Wiring			0.00%	
20 2341 - Large PBX				
21 2351 - Public Telephone Terminal Equipment	21,555	21,555	40.81%	8,796
22 2362 - Other Terminal Equipment	61,166	59,208	58.18%	34,446
23 2411 - Poles	52,723	199,908	63.93%	127,810
24 2421 - Aerial Cable - Metallic	198,351	348,764	22.77%	79,423
25 2421 - Aerial Cable - Non-Metallic	9,484	10,757	56.78%	6,108
26 2422 - Underground Cable - Metallic	398,394	679,519	17.94%	121,890
27 2422 - Underground Cable - Non-Metallic	183,141	199,445	50.47%	100,656
28 2423 - Buried Cable - Metallic	1,645,740	2,178,731	31.10%	677,691
29 2423 - Buried Cable - Non-Metallic	23,709	26,229	48.37%	12,687
30 2424 - Submarine Cable - Metallic	3	5	2.27%	
31 2424 - Submarine Cable - Non-Metallic				
32 2426 - Intrabuilding Cable - Metallic	46,456	80,436	22.51%	18,107
33 2426 - Intrabuilding Cable - Non-Metallic	1,057	1,184	57.96%	686
34 2431 - Aerial Cable	10,998	15,986	39.95%	6,387
35 2441 - Conduit	451,409	878,335	56.43%	495,649
36 2681 - Capital Leases - Buildings				
37 2681 - Capital Leases - Vehicles	16	16	100.00%	16
38 2681 - Capital Leases - Computers				
39 2681 - Capital Leases - Software	4,432	4,432	100.00%	4,432
40 2681 - Capital Leases - Other	685	685	100.00%	685
41 2682 - Leaseholds - Buildings	32,889	32,741	100.00%	32,741
42 2682 - Leaseholds - Computers				
43 2690 - Intangibles - Software	106,880	270,377	100.00%	270,377
44 2690 - Intangibles - Spectrum Rights	29	29	100.00%	29
45 Total Plant in Service (L.1 thru 44)	6,736,354	8,321,020	44.63%	3,713,340
46 Reproduction Cost New Factor (Original Cost Plant / RCN Plant)	1.235			
Arizona Intrastate Operations				
47 Revised - Intrastate Ratio (Note 1)	72.03%	72.03%		72.03%
48 Intrastate Plant in Service (L27 x L29)	4,852,196	5,993,631		2,674,719

Supporting Schedule: Recap Schedule:
(a) E-5 B-3

Note 1: L47 - Factors Tel Plant in Svc Intrastate %
Source is UTI 1-1S2 file "az1203_Revised_11-05-04.xls tab: "Original Factors & Adjusted"

Note 2: Amounts from Columns B through D are based on the testimony and Exhibits of Nancy Heller-Hughes.

Following a conversation between Utilitech and Mr. Grate, Utilitech issued data requests UTI 3-04 (regarding the adoption of FAS 106) and UTI 4-01 (regarding the adoption of SOP 98-1). The conversation and data requests brought to light an issue that Qwest had not fully considered when it made its Rule 103 filing in this docket. Specifically, Qwest had not fully considered the process in Arizona by which a change in accounting method is adopted for regulatory accounting purposes in Arizona.

The Commission's rule regarding regulatory accounting for telephone companies, Rule R14-2-510 G, was adopted effective March 2, 1982 (Supp. 82-2), amended effective December 31, 1998, under an exemption as determined by the Arizona Corporation Commission (Supp. 98-4) and amended to correct subsection numbering (Supp. 99-4). In pertinent part, the rule provides:

> Accounts and records
>
> 1. Each utility shall keep general and auxiliary accounting records reflecting the cost of its properties, operating income and expense, assets and liabilities, and all other accounting and statistical data necessary to give complete and authentic information as to its properties and operations.
>
> 2. Each utility shall maintain its books and records in conformity with the **Uniform Systems of Accounts [(USOA)]**for Class A, B, C and D Telephone Utilities **as adopted and amended by the Federal Communications Commission** or, for telephone cooperatives, as promulgated by the Rural Electrification Administration. (emphasis added)

In Docket No. T-1051B-99-105 (Qwest's last rate case), Staff witness Steven C. Carver testified that the Company had "previously sought regulatory approval and ratemaking treatment" for the following accounting method changes:

- Capital to expense shifts resulting from the adoption of the "new" uniform system of the accounts prescribed by the FCC (i.e., Part 32);
- Change in accounting from the cash method to the accrual method of accounting for the compensated absences, merit awards and medical/dental expenses;
- Increase in the capitalization rules from $200 to $500, allowing the expensing of qualifying "small value" assets;
- Increase in the capitalization rules from $500 to $2,000, allowing the expensing of qualifying "small value" assets;
- Adoption of the FAS87 accrual method of accounting for pension costs; and
- Adoption of the FAS106, which implemented a change from cash to accrual method of accounting for post-retirement benefits other than pensions.

Direct Testimony of Steven C. Carver, Docket No. T-1051B-99-105, pages 64 and 65.

Qwest's review of Commission's orders issued in the Company's rate cases shows that Mr. Carver's contention that the Company sought and received regulatory approval and explicit ratemaking treatment for all of these accounting method changes was incorrect. Qwest reviewed the following Commission decisions issued since March 2, 1982 (the date of adoption of Rule R14-2-510 G in the Company's rate cases:

Decision	Date	Docket
53849 22	Dec. 1983	E-1051-83-035
53939 01	Mar. 1984	E-1051-83-286
54843 10	Jan. 1986	E-1051-84-100
56471 17	May. 1989	E-1051-88-146
57462 15	Jul. 1991	E-1051-91-004
58927 03	Jan. 1995	E-1051-93-183

Of the six Decisions reviewed, Qwest found no mention whatsoever of changes in accounting method in the first four, Decisions No. 53849, 53939, 54843, or 56471.

In the fifth case, Docket No. E-1051-91-004, Staff and the Company entered into a Settlement Agreement that stipulated the revenue requirement. The Commission incorporated the Settlement Agreement into its order and conditioned its order on the Settlement Agreement. Decision No. 57462, p. 10, line 18. As set forth in part "t" of Finding of Fact 15 in Decision No. 57462, the Settlement Agreement provided:

> It is the intention of U S WEST and the Staff that the Commission state, in its order approving Settlement, that it has chosen not to adopt SFAS 106 (post-retirement medical benefits) for ratemaking purposes at this time, but that the Commission will consider the issue if it is raised in the Company's next general rate proceeding. [Decision No. 57462, p. 6, line 27]

SFAS 106 was issued December 1990. Paragraph 108 provides that it was to be effective for fiscal years beginning after December 15, 1992 It encourages early application.

One of the ordering clauses of Decision No. 57462 ordered "that the Commission will consider the merits of adopting SFAS 106 (post-retirement medical (sic) for ratemaking purposes if the issue is raised in the Company's next general rate case." Decision No. 57462, p. 12, line 12. It must be understood that at the time Decision No. 57462 was issued (July 15, 1991), the FCC had not amended the USOA to adopt SFAS 106.

Qwest found no other references to adoption of accounting method changes in Decision No. 57462.

In the sixth case, Docket No. E-1051-93-183 (the Company's 1994 rate case), Company witness Jerry Thompson's direct testimony addressed the adoption of SFAS 106 saying:

> U S WEST Communications has been accounting for Other Post Employment Benefits on an accrual basis since 1992, in accordance with approval from the Federal Communications Commission and the Uniform System of Accounts. As such, the costs related to this accounting change are embedded in the test year. I have not made adjustments to exclude the impact of SFAS 106 for the reasons cited in Mr. Fleming's testimony. However, I have made an adjustment to annualize the accounting to an end of test year level. I have also included the unfunded liability as a rate base reduction in the calculation of cash working capital because it is a source of cash available to the Company until it is remitted to the trust fund. [Testimony of Jerrold L. Thompson, July 15, 1993, page 56, line 23 to page 57, line 11.]

Staff witness Steven C. Carver responded to Mr. Thompson's testimony as follows:

> Staff Accounting Schedules B-8 and C-11 eliminate from cost of service the Company's proposed inclusion of accrual accounting for Other Postretirement Employee Benefits (OPEBs).
>
> * * *
>
> It is my opinion that the Company has not provided sufficient, compelling evidence to support or justify its requested change from the cash basis ratemaking treatment this Commission has historically provided for OPEB costs. [Direct testimony of Steven C. Carver, US WEST Communications, Inc., Docket No. E-1051-93-183, pages 35 and 36]

Given the above referenced ordering clause in Decision No. 57462, Mr. Carver's characterization of Mr. Thompson's testimony as a "requested change from the cash basis ratemaking treatment" was not unreasonable, even though Mr. Thompson testified that he had made no adjustment to exclude the impact of SFAS 106, which was embedded in the test year (under Rule R14-2-510 G).

In Decision No. 58927, the Commission characterized the Company's position as an adjustment of over $28 million when in fact, the Company had proposed no adjustment; accrual accounting for OPEBs was already imbedded in the test year under Rule R14-2-510 G. It was Staff who proposed an adjustment to remove the effect of accrual accounting. See Staff Accounting Schedules B-8 and C-11 in Docket No. E-1051-93-183. The Commission concluded: "[W]e will not recognize for ratemaking purposes the effect of the accounting change proposed by the Company for post-retirement benefits." Decision No. 58927, page 44, line 17. The Commission also said: "We will not adopt the Company's $28 million adjustment." Decision No. 58927, page 45, line 4. Given the ordering clause in Decision No. 57462, the characterization of the adoption of SFAS 106 as the Company's proposal and as the Company's adjustment was not unreasonable, even though SFAS 106 was imbedded in test year results.

It would be wrong to conclude that the language in Decision No. 58927 established any sort of precedent whereby a utility is required to seek Commission approval for accounting method changes that have been incorporated by amendment into the USOA. Decision No. 58927 makes no mention of A.A.C. R14-2-510 G. The ordering clause in Decision No. 57462 specified that SFAS 106 was not adopted in Docket No. E-1051-91-004 and that the Commission would consider adoption of SFAS 106 in the Company's next rate case **if the issue were raised** in that case. Hence, it was the ordering clause in Decision No. 58927, and not any new requirement to seek prior

approval for accounting method changes that caused the inclusion of SFAS 106 OPEB expenses to be characterized as a Company proposal and a Company adjustment.

SFAS 106 was one of two accounting method changes the Commission addressed in the Company's 1994 rate case. The other was accrual accounting for compensated absences about which the Commission said:

> The Company began to utilize the accrual method for compensated absences in 1988 after the FCC adopted Part 32 of the Uniform System of Accounts. Because the change resulted in a double charge for compensated absences in the initial year, the FCC adopted a ten year amortization period to spread out the one time double charge. The Company is now requesting approval of the accrual method as well a "catch up" amortization. [Decision No. 58927, p. 46, line 23]

In point of fact, the Company made no request for approval of the accrual method; expenses recognized on the accrual basis and the ten-year amortization were already imbedded in the test year, which was in accordance with Rule R14-2-510 G. Qwest's direct testimony included no adjustment for accrual accounting for compensated absences and did not ask for approval of it. Instead, Staff proposed an adjustment to remove the "catch up" amortization. Staff witness Steven C. Carver testified:

> Staff Accounting Schedule C-9 represents the proposed disallowance of the ten year amortization of the catch-up accrual for compensated absences actually recorded by the Company during the test year.
>
> * * *
>
> USWC is already recording the ten year amortization in its accounting records. It would be a very simple matter to reverse the intrastate portion of this accrual in the Company's offbook records. [Direct testimony of Steven C. Carver, US WEST Communications, Inc., Docket No. E-1051-93-183, pages 54 and 55]

RUCO opposed the amortization of the "catch up" accrual as well as switching from the pay-as-you-go method to the accrual method. The Commission found that,

> the use of the accrual method for compensated absences provides a better match of costs and benefits than the cash method. We also find that the "catch up" amortization costs are known and measurable and have not been written off by the Company. Accordingly, we concur with the Company's proposed costs for compensated absences. [Decision No. 58927, p. 47, line 18]

In pertinent part, the Commission's findings of fact in the Company's 1994 rate case provide:

43. Based on the evidence presented, we find the cash method of accounting for PBOP costs for ratemaking purposes is overall superior to the FAS No. 106 method.
44. The Company began to utilize the accrual method for compensated absences in 1988 after the FCC adopted Part 32 of the Uniform System of Accounts
45. The "catch-up" amortization costs for compensated absences are known and measurable and have not been written off by the Company. [Decision No. 58927, p. 128, line 14]

Neither the conclusions of law nor the ordering clauses in Decision No. 58927 make mention of changes in accounting method. Qwest found no discussions or findings regarding accounting changes in Decision No. 58927 other than those pertaining to SFAS 106 and accrual accounting for compensated absences.

In none of the orders Qwest reviewed did it find any discussions, findings, conclusions or ordering clauses regarding the following accounting method changes:

- Capital to expense shifts resulting from the adoption of the "new" uniform system of the accounts prescribed by the FCC (i.e., Part 32);

- Change in accounting from the cash method to the accrual method of accounting for merit awards and medical/dental expenses;
- Increase in the capitalization rules from $200 to $500, allowing the expensing of qualifying "small value" assets;
- Increase in the capitalization rules from $500 to $2,000, allowing the expensing of qualifying "small value" assets;
- Adoption of the FAS87 accrual method of accounting for pension costs.
- A June 1992 change from the cash to the accrual method of reporting public telephone revenues and
- A March 1993 change in the method of accruing for Billing and Collections revenue.

So far as Qwest is able to determine, none of these accounting method changes were subject to any kind of Commission approval. Contrary to Mr. Carver's assertions in the Company's last rate case, the Company did not seek regulatory approval and ratemaking treatment for these accounting method changes. Instead, pursuant to Rule R14-2-510 G, accounting method changes have been consistently and routinely used for regulatory accounting and ratemaking purposes without any request by the Company or approval from the Commission.

From: Grate, Phil
Sent: Monday, October 25, 2004 2:17 PM
To: 'scarver@utilitech.net'; 'Mike Brosch'
Cc: Curtright, Norm
Subject: RE: Arizona OPEB
Mr. Carver

Steve,

This e-mail responds to questions raised in your three e-mails to me October 21, 2004. In answering your questions, a brief review of the history of the accounting treatment of OPEBs in Qwest's Arizona rate cases will be helpful.

In Docket No. E-1051-91-004, Staff and the Company entered into a Settlement Agreement that stipulated the revenue requirement. The Commission incorporated the Settlement Agreement into its order and conditioned its order on the Settlement Agreement. Decision No. 57462, p. 10, line 18. As set forth in part "t" of Finding of Fact 15 in Decision No. 57462, the Settlement Agreement provided:

> It is the intention of U S WEST and the Staff that the Commission state, in its order approving Settlement, that it has chosen not to adopt SFAS 106 (post-retirement medical benefits) for ratemaking purposes at this time, but that the Commission will consider the issue if it is raised in the Company's next general rate proceeding. [Decision No. 57462, p. 6, line 27]

One of the ordering clauses of Decision No. 57462 ordered "that the Commission will consider the merits of adopting SFAS 106 (post-retirement medical (sic) for ratemaking purposes if the issue is raised in the Company's next general rate case." Decision No. 57462, p. 12, line 12. At the time Decision No. 57462 was issued (July 15, 1991), the FCC had not amended the USOA to adopt SFAS 106.

Two years later in Docket No. E-1051-93-183 (the Company's 1993 rate case) Company witness Jerry Thompson's direct testimony addressed the adoption of SFAS 106 saying:

> U S WEST Communications has been accounting for Other Post Employment Benefits on an accrual basis since 1992, in accordance with approval from the Federal Communications Commission and the Uniform System of Accounts. As such, the costs related to this accounting change are embedded in the test year. I have not made adjustments to exclude the impact of SFAS 106 for the reasons cited in Mr. Fleming's testimony. However, I have made an adjustment to annualize the accounting to an end of test year level. I have also included the unfunded liability as a rate base reduction in the calculation of cash working capital because it is a source of cash available to the Company until it is remitted

> to the trust fund. Testimony of Jerrold L. Thompson, July 15, 1993, page 56, line 23 to page 57, line 11.

As you'll recall, Staff responded to Mr. Thompson's testimony as follows:

> Staff Accounting Schedules B-8 and C-11 eliminate from cost of service the Company's proposed inclusion of accrual accounting for Other Postretirement Employee Benefits (OPEBs).
>
> * * *
>
> It is my opinion that the Company has not provided sufficient, compelling evidence to support or justify its requested change from the cash basis ratemaking treatment this Commission has historically provided for OPEB costs. Direct testimony of Steven C. Carver, US WEST Communications, Inc., Docket No. E-1051-93-183, pages 35 and 36.

The Commission observed: "Both RUCO and Staff concluded the Company had no new or compelling evidence from which the Commission could reverse its well established precedent of continuing with Paygo." The Commission concluded: "[W]e will not recognize for ratemaking purposes the effect of the accounting change proposed by the Company for post-retirement benefits." The Commission also said: "We will not adopt the Company's $28 million adjustment." Decision No. 58927, pages 43-45.

In Docket No. T-01051B-99-0105 (the 1999 rate case) the unadjusted test year included OPEBs costs on an MR basis, i.e., accrual accounting under SFAS 106 starting in 1992. Company witness George Redding included a proposed adjustment to adopt accrual accounting for OPEBs for Arizona regulatory purposes. Redding's adjustment assumed accrual accounting began with the 1999 test year instead of in 1992. The response to UTI 47-11 provided a detailed set of workpapers setting forth the final calculation of the proposed adjustment.

<u>Paygo versus Accrual Accounting</u>

UTI 3-14(a) and UTI 18-7 – The regulatory accounting and ratemaking treatment of OPEB costs varies from the treatment afforded it by the FCC in several states. The differences include partial early adoption in one state, phased in adoption in another, late adoption in several, and in Arizona's case under Decision No. 58927, no adoption at all. There are also differences relating to funding or not funding, and the timing of the recognition of the Transition Benefit Obligation (TBO). These differences make for a milieu of jurisdictional accounting issues that Qwest must handle.

As you know, Qwest maintains JR books for each state that reflect Jurisdictional Differences (JDs) from the books kept for reporting to the FCC (MR Books). Each state has its own JR books that reflect accounting estimates and methods that are unique to that state and different from the FCC's accounting estimates and methods. However because

OPEBs accounting is so complex, Qwest does not, as a rule, record JDs for OPEBs even in those states where differences in regulatory accounting and ratemaking treatment exist. Qwest's JR books in most states—including Arizona—are no different than the MR books in their accounting for OPEBs. In states where there are exceptions to this rule the exceptions relate to TBO amortization differences.

Because Arizona is one of the states in which the Company has no JDs for OPEBs the Arizona unadjusted test year reflects OPEBs in accordance with the FCC's adoption of SFAS 106 in 1992. This was the case in Docket No. E-1051-93-183 (the Company's 1993 rate case) and Docket No. T-01051B-99-0105 (the 1999 rate case) and it is the case in Qwest's current Rule 103 filing.

UTI 18-8 – For intrastate regulatory (ratemaking) purposes the Company maintains a side-record adjustment for Paygo. This adjustment removes OPEB costs booked on an FCC accrual basis and replaces them with OPEB costs on the Paygo basis. Hence, the "unadjusted test year" reflects the accrual basis adopted by the FCC in 1992 and "intrastate regulatory" basis reflects the continuance of Paygo for ratemaking purposes in compliance with Decision No. 58927.

UTI 18-9 – Confidential Attachments A, B and C show the side-record calculations for Arizona intrastate regulatory purpose of OPEB on a Paygo basis. Workpaper B in each Confidential Attachment for each year shows the amount of OPEB costs recorded on the FCC's accrual basis and the amount of OPEB costs on an Arizona ratemaking Paygo basis. Workpaper A in each Confidential Attachment for each year shows the effect on Arizona intrastate for purposes of adding PAYGO and subtracting accrual basis OPEB costs for ratemaking purposes.

Actual APBO and Arizona Total State Percentage used to allocate the APBO:

PFA-02, UTI 2-31 and UTI 3-2(a) – The Company obtained a calculation of the 12/31/03 APBO from our actuarial firm, Watson Wyatt, earlier today. The calculation includes the effect of incorporating Medicare D for prescription drugs, which effect will be reflected in the APBO in the Company's third quarter 2004 financial reports. Accordingly, we are including this effect in our revisions to the test year adjustments. See the discussion of UTI 7-2S1 and UTI 1-1S1 below.

PFA-02 and UTI 3-3(b) – The 17.2948% Arizona total state percentage is the actual TBO percentage for 2003. The 17.859% is the Arizona total state OPEB benefit payment factor for Arizona for 2003. We used the OPEB benefit payment factor in our calculation of the Arizona total state APBO for the PFA-02 test year adjustment in our May 20, 2004 Rule 103 filing. In the revisions to our test year adjustments we are using the actual TBO percentage as we did in Docket No. T-01051B-99-0105 (the 1999 rate case). See the discussion of UTI 7-2S1 and UTI 1-1S1 below.

Updates to the test year for OPEBs:

PFA-02, UTI 1-1, UTI 7-2 and RUCO 3-10 – Qwest will be filing UTI 7-2 S1 to update the calculation of the revenue requirement to reflect the results of new information brought to light in discovery. As it pertains to OPEBs the Company is updating the test year to reflect:

1) The correction to rate base identified in RUCO 3-10;
2) The 12/31/03 APBO that includes the effect of Medicare D; and
3) The use of the 17.2948% Arizona total state percentage that is the actual TBO percentage for 2003.

I hope this helps you sort out some of the complexities of this issue. If you have any questions on the foregoing, please call me.

Phil Grate
Staff Director - State Finance
Qwest Corporation
206-345-6224

-----Original Message-----
From: scarver [mailto:scarver@utilitech.net]
Sent: Monday, October 25, 2004 9:32 AM
To: Grate, Phil
Subject: RE: Arizona OPEB

I appreciate the update.

Thanks...Steve

-----Original Message-----
From: Grate, Phil [mailto:Phil.Grate@qwest.com]
Sent: Monday, October 25, 2004 11:30 AM
To: scarver@utilitech.net
Subject: RE: Arizona OPEB

Steve,

We are drafting a written response to your three e-mails from Thursday concerning OPEBs. We anticipate having it to you later today.

Phil Grate
Staff Director - State Finance
Qwest Corporation
206-345-6224

-----Original Message-----
From: scarver [mailto:scarver@utilitech.net]
Sent: Thursday, October 21, 2004 4:48 PM
To: Grate, Phil
Cc: Mike Brosch
Subject: Arizona OPEB

Phil,

Sorry, two more questions.

First, the confidential response to UTI 3-2(a) indicated that the APBO on PFA-02, Attachment D (both medical and life) were estimates, pending final calculations in the 2004 study. Confidential Attachment A to UTI 2-31 is the final 2003 FAS106 actuarial report, dated 4/5/2004. Is the Company planning on revising PFA-02 to reflect the actual APBO amount?

Second, the response to UTI 3-3(b) states the prorate factor used to allocate the APBO to Arizona is 17.2948%. However, Attachment D uses a factor of 17.859%. Which factor does the Company intend to use and will this also impact PFA-02?

Thanks, again...Steve

From: scarver [scarver@utilitech.net]
Sent: Thursday, October 21, 2004 4:25 PM
To: Grate, Phil
Cc: Mike Brosch
Subject: Arizona OPEB Adjustment
Phil,

Going over my notes of the corrections/ updates to be reflected in UTI 7-2 and UTI 1-1, I did not see any reference to PFA-02, OPEBs. In response to RUCO 3-10 (early August 2004), the Company identified corrections to the rate base component of this pro forma adjustment. When I look at the Sch. B-2, page 4, of the Company's 6/21/04 update to the Rule 103 filing, I see clearly see the original adjustment being posted.

Will the revenue requirement update include the correction identified in the response to RUCO 3-10?

Thanks...Steve

From: scarver [scarver@utilitech.net]
Sent: Thursday, October 21, 2004 3:59 PM
To: Grate, Phil
Cc: Mike Brosch
Subject: Arizona OPEB Accounting
Phil,

I am confused about certain responses to Staff discovery concerning OPEB costs.

For example, UTI 3-14(a) requested the amount of OPEB expense included in Qwest's unadjusted test year expense, showing allocation to intrastate operations. The response stated, in part, that all OPEB costs included in Qwest's unadjusted test year expense were on an accrual basis of accounting, not PAYGO.

UTI 18-7 sought to clarify UTI 3-14 and obtain addition information on a PAYGO or accrual basis, but the response also stated that the test year starting point included OPEB costs on an accrual basis.

However, UTI 18-8 sought the TBO amortization recorded during the test year if accrual accounting basis had been used, but the Company response said that it had not been recording OPEB costs on an accrual basis for Arizona intrastate regulatory purposes.

Finally, UTI 18-9 sought comparative information for calendar years 2001, 2002 and 2003 for both accrual basis and PAYGO OPEB costs. The Company provided confidential attachments for each year containing detailed information showing allocation of accrual basis costs to Arizona intrastate.

Although I am out of the office tomorrow, I would like to talk with you and/or Janice Franett to discuss and clarify these responses. I think a brief teleconference will be easier to sort out the confusion.

I currently am unaware of any hard conflicts on Monday (preferred) or Tuesday. How does that work with your schedules?

Thanks...Steve

Qwest Corporation
Docket No. T-01051B-03-0454
Year-End Wage & Salary Annualization
Test Year Ended 12/31/2003

Schedule C-16
Corrected
Page 1 of 1

Line	Description	Reference	Management Regular Pay	Management Equivalent Employees	Management Regular Pay Per Employee	Occupational Regular Pay	Occupational Equivalent Employees	Occupational Regular Pay Per Employee	Total ($000's)
1	**Regular Pay Annualization**								
2	Oct 2003		5,063,409	935	5,415	17,784,347	4,675	3,804	
3	Nov 2003		4,460,083	942	4,735	15,606,775	4,860	3,211	
4	Dec 2003		5,129,404	920	5,575	18,106,293	4,523	4,003	
5	Average Regular Pay				**5,242**			**3,673**	
6	Dec 2003 Employee Equivalent - Regression				844			4,400	
7	Times: Annualization Multiplier				12			12	
8	Annualized Regular Pay				53,087,600	51,497,415		193,916,800	247,004
9	Less: Test Year Regular Pay				(58,117,112)			(207,121,416)	(265,239)
10	**Regular Pay Annualization Adjustment**				**(5,029,512)**			**(13,204,616)**	**(18,234)**
11	Related Benefits Impact				(482,843)			(1,260,777)	(1,744)
12	Regular Pay & Benefits Annualization				**(5,512,355)**			**(14,465,393)**	**(19,978)**
13	Operating Expense Allocation Ratio								83.02%
14	Staff Proposed Adjustment to Operating Expense before Jurisdictional Allocation								**(16,586)**
15	Overall Intrastate Expense Factor								75.55%
16	Staff's Proposed Intrastate Expense Adjustment								**$ (12,530)**

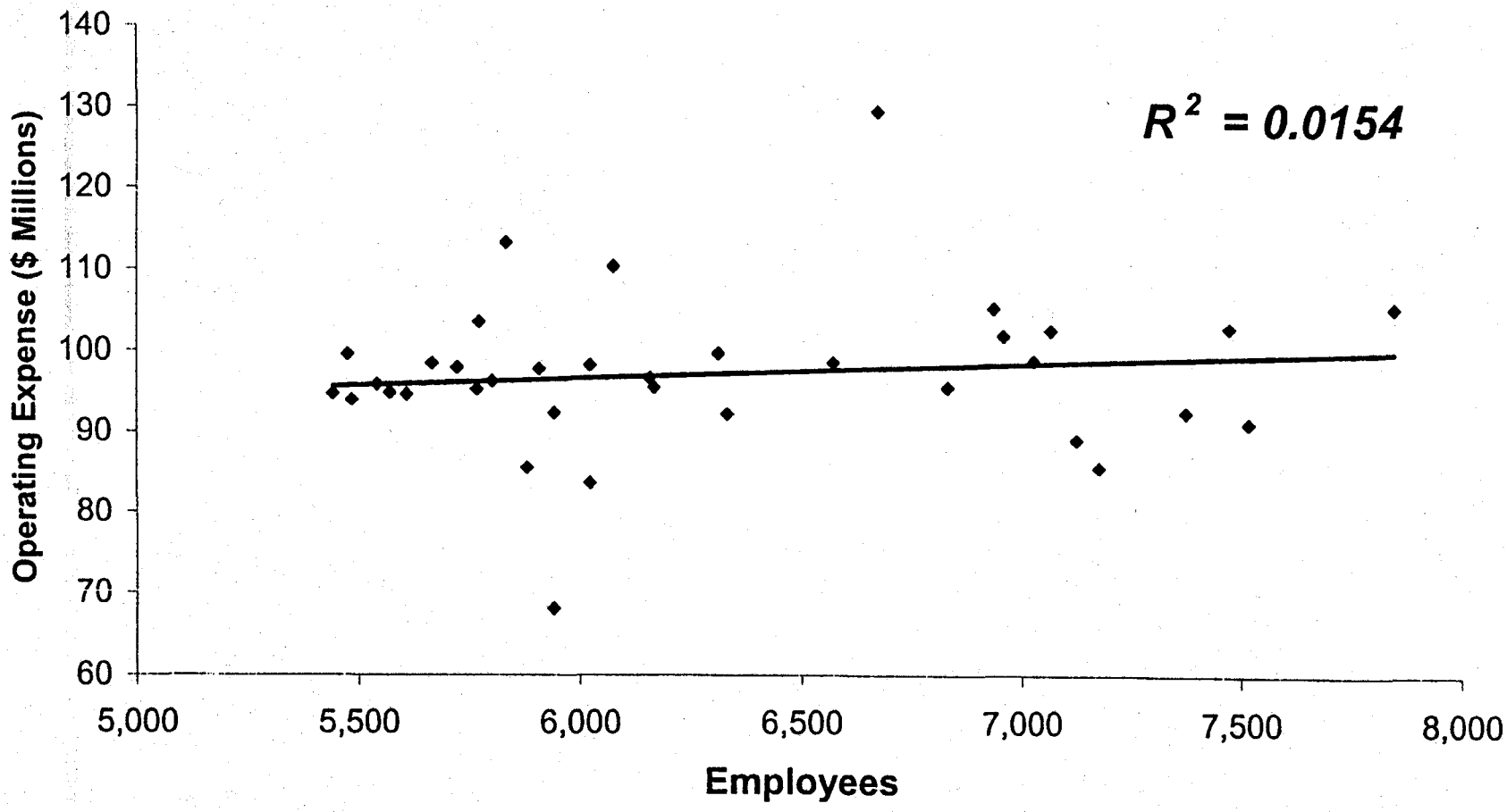
Corrected for Employee Levels

Line	Description	Reference	Management Regular Pay	Management Equivalent Employees	Management Regular Pay Per Employee	Occupational Regular Pay	Occupational Equivalent Employees	Occupational Regular Pay Per Employee	Total ($000's)
17	**Regular Pay Annualization**								
18	Oct 2003		5,063,409	935	5,415	17,784,347	4,675	3,804	
19	Nov 2003		4,460,083	942	4,735	15,606,775	4,860	3,211	
20	Dec 2003		5,129,404	920	5,575	18,106,293	4,523	4,003	
21	Average Regular Pay				**5,242**			**3,673**	
22	***Average 4th Quarter TY Employees***				932			4,686	
23	Times: Annualization Multiplier				12			12	
24	Annualized Regular Pay				58,643,767	51,497,415		206,521,392	265,165
25	Less: Test Year Regular Pay				(58,117,112)			(207,121,416)	(265,239)
26	**Regular Pay Annualization Adjustment**				**526,655**	**0**		**(600,024)**	**(73)**
27	Related Benefits Impact				50,560			(57,290)	(7)
28	Regular Pay & Benefits Annualization				**577,215**			**(657,314)**	**(80)**
29	Operating Expense Allocation Ratio								83.02%
30	Staff Proposed Adjustment to Operating Expense before Jurisdictional Allocation								(66)
31	Overall Intrastate Expense Factor								75.55%
32	Staff's Proposed Intrastate Expense Adjustment								**$ (50)**
33	Difference Between Proposed and Corrected								**$ 12,480**

Qwest Communications
Arizona Operating Income Analysis

Period	Total Wages & Salaries	Tot Wages Exc Incentive Comp	Basic Wages Onlyl (EXTC 111)	Overtime only (EXTX 121-122)	Incentive Comp Only
2001	314,684,527	308,828,268	268,166,430	40,661,838	5,856,259
2002	273,731,704	266,683,001	244,703,122	21,979,879	7,048,704
2003	286,053,774	262,190,397	228,669,869	33,520,528	23,863,377
2003 Increase (Decrease)	**12,322,070**	**(4,492,603)**	**(16,033,252)**	**11,540,649**	**16,814,673**
200101	29,709,640	27,833,856	22,859,769	4,974,087	1,875,784
200102	26,678,209	24,868,231	22,119,771	2,748,461	1,809,978
200103	27,957,711	26,110,513	22,640,240	3,470,273	1,847,198
200104	26,001,606	23,805,583	20,668,712	3,136,870	2,196,024
200105	30,525,079	27,700,573	24,240,405	3,460,168	2,824,506
200106	21,762,117	24,615,526	20,777,737	3,837,789	(2,853,409)
200107	27,372,582	26,326,672	21,568,006	4,758,666	1,045,910
200108	30,691,467	29,828,603	24,152,646	5,675,957	862,864
200109	22,807,510	23,643,583	20,780,537	2,863,046	(836,072)
200110	28,502,131	27,876,912	25,347,272	2,529,641	625,219
200111	23,449,866	22,587,667	21,219,593	1,368,074	862,199
200112	19,226,608	23,630,550	21,791,742	1,838,808	(4,403,941)
200201	23,565,565	22,738,691	20,822,547	1,916,144	826,875
200202	21,808,551	21,113,225	20,246,121	867,104	695,326
200203	20,225,552	21,224,535	20,349,655	874,881	(998,984)
200204	22,905,349	22,197,456	21,192,674	1,004,782	707,893
200205	24,234,105	23,496,692	22,465,173	1,031,519	737,414
200206	20,143,970	19,631,574	18,371,439	1,260,135	512,396
200207	24,153,757	23,440,163	20,255,031	3,185,132	713,593
200208	23,813,881	23,103,643	20,934,852	2,168,791	710,238
200209	24,302,632	22,701,376	19,208,157	3,493,219	1,601,257
200210	26,189,055	23,943,385	21,942,056	2,001,329	2,245,671
200211	22,752,947	22,007,673	20,015,075	1,992,599	745,273
200212	19,636,340	21,084,587	18,900,343	2,184,244	(1,448,247)
200301	21,076,790	20,403,093	18,329,038	2,074,056	673,697
200302	21,733,931	20,972,689	18,157,347	2,815,342	761,242
200303	24,582,327	21,549,679	18,963,565	2,586,114	3,032,648
200304	22,425,718	20,900,181	19,534,383	1,365,799	1,525,537
200305	23,487,549	21,772,208	20,079,860	1,692,348	1,715,341
200306	21,845,311	20,207,013	18,032,314	2,174,699	1,638,298
200307	24,303,533	22,693,277	19,408,831	3,284,447	1,610,256
200308	25,859,596	23,495,645	18,731,964	4,763,681	2,363,951
200309	24,303,466	22,068,299	17,971,381	4,096,918	2,235,167
200310	27,495,643	24,985,068	21,872,419	3,112,649	2,510,575
200311	24,682,907	22,132,126	18,434,014	3,698,112	2,550,781
200312	24,257,003	21,011,118	19,154,754	1,856,364	3,245,885

Arizona
Docket No. T01051B-03-0454
Intrastate Operating Expense vs. Employees



Qwest.
Spirit of Service

Qwest Corporation
Law Department
1801 California Street
49th Floor
Denver, CO 80202

Kathy Rowley
Interrogatory Manager

August 5, 2004

VIA OVERNIGHT DELIVERY

Scott S. Wakefield
Chief Counsel
Residential Utility Consumer Office.
1110 West Washington Street
Suite 220
Phoenix, Arizona 85007

Re: In the Matter of Qwest Corporation's Filing
of Renewed Price Regulation Plan
Docket No. T-01051B-03-0454 and T-00000D-00-0672 (Consolidated)

Dear Mr. Wakefield:

Enclosed please find Qwest Corporation's Responses to RUCO's Fourth Set of Data Requests (Nos.1 and 6) in the above-referenced docket.

Should you have any questions, you may contact me at (303) 672-2729.

Sincerely,

Kathy Rowley

Enclosures

cc: Norm Curtright, Esq.
Tim Berg, Esq.
Monica Luckritz
Constance Fitzsimmons

CERTIFICATE OF SERVICE

I hereby certify that I have caused a true and correct copy of the foregoing Qwest Corporation's Response to RUCO's Fourth Set of Data Requests to be sent via overnight delivery on August 5, 2004, to the following:

Constance Fitzsimmons Legal Division ARIZONA CORPORATION COMMISSION 1200 W. Washington St. Phoenix, AZ 85007	Richard S. Wolters Mary Tribby AT&T 1875 Lawrence Street, Room 1575 Denver, CO 80202-1847
Thomas F. Dixon WorldCom, Inc. 707 17th Street, 39th Floor Denver, Colorado 80202	Scott S. Wakefield Chief Counsel Residential Utility Consumer Office 1110 West Washington Street Suite 220 Phoenix, Arizona 85007
Peter Q. Nyce, Jr. Regulatory Law Office U.S. Army Litigation Center 901 N. Stuart Street, Suite 713 Arlington, VA 22203-1837	Mr. Richard Lee Snavely King Majoros O'Connor & Lee, Inc. 1220 L. Street N.W., Suite 410 Washington, DC 20005
Michael W. Patten, Esq. ROSHKA HEYMAN & DEWULF PLC One Arizona Center 400 East Van Buren Street, Suite 800 Phoenix, Arizona 85004	Ben Johnson Ben Johnson Associates, Inc. 2252 Killearn Center Blvd. Suite 2D Tallahassee, Florida 32309

Marie Maza

Arizona
T-01051B-03-0454 and T-00000D-00-0672
RUCO 04-001

INTERVENOR: Residential Utility Consumer Office

REQUEST NO: 001

Accumulated Depreciation Follow-up to RUCO 3-009. The Company's response does not address all aspects of the question. Please specifically address the portion of the question that asks to "Please explain the rationale behind the Company's proposed adjustment to Accumulated Depreciation". Your answer should also address appropriateness of the write-off for ratemaking purposes vs. technical purposes.

RESPONSE:

The rationale for the adjustment to Accumulated Depreciation is as set forth in Staff's testimony in Docket Nos. E-1051-83-035 and E-1051-84-100 and Decisions No. 53849 and 54843. Specifically, pages 8 through 11 of Staff witness Ronald L. Kozoman's testimony in Docket No. E-1051-83-035 argued that adjustments to depreciation expense must be synchronized with accumulated depreciation. The facts of the case were as follows.

The test year ended October 31, 1982. Decision No. 53849, p. 4. Witness George Redding sponsored Mountain Bell's Exhibit 7, Appendix B, dated February 18, 1983. It contained two adjustments that are pertinent here. The first, at page 33, provided for an expense pro forma adjustment to increase operating expenses $76 thousand for "Straight Line Equal Life Group SLELG Depreciation." The explanation of the adjustment provided:

> This adjustment annualizes the test year effect of depreciation of outside plant additions under the SLELG depreciation method as ordered in the Federal Communications Commission Order in Docket No. 20188, released December 5, 1980, and ordered by the Arizona Corporation Commission in Decision No. 53040. **This adjustment is stated at test year levels.** (emphasis added)

The second, at Page 34, provided for an expense pro forma adjustment to increase operating expenses $9,093 thousand for "Triennial Represcription and Remaining Life Depreciation Accounting." The explanation of the adjustment provided:

> This adjustment annualizes the test year effect of depreciation of outside plant additions under the remaining life method of calculating depreciation as allowed in the Federal Communications Commission Order in Docket No. 20188, released December 5, 1980, and ordered by the Arizona Corporation Commission in Decision No. 53040. **This adjustment is stated at test year levels.** (emphasis added)

The total of these two adjustments ($76 thousand plus $9,093 thousand) was $9,169,000. A copy of these two adjustments can be found in Attachment D to this response. The original can be found in the Commission's Docket Control Office on microfiche tape UI-081 Part 002, item. 0020.

Page 8 of Staff witness Kozoman's testimony provided:

> On Schedule 4, I show the adjustment to the rate base which recognizes the impact of the Company's adjustment for annualization of depreciation expense. I have increased the accumulated depreciation in the amount of $4,652,000. [later revised to $9,169,000. See discussion below.]

> The details of this adjustment were taken from Mr. Redding's working papers, which support the two accounting and the two pro forma adjustments to depreciation. The workpapers mentioned are found under tabs 17, 18, 33 and 34, which support Section C of the standard filing requirements. [See Attachment D to this response for a copy of these four schedules.]

Later, Staff revised its calculation of the adjustment from $4,652,000 to $9,169,000 as evidenced by hand marked and initialed changes to Mr. Kozoman's Schedule 4 a copy of which is included as Attachment E to this response.

Staff witness Kozoman's testimony went on to criticize the Company for failing to apply the adjustment or the annualization of depreciation expense to the reserve for depreciation. At pages 9 and 10, Mr. Kozoman's testimony quoted the orders of six commissions in support of his position. At page 11 Mr. Kozoman summarized Staff's argument as follows:

> Q. What is the impact of not synchronizing accumulated depreciation with the depreciation expense adjustment?
> A. **The failure to adjust the accumulated depreciation would distort the return of the utility for the test year. If depreciation expenses are annualized for a full year's depreciation and the accumulated depreciation is not annualized, the net effect is an overstatement of rate base, and hence the return on an annualized basis is lowered, thereby increasing the revenue requirement.** Proper synchronization requires the recognition of this proposed adjustment. (emphasis added)

A copy of the pertinent portion of Mr. Kozoman's testimony can be found in Attachment A to this response. The original can be found in the Commission's Docket Control Office on microfiche tape UI-082 Part 001, item. 0008. The original of Mr. Kozoman's revised Schedule 4 is at item 0013 on the same tape.

The time available to Qwest to review the record did not allow for a review of RUCO's tesitimony and brief in Docket No. E-1051-83-035. However, Qwest did discover that Exhibit RUCO-2 was a copy of an examiner's report on a petition to the Public Utility Commission of Texas of Southwestern Bell Telephone Company for authority to change rates. One of this issues raised in the last paragraph of page 4 of examiner's report was: "adjusting accumulated depreciation to reflect the adjustment to depreciation expense." At the bottom of page 4 of the report, RUCO underlined the following language.

> The adjustment should be made in this docket as well as the examiner finds the adjustment is **necessary to properly reflect the impact of the company's depreciation expense adjustment on the value of its invested capital**. (emphasis added)

A copy of the pertinent portions of RUCO-2 can be found in Attachment B to this response. The original can be found in the Commission's Docket Control Office on microfiche tape UI-082 Part 001 item 0017. Given the gist of RUCO-2, Qwest expects that a more complete review of the record would reveal RUCO's support of the rationale Staff articulated.

The Commission agreed with Staff's position in Docket No. E-1051-83-035. In pertinent part, pages, 16 and 17 of Decision No. 53849 provided:

> Staff made relatively few adjustments to "fair value" rate base and with the exception of Staff's calculation of working capital, there was little controversy surrounding these adjustments. Specifically Staff:

1) increased the original cost depreciation reserve by $9,169,000 to reflect the annualized effect of the higher depreciation rates authorized by Decision Nos. 53040 and 53261.

* * *

The first adjustment proposed by Staff appears necessary if we are to accurately set rates for the future. While Mountain States clearly did not "recover" a year's annualized depreciation by the end of the TY, neither did it actually incur the cost. The TY should not be considered a collection of past costs to be recovered in the future, but a reflection of future costs to be recovered concurrently by the reasonable rates established herein. Consequently, we must project those changes to rate base which are consistent with known cost changes. In this regard, we see no difference between the annualization of those depreciation changes authorized by Decision NO. 43040 and 53261 and the allowance of increased amortization of Account No. 232 authorized herein. Staff's adjustment should be increased by the same $7,200,000. (emphasis added)

The same rationale and methodology were again employed for ratemaking purposes in Docket No. E-1051-84-100. The test year was calendar year 1984 (Decision No. 54843, p. 12). On September 25, 1985, Staff filed Supplemental Testimony and Exhibits to revise it recommended revenue requirement to reflect new book depreciation rates for Mountain States Telephone and Telegraph Company pursuant to a 1985 FCC represcription. Staff's filing included the testimony of John M. Holmes and James W. Hein. In pertinent part, pages 2 and 3 of Mr. Holmes testimony provided:

[M]y testimony in this portion of the case deals only with an analysis of the appropriate method of recovery of $6,571,000 resulting from the 1985 depreciation represcription. Mr. Hein's prefiled testimony identifies the calculations that develop this intrastate revenue requirement which is consistent with Staff's method of calculating the revenue requirement in the earlier phase of this case.

Mr. Hein testified:

Q. What is the purpose of your testimony?
A. The purpose of my testimony is to present revisions to certain of the exhibits previously sponsored by the Staff in support of its recommended revenue requirement. Such revisions are intended to reflect the effects thereon of proposed new book depreciation rates for Mountain Bell. Based on information provided by the Company, such rates will increase annual depreciation expense by $7,464,000.
Q. Please explain the method you used in revising the previously filed exhibits.
A. **My approach was to reflect the additional depreciation as though it had been provided for on the books of the Company during the test year . The $7,464,000 additional depreciation expense is matched by a corresponding increase in the balance of the account for accumulated depreciation. Such adjustment directly affects test year operating expenses and rate base.** (emphasis added)

A copy of the pertinent portion of Staff witness Hein's testimony can be found in Attachment C to this response. The original can be found in the Commission's Docket Control Office on microfiche tape UI-112 Part 001, item 0018. See also tape UI-114, Part 001, items 0024 through 0026.

The Commission adopted Staff's adjustment. In pertinent part, pages, 21 and 22 of Decision No. 54843 provided:

There was no disagreement among the parties as to the amount of increased

depreciation expense which was attributable to the FCC's triennial represcription of Mountain States' Arizona depreciation rate. The amount was $7,464,000. However, Staff and Mountain States did not arrive at differing revenue requirements associated with that increased expense. As Set forth in Staff Exhibit No. 15 (Supplemental), Staff's figure ($6,571,000) is slightly higher than Mountain States' ($6,369,000), primarily due to increased toll settlements. With the modification's of Staff's position found reasonable herein, the increased revenue requirement from represcription is $6,515,000.

In the discussion of rate base on page 25, Decision No. 54843 observed:

> **Mountain States later increased its depreciation reserve by $7,464,000 to reflect the additional depreciation expense claimed as a results of represcription.** (emphasis added)

Nothing in Decision No. 54843 indicates the $7,464,000 depreciation reserve increase to the 1984 test year attributable to the 1985 represcription was not accepted by all parties and the Commission as proposed by Staff and Mountain States and in conformance with the rationale adopted by Decision No. 53849.

In Dockets No. E-1051-83-035 and E-1051-84-100, the adjustments at issue were both pro forma <u>increases</u> to depreciation expense and the corresponding adjustment to rate base was a <u>increase</u> to accumulated depreciation as though the depreciation expense had been provided for on the books of the Company during the test year. In the current case, the circumstances are precisely the same except depreciation change is a <u>decrease</u> instead of an <u>increase</u>. Qwest is proposing a pro forma <u>decrease</u> in test year depreciation expense which requires a corresponding pro forma <u>decrease</u> to accumulated depreciation in the test year under the rationale Staff and RUCO advocated and the Company and the Commission accepted in the Company's prior rate cases.

Respondent: Phil Grate

ARIZONA CORPORATION COMMISSION

STATE OF ARIZONA

MOUNTAIN STATES TELEPHONE AND TELEGRAPH COMPANY

ARIZONA INTRASTATE OPERATIONS

DOCKET NO. 9981-E-1051-83-035

TESTIMONY OF

RONALD L. KOZOMAN

PAUL R. POTTER

S. V. LE

AUGUST, 1983

TROUPE KEHOE
WHITEAKER & KENT
CERTIFIED PUBLIC ACCOUNTANTS

BEFORE THE

ARIZONA CORPORATION COMMISSION

PREPARED DIRECT TESTIMONY

OF

RONALD L. KOZOMAN

Q. What is your name, business address, and by whom are you employed?

A. Ronald L. Kozoman, 3201 N. 16th Street, Suite 10, Phoenix, Arizona 85016. I am employed by Troupe Kehoe Whiteaker & Kent, Certified Public Accountants. My job title is manager. Our firm has been engaged by the Arizona Corporation Commission to review and respond to the rate application of Mountain States Telephone and Telegraph Company (Mountain Bell or the Applicant).

Q. Have you attached a listing of your qualifications, experience and employment history to this testimony?

A. Yes, it is attached hereto as Appendix A.

Q. What is the nature of your testimony in this proceeding?

A. I will testify on adjustments to the Applicant's proposed rate base and the income statement. These adjustments are summarized on the schedules in Sections A, B and C.

RATE BASE

Q. Would you please refer to Section B, Schedule 1 and discuss the fair value rate base?

A. Schedule 1 shows the computation of the fair value rate base for the Company. The amounts shown in Columns B, C, and D were obtained from page 1 of Schedule B-3 in the Company's application, and reflects all of its proposed adjustments to rate base.

Column E shows the Troupe Kehoe Whitaker & Kent (TKWK) pro forma adjustments to the various rate base components. Column F shows the adjusted rate base on a fair value basis, computed by giving equal weighting to the original cost rate base and the RCND rate base as shown in Section B, Schedule 2. To the extent the Commission finds a weighting other than that described above, the fair value rate base would change accordingly.

Q. Please refer to your Schedule 2 in Section B and describe this schedule.

A. Schedule 2 presents a summary of the original cost and RCND rate base elements. Columns E and J contain TKWK's proposed adjustments. Columns F and K represent the final, as adjusted original cost and RCND rate bases, respectively, which have been used to arrive at the fair value rate base shown in Section B, Schedule 1.

Q. What is the original cost rate base and the RCND rate base?

A. The original cost rate base is $893,562,000 as shown on Line 13, Column F. The RCND rate base is $1,327,284,000 as shown on Line 13, Column K of Schedule 2.

Q. Please refer to your Schedule 3 in Section B and discuss.

A. Schedule 3 merely summarizes the various adjustments which are proposed to be made to the original cost and RCND bases in this proceeding. I have shown the schedule references for each of the pro forma adjustments on the last line of this schedule. The totals from this schedule are carried forward to Schedule 2 in Section B.

SYNCHRONIZATION OF ACCUMULATED DEPRECIATION WITH THE DEPRECIATION EXPENSE ADJUSTMENTS

Q. Please refer to your Schedule 4 and discuss your adjustment to accumulated depreciation.

A. On Schedule 4, I show the adjustment to the rate base which recognizes the impact of the Company's adjustment for annualization of depreciation expense. I have increased the accumulated depreciation in the amount of $4,652,000.

The details of this adjustment were taken from Mr. Redding's working papers, which support the two accounting and the two pro forma adjustments to depreciation. The workpapers mentioned are found under tabs 17, 18, 33 and 34, which support Section C of the standard filing requirements.

Q. Did the Company apply the adjustment for the annualization of depreciation expense to the reserve for depreciation?

A. No, they did not. Reference to the Company's Schedules C-2 and B-2 reveals adjustments to the depreciation expense, with no corresponding adjustments to the accumulated depreciation.

This is not the proper method of reflecting the pro forma adjustment to depreciation.

Q. Are there commissions who recognize the reflection of additional pro forma expense to the accumulated depreciation account?

A. Yes. The Kansas Corporation Commission in Docket No. 105,000-U Re: Kansas City Power & Light Company, cited at 16 PUR 4th 111, stated:

1 ". . . The Commission's rules (K.A.R. 82-1-231) require these
2 adjustments for known and measurable changes in revenue and
expense levels in order to achieve test year data which are as
3 nearly representative of the Company's future level of operations
as possible, since the test year data will be utilized to determine
4 rates for the future. Such adjustments to the Company's opera-
tions are necessary to properly reflect the earning potential of the
5 rate base. If revenues and expenses are not so adjusted, the result
will be a gross understatement of the future earning potential of
6 Applicant's properties.

7 Equally as important, though, is the well-accepted rate-
making principle of synchronizing rate base and operations. Here,
8 while the Commission recognizes the propriety of Applicant's
adjustments (with agreed-to modifications by Staff) to annualize
9 depreciation expense, we also recognize the necessity of corre-
spondingly adjusting rate base. Depreciation expense in operations
10 is, in effect, recovering the original cost of plant over its economic
useful life. When depreciation expense is allowed in operations,
11 the corresponding amount must be removed from the rate base or
the Applicant will overcollect in its authorized rates the actual
12 cost of providing utility service to its Kansas customers. Thus, in
this instance, a pro forma adjustment to operations requires a
13 corresponding pro forma adjustment to rate base in order to
achieve a proper matching of the end-of-period plant and the
14 annualized depreciation expense."

15 The South Dakota Public Utilities Commission in Case No. F-3126 Re:
16 Montana-Dakota Utilities Company at 21 PUR 4th 8 stated:

17 ". . . The Commission finds that pro forma adjustments to expenses
must be made for depreciation expense in order to reflect a proper
18 level of expense consistent with the level of investment allowed in
rate base and, accordingly, a pro forma deduction also must be
19 made from rate base to reflect that said expense allowance has
been made. The Commission finds that the deduction for depreciation
20 will not deprive MDU of the full recovery of its investment.
The Commission finds that MDU will recover the full cost of its
21 plant because this adjustment is for ratemaking purposes only and
will not be reflected on the books of account of company."

22 The Texas Public Service Commission in Docket No. 2676 Re: Houston
23 Lighting and Power Company at 36 PUR 4th 100 stated:

24 "The issue of an adjustment to accumulated depreciation to
25 correspond to a change in test period depreciation expense is one
which has been frequently addressed by this Commission. Con-
26 sistently, the Commission has chosen to adjust accumulated

depreciation for the entire amount of additional depreciation expense . . . The examiner recommends that HL&P's total accumulated depreciation be adjusted for the entire amount of the recommended change in depreciation expense . . ."

Likewise, the Missouri Public Service Commission in Case No. GR-77-33 Re: LaClede Gas Company, cited at 25 PUR 4th 51, stated:

> "In reaching this decision, the Commission finds that to allow an annualized depreciation expense predicated on test year-end plant in service absent a matching adjustment to the depreciation reserve results in an overcollection in rates. The Commission is unpersuaded by company's argument that it will not be allowed to earn a return on that portion of the rate base represented by these adjustments to the reserve. Company will, in fact, receive through its test year depreciation expense a dollar-for-dollar recovery . . ."

The South Carolina Public Service Commission in its Order No. 79-730 Re: South Carolina Electric and Gas Company, cited at 34 PUR 4th 358, stated:

> "The company and the Commission staff recommended that the 'per books' reserve be adjusted by the addition of $7,672 to reflect depreciation for the test year as if the plant in service at year-end had been in service for the entire test period. The Commission finds such adjustment to be reasonable and proper, hereby adopting it for the purposes of this proceeding."

The Nebraska Public Service Commission in Application No. 30853 Re: Cornhusker State Telephone Company at 13 PUR 4th 314 stated:

> "We are of the opinion and find that the adjustment to the depreciation reserve made by the staff represents sound policy and should be adopted. To increase the depreciation and amortization expense without increasing the depreciation reserve would exact double payment from the ratepayer, once as an item of increased expense and again as a return on plant."

This issue was raised in the last Mountain Bell case before this Commission, but due to the stipulation agreement settling the case, it was not resolved.

Q. What is the impact of not synchronizing accumulated depreciation with the depreciation expense adjustment?

A. The failure to adjust the accumulated depreciation would distort the return of the utility for the test year. If depreciation expenses are annualized for a full year's depreciation and the accumulated depreciation is not annualized, the net effect is an overstatement of rate base, and hence the return on an annualized basis is lowered, thereby increasing the revenue requirement. Proper synchronization requires the recognition of this proposed rate base adjustment.

Q. Do the rates granted Mountain Bell in June and November of 1982 provide for recovery of the increased depreciation expense for which you are proposing the adjustment to accumulated depreciation?

A. Yes.

ARIZONA Docket No. T-01051B-03-0454 Qwest Exhibit PEG-R11 Page 1 of 1

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ARIZONA CORPORATION COMMISSION

STATE OF ARIZONA

MOUNTAIN STATES TELEPHONE AND TELEGRAPH COMPANY

ARIZONA INTRASTATE OPERATIONS

DOCKET NO. 9981-E-1051-83-035

EXHIBITS OF STAFF CONSULTANTS

FOR

ARIZONA CORPORATION COMMISSION

AUGUST, 1983

TROUPE KEHOE WHITEAKER & KENT
CERTIFIED PUBLIC ACCOUNTANTS

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MOUNTAIN STATES TELEPHONE AND TELEGRAPH COMPANY

ARIZONA INTRASTATE OPERATIONS

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Schedule	Description	No. of Pages
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MOUNTAIN STATES TELEPHONE AND TELEGRAPH COMPANY

ARIZONA INTRASTATE OPERATIONS

SUMMARY OF ORIGINAL COST AND RCND RATE BASE ELEMENTS

($000's)

Line	Description (A)	Original Cost: Per Books Including Accounting Adjustments (B)	Original Cost: Company Pro Forma Adjustments (C)	Original Cost: Company As Adjusted (D)	Original Cost: TK WK Adjustments (E)	Original Cost: Rate Base As Adjusted (F)	RCND: Per Company (G)	RCND: Company Pro Forma Adjustments (H)	RCND: Company As Adjusted (I)	RCND: TK WK Adjustments (J)	RCND: Rate Base As Adjusted (K)
1	Plant in service	$ 1,172,941	$ 8,396	$ 1,181,137	$ --	$ 1,181,137	$ 1,832,714	$ 7,185	$ 1,839,899	$ --	$ 1,839,899
2	Less: Accumulated depreciation	190,188	1,488	191,672	5,652	196,324	443,612 (b)	(2,248)	441,364 (b)	--	441,364
3	Net plant in service	982,357	7,108	989,465	(5,652)	984,813	1,409,102	9,433	1,418,535	--	1,418,535
4	Short-term plant under construction	62,918	171	63,089	(502)	62,587	62,918	171	63,089	(502)	62,587
5	Property held for future use	37	--	37	--	37	37	--	37	--	37
6	Materials and supplies	10,268	125	10,393	(257)	10,136	10,268	125	10,393	(257)	10,136
7	Right to use fees	--	--	--	2,526	2,526	--	--	--	2,526	2,526
8	Allowance for working capital	26,293	--	26,293	(23,528)	2,765	26,293	--	26,293	(23,528)	2,765
9	Less: Accumulated deferred income taxes	142,237	1,021	143,258	--	143,258	142,237	1,021	143,258	--	143,258
10	Pre-1971 investment tax credits	725	--	725	--	725	725	--	725	--	725
11	Construction charge contracts	1,051	11	1,062	--	1,062	1,051	11	1,062	--	1,062
12	Customer deposits	3,257	--	3,257	--	3,257	3,257	--	3,257	--	3,257
13	TOTAL RATE BASES	$ 910,603	$ 6,372 (a)	$ 916,975 (a)	$ (23,413)	$ 893,562	$ 1,337,348	$ 8,687	$ 1,346,043	$ (18,761)	$ 1,327,284

(a) Source: Company Schedule B-2
(b) Source: Company Schedule B-4

SECTION B
SCHEDULE 2
Page 1 of 1
Witness Thomas

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ARIZONA Docket No. T-01051B-03-0454 PEG-1

SECTION B
SCHEDULE 3
Page 1 of 1
Witness: Kennemer

MOUNTAIN STATES TELEPHONE AND TELEGRAPH COMPANY

ARIZONA INTRASTATE OPERATIONS

SUMMARY OF TKWK ADJUSTMENTS TO RATE BASE

($000's)

Line	Description (A)	Original Cost Adjustment Number 1 (B)	2 (C)	3 (D)	4 (E)	5 (F)	Total (G)	RCND Adjustment Number 1 (H)	2 (I)	3 (J)	4 (K)	5 (L)	Total (M)
1	Plant in service	$	$	$	$	$	$	$	$	$	$	$	$
2	Less: Accumulated depreciation	4,652					4,652						
3	Net plant in service	4,652					(4,652)						
4	Short-term plant under construction		(502)				(502)		(502)				(502)
5	Property held for future use												
6	Materials and supplies			(257)			(257)			(257)			(257)
7	Right to use fees				2,526		2,526				2,526		2,526
8	Allowance for working capital					(20,528)	(20,528)					(20,528)	(20,528)
9	Less: Accumulated deferred income taxes												
10	Pre-1971 investment tax credits												
11	Construction charge contracts												
12	Customer deposits												
13	TOTAL RATE BASE	$(9,622)	$ (502)	$ (257)	$ 2,526	$(20,528)	$ (23,013)	$ --	$ (502)	$ (257)	$ 2,526	$(20,528)	$ (18,761)
	Schedule Number	4	5	6	7	8		4	5	6	7	8	

0019

dated 12-15-82

DOCKET NO. 4545

State Marked Copy

PETITION OF SOUTHWESTERN BELL TELEPHONE COMPANY FOR AUTHORITY TO CHANGE RATES

PUBLIC UTILITY COMMISSION OF TEXAS

EXAMINER'S REPORT

I. Procedural History

On June 21, 1982, Southwestern Bell Telephone Company (Southwestern Bell, Bell, SWB, or the company) filed this application requesting authority to implement certain rate changes which would affect all its customers and classes of customers within Texas. According to Bell's projections, the proposed changes would generate $471,500,000 in additional intrastate revenues annually, an amount equal to approximately 13.4 percent of its adjusted test year revenues.

The initial prehearing conference was held in this docket on July 8, 1982. The July 27, 1982 effective date of Southwestern Bell's proposed rate changes was suspended for 120 days pursuant to Section 43(d) of the Public Utility Regulatory Act, Tex. Rev. Civ. Stat. Ann. art. 1446c (1980) [PURA or the Act]. The following parties were granted intervenor status and grouped, principally for the purposes of cross-examination, as designated below:

1. Texas Municipal League and the Cities of Wichita Falls, Abilene, Amarillo, Dallas, Lake Jackson, Fort Worth, San Antonio, Houston, El Paso, and El Paso County (collectively referred to in this report as the "Cities");

2. Texas Alarm and Signal Association (TASA), Canadian River Municipal Water Authority, Sonitrol, Inc., Muzak, and Audichron Company;

3. Texas Retailers Association (TRA), State Purchasing and General Services Commission, Teleconsultants of Texas, Texas Hospital Association, American Airlines, and Doug Arnold and Associates;

4. Texas Association of Telephone Answering Services;

5. Department of Defense and General Services Administration;

6. MCI Telecommunications Corporation and Leased Data Services, Inc.;

7. U.S. Telephone Communications (U.S. Tel.);

8. General Telephone Company of the Southwest (GTSW).

Argument was heard on Bell's motion for a protective order at the initial prehearing conference, and on July 9, 1982 a protective order and an order regarding its implementation were entered by the examiners. A second prehearing conference was held on July 21 and 22, 1982 to resolve problems relating to discovery. A modified protective order was entered on July 23, 1982.

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worked out. Despite the suggestions of some of the intervenors in this docket, the effects of CI-11 and the MFJ are not known and measurable changes for the purposes of this rate case. The Commission, however, will be monitoring the situation in the telecommunications arena very carefully during the divestiture process and will not hesitate to take appropriate action as necessary to protect the public interest in Texas.

As will be discussed below, the examiner recommends that Southwestern Bell be found to have a revenue deficiency of $244,129,000, as compared to the $471.5 million requested.

III. Invested Capital

Southwestern Bell proposed an invested capital value of $5,778,606,000. The Commission staff recommended that that figure be reduced by $185,568,000 to $5,593,038,000. The Cities' witness, Thomas J. Flaherty, recommended an invested capital finding of $5,683,050,000; $95,558,000 less than that requested by the company. No other party made specific recommendations regarding the value of Southwestern Bell's invested capital.

The staff's proposed adjustment to Bell's invested capital primarily involves a reclassification of telephone plant under construction from short-term to long-term. The bulk of the Cities' total adjustment is related to an adjustment to the accumulated reserve for depreciation and the removal of Western Electric payables from the value of invested capital. Each of the proposed adjustments will be discussed below.

A. Accumulated Depreciation

Mr. Flaherty recommended that the company's accumulated reserve for depreciation be increased by one-half the adjustment made to bring depreciation expense to a year end level. The company proposed an adjustment to depreciation expense, but did not adjust its depreciation reserve.

The Commission has dealt with the issue of adjusting accumulated depreciation to reflect the adjustment to depreciation expense many times in the past and has consistently made such an adjustment in rate cases where the issue has been discussed. See Application of Texas Electric Service Company, Docket No. 2606, 5 P.U.C. 109, 113 (October 16, 1979), Application of Dallas Power and Light Company, Docket No. 3461, 6 P.U.C. BULL. 720, 724 (February 26, 1982), Application of Central Telephone Company of Texas, Docket No. 3510, 7 P.U.C. 185, 190 (April 20, 1981); Application of Texas-New Mexico Power Company, Docket No. 4240, 7 P.U.C. BULL. 955, 959 (June 2, 1982); Application of General Telephone Company of the Southwest, Docket No. 4300, 8 P.U.C. BULL. ___ (July 19, 1982). The adjustment should be made in this docket as well as the examiner finds that the adjustment is

necessary to properly reflect the impact of the company's depreciation expense adjustment on the value of its invested capital. The amount of this adjustment should be $12,106,000.

B. Telephone Plant Under Construction

The staff has recommended that Bell's proposed inclusion of $294,739,000 in invested capital for telephone plant under construction (TPUC) be reduced by a total of $192,440,000 to $102,299,000. The first part of this adjustment involves the reclassification of $77,417,000 of TPUC from short-term to long-term. The dispute between the company and the staff regarding the proper classification of TPUC is the result of their interpretations of Part 31 of the Federal Communication Commission's Uniform System of Accounts (USOA), Account 31.100.2(b), which reads as follows: "This account shall be subdivided so as to show separately the cost of construction projects (1) designed to be completed in one year or less, and (2) designed to be completed in over one year." Staff accountant Randy Klaus testified that in his opinion the time to completion should be measured from the time when preliminary construction costs are transferred to Account 100.2 to the estimated date of completion. Mr. G. M. Swenson, testifying for Bell, contends that the time should be measured from the start of physical construction to the estimated date of completion. This is the methodology which Bell has employed and which the Commission has accepted in past cases.

Mr. Klaus bases his opinion of the proper manner of calculating the term of telephone plant under construction on a letter sent to him by Mr. Stephen Steckler, with the Chief Accounting Branch of the FCC. The letter, sent in response to an inquiry by Mr. Klaus, was a copy of a letter dated September 27, 1981 from the FCC staff to the Pennsylvania Public Utility Commission. The letter stated, in pertinent part, that "the basis for determining the estimated length of construction time of a particular project is the point at which the costs are transferred to Account 100.2 (which is when appropriate management authority concludes that the project will, in fact, go forward) to the time the project will be placed into service."

Mr. Swenson, Chief Accountant for Texas of Southwestern Bell, testified that the company has been calculating construction terms based upon the date when physical construction of the project actually begins since January 1, 1979. The methodology used by Southwestern Bell is in accordance with instructions provided by AT&T and is consistent with the methodology used throughout the Bell System and in filings with the FCC. Mr. Swenson testified that the AT&T procedures for determining the term of construction were on file with the FCC, and while no formal approval of those procedures has been received, neither has the FCC indicated that a change was necessary.

The reclassification being proposed by the staff would require Bell to review all its short-term construction projects and to calculate interest during construction (IDC) on

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BEFORE THE ARIZONA CORPORATION COMMISSION

PREPARED TESTIMONY

OF

JAMES W. HEIN

Q. Please state your name and address.

A. My name is James W. Hein. My business address is 600 East William Street, Carson City, Nevada.

Q. By whom are you employed?

A. I am employed as a regulatory consultant with Lubow McKay Stevens & Lewis, the firm retained by the Commission to review the rate application of Mountain Bell.

Q. Please state your educational background and professional experience.

A. I graduated from Golden Gate University in San Francisco, California in 1976 with a Bachelor of Science Degree in Accounting. In 1984, I received a Masters of Science Degree in Taxation from the same university. I am a Certified Public Accountant and have ten years experience within the accounting profession.

Prior to being employed with Lubow McKay Stevens & Lewis, I was employed by the Public Service Commission of Nevada as a Senior Auditor. I worked for the Commission from 1979 through 1981 and 1984 through 1985. As a Senior Auditor, I was responsible for the supervision of operational audit staff investigations of major utilities throughout the State of Nevada and the related preparation of exhibits, schedules and

testimony for presentation before the Commission. Additionally, I was solely responsible for addressing all income and normalization tax issues which arose during rate cases. I have testified as an expert witness with regard to utility and motor carrier regulation in numerous rate and other investigative cases before the Nevada Commission.

During the interim period of 1982 and 1983, I was employed as an assistant controller for a multi-million dollar foreign corporation and prior to that I was an audit partner in the local San Francisco public accounting firm of Frame & Hein. Prior to 1979, I worked in public accounting for four years primarily performing and supervising independent financial audits of companies and trade associations within the motor carrier industry.

Q. What is the purpose of your testimony?

A. The purpose of my testimony is to present revisions to certain of the exhibits previously sponsored by the Staff in support of its recommended revenue requirement. Such revisions are intended to reflect the effects thereon of proposed new book depreciation rates for Mountain Bell. Based on information provided by the Company such rates will increase annual depreciation expense by $7,464,000.

Q. Please explain the method you used in revising the previously filed exhibits?

A. My approach was to reflect the additional depreciation as though it had been provided for on the books of the Company during the test year. The $7,464,000 additional depreciation expense is matched by a corresponding

increase in the balance of the account for accumulated depreciation. Such adjustment directly affects test year operating expenses and rate base. Other changes resulting therefrom appear in the calculation of income taxes and the allowance for cash working capital, as well as in the proposed adjustments for the costs of equal access and to directory revenues.

Q. What is the overall affect on the Staff's recommended revenue increase?

A. The net affect is to raise our recommended increase by $6,571,000 from $27,447,000 to $34,018,000. This change is slightly different from that proposed by the Company ($6,369,000). Such difference can be entirely attributed to differences between the respective parties proposed rate bases, proforma net operating income and costs of capital.

Q. Does this conclude your testimony?

A. Yes it does.

MOUNTAIN BELL

ARIZONA INTRASTATE

Accounting Adjustment

Whole Life Depreciation
(In Thousands of Dollars)

Total operating expenses	$ (2,479)
Total operating taxes	1,391
Net income	1,088

This adjustment reflects the impact of the new whole life depreciation rates for Accounts 221, 231 and 234 effective January 1, 1981 as approved by the Federal Communications Commission on December 17, 1981, applicable to periods prior to test year.

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Arizona Corporation Commission
Docket No. 9181-E-1051-83-
Mountain Bell - Exhibit 7
Appendix B
Page 18 George A. Redding
February 18, 1983

MOUNTAIN BELL

ARIZONA INTRASTATE

Accounting Adjustment

Remaining Life on CPE
(In Thousands of Dollars)

Total operating expenses	$ (2,038)
Total operating taxes	1,042
Net income	996

This adjustment reflects the true-up of the new remaining life depreciation rates effective July 1, 1981, approved by the Federal Communications Commission on January 21, 1982, applicable to periods prior to test year.

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Arizona Corporation Commission
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MOUNTAIN BELL

ARIZONA INTRASTATE

Expense Pro Forma Adjustment

Straight Line Equal Life Group (SLELG) Depreciation
(In Thousands of Dollars)

Total operating expenses	$ 76
Total operating taxes	(39)
Income before interest; net income	(37)

This adjustment annualizes the test year effect of depreciation of outside plant additions under the SLELG depreciation method as ordered in the Federal Communications Commission Order in Docket No. 20188, released December 5, 1980, and ordered by the Arizona Corporation Commission in Decision No. 53040. This adjustment is stated at test year levels.

Arizona Corporation Commission
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MOUNTAIN BELL

ARIZONA INTRASTATE

Expense Pro Forma Adjustment

Triennial Represcription and
Remaining Life Depreciation Accounting
(In Thousands of Dollars)

Total operating expenses	$ 9,093
Total operating taxes	(4,626)
Income before interest; net income	(4,467)

This adjustment annualizes the test year to reflect the Triennial Represcription and the remaining life method of calculating depreciation as allowed in the Federal Communications Commission Order in Docket No. 20188 released December 5, 1980, and ordered by the Arizona Corporation Commission in Decision No. 53040. This adjustment is stated at test year levels.

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SECTION B
SCHEDULE 8
Page 1 of 1
Witness: Kozomara

MOUNTAIN STATES TELEPHONE AND TELEGRAPH COMPANY

ARIZONA INTRASTATE OPERATIONS

ADJUSTMENT TO ACCUMULATED DEPRECIATION

($000's)

Line	Description (A)	Adjustment to Account 171 Accumulated Depreciation (B)
1	Pro forma adjustment for straight-line equal life group depreciation	$ 76
2	Pro forma adjustment for triennial re-prescription and remaining life depreciation	9,093
3	Accounting adjustment for whole life depreciation	~~(2,479)~~ 0
4	Accounting adjustment for remaining life on customer premise equipment	~~(2,038)~~ 0
5		~~$ 4,652~~
		$9,169,000

PEG-R12 Cover Page

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF QWEST CORPORATION'S FILING OF RENEWED PRICE REGULATION PLAN.	)	**DOCKET NO. T-01051B-03-0454**
IN THE MATTER OF THE INVESTIGATION OF THE COST OF TELECOMMUNICATIONS ACCESS.	)	**DOCKET NO. T-00000D-00-0672**
STATE OF COLORADO COUNTY OF DENVER	) :	**AFFIDAVIT OF FELICITY O'HERRON** **SS**

Felicity O'Herron, of lawful age being first duly sworn, depose and states:

1. My name is Felicity O'Herron. I have been awarded a Bachelors of Arts Degree in Psychology from Bryn Mawr College and a Juris Doctrate from the Columbus School of Law, Catholic University of America. I have worked in the area of employee compensation and benefits for over thirteen years, including work at other large corporations such as Mobil Corporation and AT&T Broadband. I have been employed by Qwest for five and a half of the last seven years. I am currently Director of Compensation and Benefits for Qwest. In this capacity I am responsible for the design and operation of compensation programs as well as employee benefit programs.

   The opinions expressed herein are based upon my training and experience as a human resources professional and upon benchmarking surveys in which Qwest participates annually to ascertain what levels and types of compensation are necessary to attract and retain the managerial talent necessary to operate successfully in our industry.

   In my opinion, Qwest's 2003 Annual Bonus Plans for management and occupational employees were prudent and reasonable. Viewed from the perspective of the compensation discipline, these plans should properly be characterized as falling well within industry norms. By this I mean that they were designed to attract, retain and motivate employees with the skill sets and

personal productivity necessary to successfully operate Qwest's business without paying them excessively.

I believe the design of the plans is both prudent and reasonable. First, the plans are designed to reflect and reward employees for the success of the firm as a whole and to balance the need to meet short term financial goals with the need to maintain appropriate levels of customer service and satisfaction. Second, the plans are designed to recognize and reward individual performance in accordance with the company's philosophy of paying more for higher levels of employee performance.

In my opinion, Qwest's use of benchmarking ensures that the firm's compensation plan, including incentive compensation, is competitive with other firm's plans in the labor market. Making the payouts under the plans dependent on business performance helps assure a reasonable and prudent payout level. For management employees, conditioning the level of payout to individual employees upon on individual's performance levels helps assure adherence to the company's pay-for-performance philosophy.

2. I hereby swear and affirm that the foregoing statements are true and correct to the best of my knowledge and belief.

Further affiant sayeth not.

Felicity O'Herron

SUBSCRIBED AND SWORN to before me this 16th day of December, 2004.

Notary Public residing at
Denver, Colorado.

My Commission Expires: 10/28/07

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF QWEST CORPORATION'S FILING OF RENEWED PRICE REGULATION PLAN.	)	**DOCKET NO. T-01051B-03-0454**
IN THE MATTER OF THE INVESTIGATION OF THE COST OF TELECOMMUNICATIONS ACCESS.	)	**DOCKET NO. T-00000D-00-0672**
STATE OF ARIZONA COUNTY OF MARICOPA	) :	**AFFIDAVIT OF LINDA NIELANDER** **SS**

Linda Nielander, of lawful age being first duly sworn, depose and states:

1. My name is Linda Nielander. I am Director of Advertising for Qwest Communications, Inc. In this capacity I am responsible for all brand and corporate business advertising.

2. I have been awarded a Bachelors of Science Degree majoring in Tele-Communication and Film with a management/marketing emphases from San Diego State University. Over the past 18 years I have been employed in various capacities with a variety of firms in the field of marketing and advertising. As a marketing executive, I have broad ranging experience in strategic and brand planning and leadership of marketing functions. My curriculum vita is attached to this affidavit and sets forth my current and prior employment experience in the field of marketing and advertising.

3. The opinions expressed herein are based upon my training and experience as a marketing and advertising executive.

4. It is well and commonly known in the advertising profession that "image" advertising promotes and improves overall product awareness within an enterprise's customer base. In the parlance of my profession, image advertising "lifts" (improves) response to other advertising. For example, in 2004, the customer response levels to Qwest's printed product advertising levels dropped when not supported by television image advertising.

5. Qwest must maintain visible brand/image presence to combat the competitive marketplace. This is accomplished through a combination of brand and image advertising.

6. Qwest's brand/image advertising currently provides a customer benefit message, not just a brand message.

7. Image advertising is not redundant to product specific advertising that is used by telephone companies to promote specific services. Product and image advertising work in harmony with one another. Pure product advertising is not as effective without an image advertising overlay.

8. Qwest relies on econometric modeling developed by the New York, New York, consulting firm Initiative Consulting to evaluate the relative effectiveness of brand and product advertising. The modeling clearly shows that image advertising is necessary to optimize the effectiveness of Qwest's overall expenditures for advertising.

9. Qwest believes that image advertising is crucial to the success of our advertising efforts. Recent advertising results show that in the current highly competitive marketplace for our products and services, image advertising is a more cost effective means of generating product sales than is product advertising.

10. Qwest's spending for image advertising in 2003 was not designed to repair Qwest's reputation, credibility and image after experiencing widely publicized financial difficulties, accounting investigations and senior management turnover. Customers have virtually no interest in such matters as it pertains to their selection of telecommunications products and services. Instead, Qwest's spending for advertising in 2003 and 2004 was a combination of brand/image, informing customers of our breadth of service and encouraging customers to buy our products.

11. I hereby swear and affirm that the foregoing statements are true and correct to the best of my knowledge and belief.

Further affiant sayeth not.

Linda Nielander

Linda Nielander

SUBSCRIBED AND SWORN to before me this 16th day of December, 2004, 2004.

Notary Public residing at
Phoenix, Arizona.

My Commission Expires: 12\01\05

OFFICIAL SEAL
AUTUMN SPRITZER
NOTARY PUBLIC - STATE OF ARIZONA
MARICOPA COUNTY
My Comm. Expires Dec. 1, 2005

Linda Nielander

1801 California Street, 19th Floor, Denver, Colorado 80202-1984
(303) 295-4633 • Email: Linda.Nielander@Qwest.com

Senior Marketing Executive
Sports & Entertainment Marketing/Global Marketing/Mass Marketing

Dynamic management career with broad ranging experience in strategic and brand planning and leadership of marketing functions. Experience and expertise includes:

- Strategic Plans
- Marketing Plans
- Budget Development, Management and Control
- Brand Building
- Agency Management
- Advertising & Promotions
- Public Relations
- Event Marketing
- Product Launches
- Visual Merchandising
- Athlete/Celebrity Sponsorships
- Direct Marketing
- Strategic Partnerships
- Contract Negotiations
- Key Account Marketing Programs
- Development of Executive Presentations
- Staff Development & Motivation
- Corporate Culture Enhancement

Professional Experience

Qwest Communications — October 2003 - Present
Denver, Colorado

Director, Advertising

Lead advertising efforts of a $19 billion Telecommunications company. Responsible for the planning and execution of all Consumer, Business, Enterprise, Hispanic, Youth and Retail advertising strategy, creative, production and media planning.

Scope of responsibilities include multiple agency vendor management, budget development, allocation and expense control of a $180 million + budget, development and approval of all advertising creative, product and media, and management of staff of 7 direct reports with total staff of 45.

Airwalk International — October 1999 – July 2003
dba Tare7 – Golden, Colorado

Director of Strategic Brand Planning
Vice President of Marketing
Vice President of Product Marketing and Marketing Communications

Direct worldwide marketing of T7 brands to include: *airwalk footwear, apparel and accessories, airwalk snowboarding, genetic footwear, apparel and accessories, ripzone outerwear, a# footwear and andy mac footwear.* Provide strategic planning and direction for all brands and execution of all brand and corporate marketing communications programs.

Scope of responsibilities includes global marketing plans, marketing vendor management, budget development, allocation and expense control, management of staff of 8 direct reports and report directly to the company president. Management of all athlete contract and licensing agreements and relationships with "event marketing" organizations. Hold full authority for identification of marketing opportunities, negotiation of contracts and closing of all marketing related opportunities/programs.

- Developed distinct strategic brand platforms and marketing plans for each brand that allowed individual brands in the T7 portfolio to work toward putting the entire portfolio ahead.
- Developed global integrated marketing process – "The Power of One."
- Co-wrote T7 Vision and Mission Statement

- Developed and executed launch plan for the *andy mac footwear* brand in conjunction with *Payless Shoe* Source, the largest shoe store chain in the United States.
- Developed and executed New York City launch of the *a# footwear* brand.
- Re-established *airwalk* as a leading action sports footwear, apparel, and accessories brand. Increased domestic and international business 40% in 2002.
- Re-launched the *airwalk snowboarding* brand to the specialty market.
- Wrote RFP's and conducted comprehensive advertising, web, and pr agency searches.
- Negotiated numerous event and athlete contracts, re-establishing *airwalk* through *genetic airwalk skateboarding* as a premier action sports brand.
- Between 1999 and 2001 consolidated product offerings and increased G.P% on products offered more than 50%.
- Between 1999 and 2001 managed entire footwear product process from concept brief, through design and development.
- Key member of 7 person "Executive Team."

Nielander & Associates – Mission Viejo, CA September 1996 – September 1999

Consultant

Consultant to the sporting goods industry with key focus on strategic licensing opportunities, brand revitalization programs, brand/product launches, business, strategic, and marketing plan development and international brand opportunities.

- Developed *Pure Juice,* surf brand, strategic and marketing plans as well as handled all advertising, pr and promotions programs.
- Developed business plan and executive presentation for licensing of the *Arena Swimwear* brand in the United States.
- Developed comprehensive sales and marketing program for the *Fischer Alpine Ski* brand to revitalize sales in the United States.
- Developed and executed product launch plan for *airwalk snowboarding's* Quad Binding System.
- Developed and executed marketing plan for *The Gender Gap* board game.
- Assisted *Morgan Horan* with sporting goods market research, analysis, and presentations.
- Worked with *Itochu,* one of Japan's largest apparel and accessories companies to investigate U.S. licensing opportunities.

ASICS Tiger Corporation – Fountain Valley, CA September 1987 – August 1996

Director of Marketing

Reported directly to the General Manager of ASICS USA and was member of the 8 person "executive team." Directed U.S. marketing of the ASICS brand including all product segments; running, cross-training, basketball, baseball, cheerleading, volleyball, tennis and wrestling. Worked in conjunction with parent company in Kobe, Japan on strategic planning, logo development and marketing direction and executed all domestic marketing plans and corporate marketing communications programs.

Scope of responsibilities included marketing vendor selection and management. Budget development, allocation and expense control. Management and training of product and marketing staff of 18 direct reports. Professional athlete and event sponsorship contract negotiations and management. Interface with corporate accounts on sales, market research, product presentations and marketing communications programs. Development of all corporate and category advertising and promotions programs. Planning and execution of all trade shows, sales meetings and special events.

- Instrumental in initial U.S. based television campaign launch and on-going program.
- Integral to growing business from $49 million in 1987 to $245 million in 1994
- Restructured and re-launched men's and women's cross-training business in 1994 developing it into a significant revenue generating category.
- Responsible for planning and execution of ASICS involvement in the 1996 Summer Olympic Games in Atlanta, GA.

Tate Associates – Irvine, CA August 1986 – September 1987

Account Manager/Media Planner

Worked in small, Irvine based, ad agency specializing in "high-technology" clients. Developed new business pitches, marketing plans, media planning and buying and general account management projects.

Awards

Outstanding Women in Business, Denver Business Journal 2001 and 2002, finalist 2001
Esquire, Women We Love In Advertising, 1995

Volunteer Work

Girl Scouts of America, Mile High Council - Leader
Rocky Mountain Academy of Evergreen – Board of Director, PTO President, Co-Chair Fundraising Committee, Chair Publicity Committee

Frozen Separations Categories and Allocations As of 2000 — **Year 2003 adding $1M of Investment, including $300K of DSL** — **Year 2003 adding $1M of Investment, including $300K of DSL Interstate Assigned**

	Subject to Sep Investment	Intrastate Investment	Interstate Investment	Frozen Category	Frozen Intrastate	Frozen Interstate	Correct Qwest Method Subject to Sep + 1,000,000	Intrastate Investment	Interstate Investment	Frozen Category	Frozen Intrastate	Frozen Interstate	Incorrect Method Suggested By Dunkel + 1,000,000	Incorrect Intrastate Investment	Incorrect Interstate Investment	Incorrect Frozen Category	Incorrect Frozen Intrastate	Incorrect Frozen Intrastate
Total COE Cat. 4.11 - WDBD Exch. Line Ckt. Eqpt. Inv.	800,000	200,000	600,000	21.0%	25.0%	75.0%	993,330	248,333	744,998	21.0%	25.0%	75.0%	1,100,000	200,000	[redacted]	23.1%	18.2%	81.8%
Total COE Cat. 4.12 Exch. Trunk Ckt. Eqpt. Inv.	400,000	300,000	100,000	10.5%	75.0%	25.0%	496,665	372,499	124,166	10.5%	75.0%	25.0%	475,324	356,493	118,831	10.0%	75.0%	25.0%
COE Cat. 4.13 Basic Exch. Ckt. Eqpt. - Dir. Assg. Pt.	100,000	50,000	50,000	2.6%	50.0%	50.0%	124,166	62,083	62,083	2.6%	50.0%	50.0%	137,662	68,831	68,831	2.9%	50.0%	50.0%
COE Cat. 4.13 Basic Exch. Ckt. Eqpt. - Joint Use	2,500,000	1,800,000	700,000	65.5%	72.0%	28.0%	3,104,157	2,234,993	869,164	65.5%	72.0%	28.0%	3,027,270	2,179,634	847,636	63.6%	72.0%	28.0%
Tot. COE Cat. 4.13 Spl. Exch. Ckt. Eqpt.- Dir. Assg. Pt.	18,000	9,000	7,000	0.4%	56.3%	43.8%	19,867	11,175	8,692	0.4%	56.3%	43.8%	21,273	11,966	9,307	0.4%	56.3%	43.8%
Total COE Cat. 4.1 - Exch. Line Ckt. Eqpt.	3,818,000	2,359,000	1,457,000	[redacted]	[redacted]	[redacted]	4,738,185	2,929,082	1,809,102	[redacted]	[redacted]	[redacted]	4,761,529	2,816,925	1,944,605	[redacted]	[redacted]	[redacted]
COE Cat 4.21 IXC Equip Furnished to another Company	-	-	-	0.0%	0.0%	0.0%	-	-	-	0.0%	0.0%	0.0%					0.0%	0.0%
COE Cat. 4.22 IXC Equip. used for WDBD services	-	-	-	0.0%	0.0%	0.0%	-	-	-	0.0%	0.0%	0.0%					0.0%	0.0%
Total COE Cat. 4.23 Basic IX Ckt. Eqpt. Inv.	300,000	100,000	200,000	98.0%	33.3%	66.7%	372,499	124,166	248,333	98.0%	33.3%	66.7%	350,749	116,916	233,833	98.0%	33.3%	66.7%
COE Cat. 4.23 Spl. IX Ckt. Eqpt. - Dir. Assg. Pt.	6,000	5,000	1,000	2.0%	83.3%	16.7%	7,450	6,208	1,242	2.0%	83.3%	16.7%	7,015	5,846	1,169	2.0%	83.3%	16.7%
Total COE Cat. 4.2 IX Ckt. Eqpt. Inv.	306,000	105,000	201,000	7.4%	34.3%	65.7%	379,949	130,375	249,574	7.4%	34.3%	65.7%	357,764	122,762	235,002	7.0%	34.3%	65.7%
Total COE Cat. 4.3 COE - Host/Remote Ckt. Eqpt. Inv.	16,000	14,000	2,000	0.4%	87.5%	12.5%	19,867	17,383	2,483	0.4%	87.5%	12.5%	18,707	16,368	2,338	0.4%	87.5%	12.5%
Total COE Cat. 4 - COE Ckt. Eqpt. Inv.	4,138,000	2,478,000	1,660,000				5,138,000	3,076,840	2,061,160				5,138,000	2,956,055	2,181,945	100.0%		
% Intrastate Assignment					59.9%						59.9%						57.5%	

QWEST CORPORATION
ARIZONA INTRASTATE OPERATIONS
CORRECTED CALCULATION OF STAFF ADJUSTMENT C-19
Test Year Ending December 31, 2003
(000's)

	Unadjusted Regulated Intrastate per Books	PFN12 - Enhanced Svc Adj. (payphone)	Revised Unadjusted Regulated Intrastate	PFN01 - OOP	Regulated Intrastate W/PFN01	PFN03 -Revenue Annualization	Regulated Intrastate W/PFN01 and PFN03
Revenues							
Local Service Revenues	842,673	0	842,673	(1,324)	841,349	(36,670)	804,679
Network Access Service Revenues	72,786	0	72,786	(2,035)	70,751	3,149	73,900
Long Distance Network Service Rev.	11,163	0	11,163	0	11,163	(2,343)	8,820
Miscellaneous	176,362	0	176,362	(657)	175,705	(9,925)	165,780
Total Operating Revenue	1,102,984	0	1,102,984	(4,016)	1,098,968	(45,789)	1,053,179
Expenses							
Maintenance	234,089	(85)	234,004	(12,030)	221,975	0	221,975
Engineering Expense	8,845	(0)	8,845	1	8,846	0	8,846
Network Operations	53,864	(1)	53,863	193	54,056	0	54,056
Network Administration	1,425	(0)	1,425	0	1,425	0	1,425
Access Expense	9,041	0	9,041	0	9,041	0	9,041
Other	397	(0)	397	0	397	0	397
Total Cost of Services & Products	307,661	(86)	307,575	(11,836)	295,740	0	295,740
Customer Operations	188,345	(331)	188,014	1	188,015	0	188,015
Corporate Operations	202,070	(9,375)	192,695	(8,827)	183,868	0	183,868
Property & Other Taxes	67,302	(6)	67,297	(54)	67,242	0	67,242
Uncollectibles	19,499	0	19,499	135	19,634	(2,405)	17,228
Total Selling, Gen'l, & Admin.	477,217	(9,712)	467,505	(8,746)	458,758	(2,405)	456,353
Other operating Income & Expense	(34)	(0)	(34)	(208)	(242)	0	(242)
Depreciation Expense	463,615	(95)	463,521	(83)	463,437	0	463,437
Universal Service Fund	0	0	0	0	0	0	0
Link Up America	(2)	0	(2)	0	(2)	0	(2)
Total Operating Expense	1,248,457	(9,892)	1,238,565	(20,873)	1,217,692	(2,405)	1,215,286
Income from Operations	(145,473)	9,892	(135,581)	16,857	(118,724)	(43,383)	(162,107)
Federal Income Tax	(68,035)	3,186	(64,849)	5,516	(59,333)	(14,195)	(73,528)
State & Local Income Tax	(15,428)	1,836	(13,592)	1,098	(12,494)	(2,826)	(15,320)
Net Operating Income	(62,010)	4,870	(57,140)	10,243	(46,897)	(26,362)	(73,259)
End-of-Period Rate Base							
Plant in Service	4,863,469	(810)	4,862,660	2,376	4,865,035		4,865,035
Plant under Construction	0	0	0	0	0		0
Material and Supplies	18,393	(2)	18,392	(13,342)	5,049		5,049
Allowance for Cash Working Capital	0	0	0	0	0		0
Accum. Depr & Amort Reserve	3,023,100	(445)	3,022,655	1,745	3,024,400		3,024,400
Accum. Deferred Income Tax	207,222	(45)	207,177	0	207,177		207,177
Customer Deposits	2,408	0	2,408	0	2,408		2,408
Land Development Agreement Dep.	2,023	0	2,023	0	2,023		2,023
Other Assets & Liabilities	0	0	0	0	0		0
Net End-of-Period Rate Base	1,647,109	(322)	1,646,787	(12,712)	1,634,076		1,634,076
Rate of Return	-3.76%		-3.47%		-2.87%		-4.48%
Change in Rate of Return			0.29%		0.60%		-1.01%

QWEST CORPORATION
ARIZONA INTRASTATE OPERATIONS
CORRECTED CALCULATION OF STAFF ADJUSTMENT C-19
Test Year Ending December 31, 2003
(000's)

	Regulated Intrastate W/PFN01 and PFN03	Depreciation Adjustment PFA-01*	Depreciation Adjustment C-23 Depr Rates	Regulated Intrastate W/Depreciation Adjustments	Directory Revenue Imputation PFR-01	Regulated Intrastate W/Depr and Directory
Revenues						
Local Service Revenues	804,679			804,679	0	804,679
Network Access Service Revenues	73,900			73,900	0	73,900
Long Distance Network Service Rev.	8,820			8,820	0	8,820
Miscellaneous	165,780			165,780	72,000	237,780
Total Operating Revenue	1,053,179			1,053,179	72,000	1,125,179
Expenses						
Maintenance	221,975			221,975		221,975
Engineering Expense	8,846			8,846		8,846
Network Operations	54,056			54,056		54,056
Network Administration	1,425			1,425		1,425
Access Expense	9,041			9,041		9,041
Other	397			397		397
Total Cost of Services & Products	295,740			295,740		295,740
Customer Operations	188,015			188,015		188,015
Corporate Operations	183,868			183,868		183,868
Property & Other Taxes	67,242			67,242		67,242
Uncollectibles	17,228			17,228		17,228
Total Selling, Gen'l, & Admin.	456,353			456,353		456,353
Other operating Income & Expense	(242)			(242)		(242)
Depreciation Expense	463,437	(159,783)	(85,930)	217,725		217,725
Universal Service Fund	0			0		0
Link Up America	(2)			(2)		(2)
Total Operating Expense	1,215,286	(159,783)	(85,930)	969,574		969,574
Income from Operations	(162,107)	159,783	85,930	83,606	72,000	155,606
Federal Income Tax	(73,528)	52,027	27,980	6,479	23,558	30,038
State & Local Income Tax	(15,320)	11,134	5,988	1,802	4,690	6,492
Net Operating Income	(73,259)	96,622	51,962	75,325	43,751	119,076
End-of-Period Rate Base						
Plant in Service	4,865,035			4,865,035		4,865,035
Plant under Construction	0			0		0
Material and Supplies	5,049			5,049		5,049
Allowance for Cash Working Capital	0			0		0
Accum. Depr & Amort Reserve	3,024,400	(159,783)		2,864,617		2,864,617
Accum. Deferred Income Tax	207,177	63,161		270,338		270,338
Customer Deposits	2,408	0		2,408		2,408
Land Development Agreement Dep.	2,023	0		2,023		2,023
Other Assets & Liabilities	0	0		0		0
Net End-of-Period Rate Base	1,634,076	96,622		1,730,697		1,730,697
Rate of Return	-4.48%			4.35%		6.88%
Change in Rate of Return	-1.01%			7.82%		10.35%
Change in Rate of Return	Start			8.84%		11.36%

* Adjustment PFA01, as revised, adopts the position taken by Staff in Adjustment C-22

QWEST CORPORATION
ARIZONA INTRASTATE OPERATIONS
CORRECTED CALCULATION OF STAFF ADJUSTMENT C-19
Test Year Ending December 31, 2003
(000's)

Line No.	Description (A)		Qwest ATL FCC Dereg (excl. B&C) (B)	Qwest ATL Remove Payphone (C)	Remove Planning/ Payphone "Correction" (D)	Remove FCC Dereg In AZ Price Cap Baskets (E)	Remove "Corrected" Voice Messaging (State Dereg Rec.) (F)	Qwest Pro Forma Adjustments (G)	Total "Corrected" FCC Dereg Remaining ATL (H)	Corrected FCC Dereg Staff Revenue 50% Imputation (I)	Corrected Adjusted FCC Dereg Remaining ATL (J)
	Revenues										
1	Miscellaneous		$ 98,021	$ (8,613)	$ -	$ (55,836)	$ (16,855)	$ (14,116)	$ 2,601	$ (6,296)	$ (3,697)
2	Total Operating Revenues		98,021	(8,613)	-	(55,836)	(16,855)	(14,116)	2,601	(6,296)	(3,697)
	Expenses										
3	Maintenance		35,372	(2,869)	(85)	(30,110)	(2,040)		267		267
4	Engineering Expense		9	(0)	(0)	(3)	(5)		0		0
5	Network Operations		7,840	(440)	(1)	(7,081)	(310)		7		7
6	Network Administration		8	-	(0)	(1)	(7)		0		0
7	Other		7	(0)	(0)	(4)	(3)		0		0
8	Total Cost of Services & Products		43,236	(3,310)	(86)	(37,199)	(2,366)	-	275		275
9	Customer Operations		29,640	(6,275)	(331)	(8,784)	(4,823)		9,426		9,426
10	Corporate Operations		23,987	(1,755)	(9,375)	(7,529)	(1,942)		3,385		3,385
11	Property & Other Taxes		1,910	(1,024)	(6)	(447)	(339)		94	(23)	71
12	Uncollectibles		1,271	110	-	(879)	(248)		253	(116)	138
13	Total Selling, General and Administrative		56,808	(8,944)	(9,712)	(17,639)	(7,353)	-	13,159	(139)	13,020
14	Other Operating Income & Expense		(1)	(0)	(0)	0	0		(0)		(0)
15	Depreciation Expense		8,523	(810)	(95)	(3,745)	(2,993)		881		881
16	Total Operating Expense		108,565	(13,064)	(9,892)	(58,582)	(12,712)	-	14,315	(159)	14,176
17	**Income From Operations**		(10,544)	4,452	9,892	2,746	(4,143)	(14,116)	(11,713)	(6,159)	(17,873)
18	**Federal Income Tax**	32.561%	(4,210)	1,562	3,188	1,286	(1,235)	(4,596)	(4,007)	(1,961)	(5,968)
19	State & Local Income Tax	6.968%	(2,194)	888	1,836	611	(725)	(984)	(567)	(420)	(987)
20	**Net Operating Income**		$ (4,140)	$ 2,001	$ 4,870	$ 849	$ (2,184)	$ (8,536)	$ (7,140)	$ (3,778)	$ (10,918)
			(a)	(a)	(b)	(e)	(e)	(c)			
21	**Rate Base**										
22	Telephone Plant In Service		$ 105,400	$ (23,574)	$ (810)	(38,958)	(26,195)		15,863		$ 15,863
23	Materials and Supplies		370	(12)	(2)	(192)	(121)		43		43
24	Accumulated Depr & Amort Reserve		(62,384)	12,869	445	21,005	19,878		(8,388)		(8,388)
25	Accumulated Deferred Income Tax		(5,901)	1,678	45	1,774	1,816		(589)		(589)
26	Customer Deposits		(45)	-	-	-	-		(45)		(45)
27	**End-Of-Period Rate Base**		$ 37,438	$ (9,239)	$ (322)	$ (16,372)	$ (4,622)	$ -	$ 6,884	$ -	$ 6,884
28	**Return On Investment**		-11.06%				47.25%		-103.71%		-158.60%

Revenue Imputation Adjustment	Per Staff C-19	Corrected Per Qwest
End-Of-Period Rate Base	$ 6,884	[illegible]
Staff Proposed Rate of Return	9.50%	[illegible]
Operating Income Required	654	[illegible]
Net Operating Income Available	(7,140)	[illegible]
Operating Income Deficiency	7,793	[illegible]
Revenue Conversion Factor	1.69098	[illegible]
Revenue Deficiency (Excess)	13,179	[illegible]
ACC Allowance D. 58927	50%	[illegible]
Staff Proposed Imputation	$ 6,589	[illegible]

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REQUEST 10-1

In answering this request, please refer to the Carver Testimony at page 26 (lines 12 & 21) and page 45 (line 12). Explain in detail and with particularity all of the reasons and factual bases that support why it reasonable for the Arizona Corporation Commission to adopt for regulatory purposes the change in accounting for the cost of computer software in the 2003 test year (as is assumed in your Adjustment C-ll) and the new depreciation rates well beyond the test year (as is assumed by your Adjustment B-7).

RESPONSE: 10-1

Objection, this question is vague and ambigious. The citations generally refer to Mr. Carver's testimony regarding the "Pro Forma Depreciation & Reserve Adjustments" and "SOP 98-1 (Internal-Use-Software)." In this context, the question posed by Qwest is vague and ambiguous, in so far as it refers to one income statement adjustment (Staff Adjustment C-11) and one rate base adjustment (Staff Adjustment B-7) rather than all rate base or operating income adjustments that are discussed within these testimony sections.

Without waiving the objection, regard to the rationale for excluding the pro forma effects of the depreciation rate changes (Staff Adjustment B-7, C-22 & C-23) or the adoption of SOP 98-1 (Staff Adjustment B-6 & C-11) from the determination of rate base, see Mr. Carver's direct testimony at page 28, lines 5 through 30, and page 45, lines 18-24. The proposed changes in depreciation and amortization expense are prospective in nature and are pending ACC consideration and determination. Consequently, any ACC ordered changes to depreciation and amortization expense will not be and have not been recorded as of the December 31, 2003, test year-end rate base. Depreciation reserve impacts from changed depreciation accrual rates cannot occur within the historic test year unless the revised depreciation accrual rates are ordered to be booked retroactively to some specified point in time that falls within the test year. No such retroactive date has been proposed in this Docket.

Any test year recognition of <u>future</u> rate base impacts would be inconsistent with the historic test year approach and matching/ synchronization discussed in the "test year" section of Mr. Carver's direct testimony (pages 6-10). The components of the ratemaking equation must be reasonably balanced and representative of ongoing conditions, yet also matched or synchronized within context of the historic test year. Since any balance sheet impact of these adjustments will not be recorded by the Company until after a final order is issued by the ACC, it would be improper to recognize any rate base effects as of December 2003.

With respect to income statement adjustments, rather than quantifying overall revenue

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requirement on unadjusted, as recorded results, the Arizona regulatory process typically recognizes both normalization and annualization adjustments. It is relatively common for depreciation and amortization issues to arise in the context of a review of overall revenue requirement. In some proceedings, those changes may have the effect of increasing expense (and revenue requirement), while others may decrease expense in relation to test year recorded costs. Whenever such changes are proposed by the Company, Staff or an intervenor, it is common to recognize annualization adjustments to fully reflect the pro forma effect thereof in determining the amount of net operating income available. Otherwise, once the ACC issued its findings on the proposed changes to depreciation and amortization expense, there would be no mechanism to incorporate the ordered changes in assessing current revenue requirements. In contrast, these pro forma changes in expense accruals were not recorded during the test year and will only impact rate base prospectively.

Respondent: Steven Carver

REQUEST: Qwest 10-2

In answering this request, please refer to UTI Schedule C-11 , Column C, Line 4 showing $14,927 of capitalized and un-depreciated TY costs and UTI Schedule B-6, Column D, Line 6 showing the removal of all capitalized but un-depreciated cost from rate base.

a. Please admit that this adjustment leaves no capitalized but un-depreciated cost in rate base.

_____Admit _____ Deny

If your answer to (a) above was anything other than an unqualified admission, state in detail and with particularity all of the reasons and factual bases for your denial or failure to admit.

b. Please explain in detail and with particularity all of the reasons and factual bases that support why, if SOP 98-1 is adopted for regulatory purposes in the 2003 test year, this un-depreciated balance should not be included in rate base.

RESPONSE:

a. Objection. The question as posed is vague and ambiguous regarding what "costs" are being referred to in the statement: "...this adjustment leaves no capitalized but un-depreciated costs in rate base." Without waiving the objection, assuming the reference is solely to incremental software costs to be capitalized pursuant to SOP 98-1, please see page 45, lines 18-24, of Mr. Carver's direct testimony:

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> "Since the Arizona regulatory adoption of SOP 98-1 recognized by Staff Adjustment C-11 is prospective in nature, Staff Adjustment B-6 reduces rate base to eliminate all plant in service, depreciation reserve and deferred income tax reserve effects improperly imputed by Qwest's revised Adjustment PFA-03. In essence, the Company's revised adjustment would set rate base as if SOP 98-1 had been adopted for Arizona regulatory purposes in 1999. Because that presumed adoption has not and did not occur, it would be improper to include those amounts in rate base."

In this context, prospective capitalization will result in new "capitalized but un-depreciated costs" to be recorded subsequent to the historic 2003 test year that may be considered in Qwest's rate base in any future proceedings that involve an evaluation of overall revenue requirement.

b. The change is prospective in nature. All test year software costs eligible for capitalization pursuant to SOP 98-1 were charged to expense in Qwest's Arizona intrastate accounting records. See the response to item (a) above as well as the response to Qwest DR 10-1.

Respondent: Steven Carver

REQUEST: Qwest 10-3

Pages 53 and 54 of the Carver Testimony discuss a negotiated settlement between Staff and Qwest in ACC Docket No. T-1051B-99-0105. Please provide a summary of the calculation of the revenue requirement to which the parties agreed in the settlement agreement that separately identifies the amount of and purpose of each pro forma adjustment incorporated into that calculation. Also provide any and all documents evidencing an agreement as to any *pro forma* adjustment.

RESPONSE:

Mr. Carver is unaware of any specific document memorializing the explicit components of the revenue requirement negotiated by Company and Staff in ACC Docket No. T-1051B-99-105. A careful reading of Mr. Carver's testimony will reveal no claim that such a document exists. With regard to the stated positions of the parties in the last rate case concerning how the negotiated revenue requirement was developed, see the quoted testimonies of Messrs. Brosch and Redding set forth on pages 53-54 of Mr. Carver's direct testimony in the current Docket. Also, Attachment SCC-3 represents a copy of the pre-settlement reconciliation of the revenue requirement differences between Company and Staff in Docket No. T-1051B-99-105, identifying the issue values discussed in the quoted testimonies. It is Mr. Carver's understanding that the

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settlement of revenue requirement issues in the last rate case represented a compromise of positions taken by the parties relative to the litigation positions set forth in testimony, not an issue by issue resolution of each contested issue.

REQUEST: Qwest 10-4

In answering this request, please refer to A.A.C. R14-2-510(G).

a. Is it your position that Arizona utilities are required to seek and receive Arizona Corporation Commission approval to incorporate a change in accounting method, mandated by the Uniform System of Accounts, for Arizona regulatory accounting purposes?

b. If your answer to subpart (a) of this request is yes, please identify (and include specific citations to) any and all provisions of the Arizona Revised Statues, Arizona Administrative Code and/or the Arizona Corporation Commission order that supports your response.

c. If your answer to subpart (a) of this request is no, please identify the regulatory requirements for making changes in accounting method for Arizona regulatory accounting purposes you believe utilities are required to satisfy in Arizona and provide any and all documents that support your answer.

d. Please explain whether, and if so, how your position as stated in response to this request (*see also* Page 45 of the Carver Testimony and in corresponding Adjustments B-6 and C- 11) comports with A.A.C. R14-2-510, and provide copies of any and all documents that informs or supports your explanation.

RESPONSE:

a. Objection, this question calls for a legal analysis, conclusion or opinion. Without waiving the objection, a review of Mr. Carver's testimony reveals that he does not cite to or rely upon A.C.C R14-2-510(G). Mr. Carver's testimony addresses various regulatory accounting issues in the context of how and when changes in accounting should be recognized for revenue requirement purposes. Through revised responses to Staff discovery, Qwest appears to have relied upon a revised interpretation of Arizona accounting requirements to support an accounting convention benefiting the Company by

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dramatically increasing overall revenue requirement – an interpretation at variance with the position of Qwest witness Redding in Docket No. T-1051B-99-105 and Qwest's actual accounting for SOP 98-1 and FAS106 for Arizona regulatory reporting purposes.

Other than requiring Qwest to maintain its books and records in conformity with the FCC USOA, Mr. Carver does not believe that this Rule addresses or is dispositive of the ratemaking treatment to be afforded any specific accounting change for Arizona regulatory purposes. In fact, Qwest has maintained an offbook accounting system for many years to recognize differences in jurisdictional accounting that exist between the FCC and the state jurisdictions in which the Company provides regulated telecommunications service. Further, Mr. Carver does not interpret the cited rule as ceding any authority to the FCC regarding accounting methodologies used for Arizona revenue requirement purposes.

In the context of the above discussion, Mr. Carver does not believe that A.C.C R14-2-510(G) requires Arizona utilities to seek ACC approval prior to recognizing an FCC adopted change in accounting method for Arizona accounting and reporting purposes. However, Mr. Carver also believes that the cited Rule does not automatically adopt any FCC accounting change for Arizona regulatory reporting or ratemaking purposes. Instead, A.C.C R14-2-510(G) provides a common accounting framework as a base line for accounting purposes, thereby avoiding undue regulatory oversight or requiring an administratively burdensome accounting approval process.

b. Objection, this question calls for a legal analysis, conclusion or opinion. Without waiving this objection, see the response to item (a) above. Mr. Carver believes that ratemaking determinations of changes in accounting methodology that significantly impact revenue requirement are reasonably expected to be resolved within rate case proceedings. This belief is not predicated on any statutory, constitutional or rulemaking authority, but rather an understanding that rate case issues can, and often do, arise from accounting changes that have been adopted by the FCC and/or have become GAAP.

c. Objection, this question calls for a legal analysis, conclusion or opinion. Without waiving this objection, see the response to items (a) and (b) above.

d. Objection, this question calls for a legal analysis, conclusion or opinion. Without waiving this objection, to the extent this subpart refers to Mr. Carver's direct testimony regarding SOP 98-1 (pages 45-55 and Staff Adjustments B-6 & C-11), Mr. Carver believes that the above discussion comports with both A.C.C R14-2-510(G) and the cited testimony. Further, Mr. Carver would observe that it is Qwest that has changed its

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e. accounting position regarding SOP 98-1 and Arizona accounting requirements. Please refer to pages 48-52 and 55-56 of Mr. Carver's direct testimony on this issue.

Respondent: Steven Carver

REQUEST: Qwest 10-5

Is it your position that Arizona utilities must seek and receive Arizona Corporation Commission approval to incorporate a change in accounting method mandated by the Uniform System of Accounts for cost-of-service ratemaking purposes?

a. If your answer to this request is yes, please identify (and include specific citations to) any and all provisions of the Arizona Revised Statues, Arizona Administrative Code and/or the Arizona Corporation Commission order that supports your response.

b. If your answer to this request is no, please identify any regulatory requirements for making changes in accounting method for cost-of-service ratemaking purposes you believe utilities are required to satisfy in Arizona and provide any and all documents that support your answer.

c. Please explain whether, and if so, how your position as stated in response to this request (*see also* Page 45 of the Carver Testimony and in corresponding Adjustments B-6 and C-11) comports with A.A.C. R14-2-510, and provide copies of any and all documents that informs or supports your explanation.

RESPONSE 10-5

Objection, this question calls for a legal analysis, conclusion or opinion. Without waiving this objection, see the response to Qwest Data Request 10-4, which addresses the distinction between revenue requirement recognition of changes in accounting method versus the accounting for changes in the Uniform System of Accounts (USOA) definitions, treatments and methodologies. Mr. Carver does not believe than any USOA changes mandate Arizona cost of service or ratemaking treatments.

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Mr. Carver believes that resolution of ratemaking treatment of accounting changes that significantly impact revenue requirement is properly addressed within the context of ratemaking proceedings. This belief is not predicated on any statutory, constitutional or rulemaking authority, but rather an understanding that rate case issues can, and often do, arise from accounting changes that have been adopted by the FCC and/or have become GAAP.

Respondent: Steven Carver

REQUEST: Qwest 10-6

Are you aware of any Arizona requirement specific to Qwest to seek prior approval of the Arizona Corporation Commission before implementing amendments by the Federal Communications Commission to its Uniform System of Accounts for purposes of maintaining its books and records? If so, please identify the source of the requirement, identify when the requirement first became effective, and provide a copy of any and all documentation that supports your answer

RESPONSE: 10-06

Mr. Carver is not aware of any Arizona specific rule requiring Qwest to seek approval to adopt amendments to the FCC USOA for accounting purposes. Mr. Carver does not believe that the absence of such a requirement is dispositive of the revenue requirement and ratemaking treatment to be afforded any specific accounting amendment or change for Arizona regulatory purposes. As noted in the response to Qwest DR 10-4, Qwest has maintained an offbook accounting system for many years to recognize differences in jurisdictional accounting that exist between the FCC and the state jurisdictions in which the Company provides regulated telecommunications service. The Arizona Corporation Commission is not obligated to adopt each accounting change that may be implemented pursuant to Generally Accepted Accounting Practices or the FCC Part 32 USOA for intrastate ratemaking purposes. Differences in accounting methods or the timing of adoption of changes in accounting methods frequently give rise to offbook accounting for the jurisdictional differences on Qwest's books and records.

Further, Messrs. Carver and Brosch have been involved in every Qwest rate case in Arizona since the late 1980's and several Company proceedings in other jurisdictions (Utah, New Mexico and Washington). It is not uncommon for the State jurisdictions to adopt accounting methods or procedures that differ from the FCC – resulting in the maintenance of offbook accounting records. Under the theory suggested by the discovery request, it would appear that Qwest now holds the position that there is no need to maintain any offbook records in Arizona. In particular, Qwest now seems to believe that its offbook accounting for SOP 98-1

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was inappropriate and seeks to retroactive adopt the capitalization of internal-use-software back to 1999 – the very time when Qwest opposed

Mr. Carver's recommendation on behalf of the ACC Staff to adopt SOP 98-1 in the 1999 test year employed in Docket No. T-1051B-99-105.

Respondent: Steven Carver

REQUEST Qwest 10-7

Are you aware of any Arizona requirement specific to Qwest to seek prior approval of the Arizona Corporation Commission before implementing amendments by the Federal Communications Commission to its Uniform System of Accounts for purposes of cost of service ratemaking? If so, please identify the source of the requirement, identify when the requirement first became effective, and provide a copy of any and all documentation that supports your answer.

RESPONSE:

Please see the responses to Qwest Data Requests 10-4, 10-5 and 10-6.

REQUEST: Qwest 10-8

Please state whether Mr. Carver's responses to Nos. 9-4 through 9-7 above differ from Staff's and identify and explain those differences, if any, with specificity.

RESPONSE:

The responses to the referenced questions answered by Mr. Carver were prepared for and on behalf of Staff.

Respondent: Steven Carver

10-9 Omitted.

REQUEST: Qwest 10-10

In answering this request, please refer to Page 58 of the Carver Testimony (Lines 10 and 11), which explains that the Federal Communications Commission adopted SOP 98-1 for interstate

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regulatory purposes in 1999, and Page 49 of the Carver Testimony (Line 23). Please identify (and include specific citations to) any and all provisions of the Arizona Constitution, Arizona Revised Statutes, Arizona Administrative Code, or Arizona Corporation decision or order that requires a Arizona Corporation Commission decision to adopt an accounting method change that has already been incorporated by the Federal Communications Commission into its Uniform System of Accounts (Part 32). In providing these citations, please include specific page and line numbers citation.

RESPONSE:

Objection. This question is ambiguous. The question as posed refers, in part, to page 58, lines 10-11, of Mr. Carver's direct testimony on the subject of the FCC's adoption of SOP 98-1. The subject of Mr. Carver's testimony at page 58 concerns FAS106 and OPEB cost recovery in Arizona. Presumably, Qwest intended to direct the question to lines 10-11 of page 48 of Mr. Carver's direct testimony.

Mr. Carver is not aware of any such requirements. On the other hand, Staff does not believe that the FCC's adoption of accounting changes within Part 32 of its rules is pre-emptive of ACC determination regarding the adoption of such accounting changes for intrastate accounting or ratemaking purposes.

Mr. Carver believes that resolution of ratemaking treatment of accounting changes that significantly impact revenue requirement is properly addressed within the context of ratemaking proceedings. This belief is not predicated on any statutory, constitutional or rulemaking authority, but rather an understanding that rate case issues can, and often do, arise from accounting changes that have been adopted by the FCC and/or have become GAAP. Also, please see the responses to Qwest Data Requests 10-4, 10-5, 10-6 and 10-7.

Respondent: Steven Carver

REQUEST: Qwest 10-11

In Arizona Corporation Commission Docket No. T- 105 1B-99- 105, Mr. Carver testified (see Pages 64-65 of the Direct Testimony of Steven C. Carver) that Qwest (then U S WEST) had "previously sought regulatory approval and ratemaking treatment" for the following five accounting method changes:

1. Capital to expense shifts resulting from the adoption of the "new" uniform system of the accounts prescribed by the FCC (i.e., Part 32);

2. Change in accounting from the cash method to the accrual method of accounting for the compensated absences, merit awards and medical/dental expenses;

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3. Increase in the capitalization rules from $200 to $500, allowing the expensing of qualifying "small value" assets;

4. Increase in the capitalization rules from $500 to $2,000, allowing the expensing of qualifying "small value" assets;

5. Adoption of the FAS 87 accrual method of accounting for pension costs.

Please cite the specific page and line of the applicable Arizona Corporation Commission decision or order evidencing that Qwest sought and the Arizona Corporation Commission granted approval of these accounting method changes.

RESPONSE:

Objection, this question seeks publicly available information which is as readily accessible to Qwest as it is to Staff. The question would appear to require Mr. Carver and the Staff to research the Arizona regulatory history of issues that were not raised in Mr. Carver's testimony in the pending proceeding. Qwest is able to access publicly available information and research past regulatory decisions of the Commission, without imposing the burden to conduct such research upon the Staff. Qwest may obtain copies of all prior ACC decisions from the ACC Docket Control Center during normal business hours.

Respondent: Steven Carver

REQUEST: Qwest 10-12

In Arizona Corporation Commission Docket No. T- 1051B-93- 183, Mr. Carver testified (see Pages 49 of the Direct Testimony of Steven C. Carver) that "any allowance of the TBO amortization be partially offset by the full amount of the one-time revenue accounting transition charges recorded during the test year." In addition, Mr. Carver testified that the two one-time changes in revenue accounting that occurred during the relevant test year were:

- A June 1992 change from the cash to the accrual method of reporting public telephone revenues; and
- A March 1993 change in the method of accruing for Billing and Collections revenue.

Please identify with reference to the specific page and line of both the testimony of Qwest (then U S WEST) and the Arizona Corporation Commission decision or

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order evidencing that Qwest (then U S WEST) sought and the Arizona Corporation Commission granted approval of these accounting changes.

RESPONSE:

Objection. See the objection to Qwest Data Request 10-11. Mr. Carver's cited testimony in Docket No. E-1051-93-183 did not allege that Qwest, then U S West, had sought ACC approval to record the identified revenue accounting changes.

Respondent: Steven Carver

REQUEST: Qwest 10-13

In Arizona Corporation Commission Docket No. T-1051B-99-105, Mr. Carver testified *(see* Pages 53, Line 4 through Page 54 of the Direct Testimony of Steven C. Carver):

Q. Earlier, you indicated that the Company's last rate case was resolved by negotiated settlement. How do you know that Qwest was not indirectly granted regulatory authority to adopt SOP 98- 1 for Arizona intrastate purposes in that proceeding?

A. These passages.. .clearly establish that major issues raised by Staff, such as SOP 98-1, were vigorously disputed by Qwest and should be considered to have no guiding precedent in future rate proceedings.

Admit that under the Settlement Agreement filed in Arizona Corporation Commission Docket No. T- 1051B-99-105 on April 19, 2001, the accounting adjustments set forth in the testimony of Staff and Qwest (filed before a settlement was reached) were not incorporated into the Settlement Agreement and do not constitute precedent for future rate proceedings.

_____Admit _____Deny

If your answer to this request was anything other than an unqualified admission, state in detail and with particularity all of the reasons and factual bases for your denial or failure to admit.

RESPONSE:

Objection, this question is ambiguous. The discovery request cites to Mr. Carver's testimony in Docket No. T-1051B-99-105, pages 53-54, regarding SOP 98-1. In this context, the discovery question posed by Qwest is unclear and unintelligible, in so far as the cited portion of Mr. Carver's testimony in the last rate case concerned incentive

BEFORE THE ARIZONA CORPORATION COMMISSION

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

STATE OF WASHINGTON)
) **ss** **AFFIDAVIT OF PHILIP E. GRATE**
COUNTY OF KING)

Philip E. Grate, of lawful age being first duly sworn, deposes and states:

1. My name is Philip E. Grate. I am State Finance Director for Qwest Corporation in Seattle, Washington. I have caused to be filed written rebuttal testimony in Docket No. T-01051B-03-0454 and T-00000D-00-0672.

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

Further affiant sayeth not.

Philip E. Grate

SUBSCRIBED AND SWORN to before me this 15th day of December, 2004.

LORI L. WHITE
COMMISSION EXPIRES
NOTARY
PUBLIC
7-10-07
STATE OF WASHINGTON

Lori L. White
Notary Public

My Commission Expires: 7/10/07

DOCKET NOS. T-01051B-03-0454
T-00000D-00-0672

Q-14 Admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

MARC SPITZER
Chairman
WILLIAM MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN MAYES
Commissioner

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

REBUTTAL TESTIMONY OF

NANCY HELLER HUGHES

ON BEHALF OF

QWEST CORPORATION

December 20, 2004

TESTIMONY INDEX OF

NANCY HELLER HUGHES

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EXECUTIVE SUMMARY

The Reproduction Cost New Less Depreciation (RCNLD) study filed by QWEST in this proceeding in Exhibit NHH-2 was developed using the same methodology used in previous RCNLD studies for Qwest's predecessor U S WEST Communications, which were accepted with approval by the Arizona Corporation Commission (ACC). This methodology is based on the vintage group depreciation procedure.

However, as noted in Staff witness William Dunkel's testimony, because the Equal Life Group (ELG) procedure has been approved for many of Qwest's plant accounts for plant installed in 1982 and later, the ELG depreciation procedure should be used to calculate the RCNLD value for these accounts and vintages. The revised RCNLD study is presented in Exhibit NHH-1R to Ms. Hughes's rebuttal testimony.

Upon making corrections to the RCNLD Study to reflect ELG depreciation, where appropriate, the Reproduction Cost New and RCNLD value of the Arizona plant in service of Qwest as of December 31, 2003 is shown below.

Reproduction Cost New	$8,348,462,715
Reproduction Cost New Less Depreciation	$3,764,710,307
Condition Percent	45%

IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Nancy Heller Hughes. I am a Senior Director in the Seattle office of R. W. Beck, Inc. My business address is 1001 Fourth Avenue, Suite 2500, Seattle, Washington 98154-1004.

Q. ARE YOU THE SAME NANCY HELLER HUGHES THAT FILED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes, I am. I previously filed direct testimony on behalf of Qwest in this proceeding.

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to comment on the direct testimony of William Dunkel filed on behalf of Staff regarding the Reproduction Cost New Less Depreciation (RCNLD) value of Qwest's plant in service in Arizona as of December 31, 2003.

METHODOLOGY

Q. DID YOU PREPARE THE RCNLD STUDY PREVIOUSLY FILED BY QWEST IN THIS PROCEEDING?

A. Yes. The RCNLD study as of December 31, 2003 filed as Exhibit NHH-2 was prepared under my direction.

Q. WHAT COMMENTS DOES MR. DUNKEL HAVE REGARDING THE RCNLD STUDY THAT WAS FILED WITH YOUR DIRECT TESTIMONY?

A. Mr. Dunkel proposes two revisions to Qwest's RCNLD study:

1. Staff's recommended depreciation lives and survivor curves should be used to calculate the RCNLD value and resulting condition percent.
2. The remaining life years should be calculated using the equal life group (ELG) procedure, not the vintage group (VG) procedure that was used in the RCNLD study filed in my direct testimony.

Q. IS USE OF THE EQUAL LIFE GROUP PROCEDURE IN THE RCNLD STUDY APPROPRIATE?

A. Yes. By order dated January 7, 2000 in Docket No. T-01051B-97-0689, the Commission affirmed that Qwest's Arizona depreciation rates should be calculated using the ELG approach following Federal Communications Commission (FCC) rules and guidelines. The FCC approved the use of ELG depreciation for certain plant accounts in Arizona in 1982. Therefore, the ELG procedure should have been used in the RCNLD study to calculate the remaining lives and average service lives for certain plant accounts and vintages.

Q. DID MR. DUNKEL PREPARE A REVISED RCNLD STUDY BASED ON HIS RECOMMENDATIONS?

A. Yes. Mr. Dunkel prepared RCNLD analyses calculated using 1) Staff's recommended depreciation parameters and 2) the currently prescribed depreciation parameters used by Qwest. The results of Mr. Dunkel's revised RCNLD studies can be found in Schedule WDA-17 to Mr. Dunkel's testimony.

Q. DO YOU HAVE ANY COMMENTS REGARDING MR. DUNKEL'S RCNLD STUDIES?

A. Yes. First, Qwest does not agree with Staff's recommended depreciation lives as addressed in the rebuttal testimony of Dennis Wu. The RCNLD study should be calculated using the currently prescribed depreciation lives and survivor curves. Second, although I agree that the remaining life years and average service lives by vintage should have been calculated using the ELG procedure for those accounts and vintages that are depreciated using ELG, the methodology used in Mr. Dunkel's RCNLD analysis incorrectly truncates the data after the remaining life reaches 0.50 year. Third, the surviving plant balances used in Mr. Dunkel's analysis for three plant accounts (Account 2422, Underground Cable-Metallic; Account 2423, Buried Cable-Metallic; and Account 2426, Intrabuilding Cable-Non Metallic) include plant for the 1925 vintage which should be excluded from the analysis.

Q. HAVE YOU RECALCULATED THE RCNLD VALUE USING THE ELG METHODOLOGY?

A. Yes, I have. My revised RCNLD study reflecting ELG depreciation and Qwest's currently prescribed depreciation lives and survivor curves is provided in Exhibit NHH-1R to my rebuttal testimony.

Q. WHAT LIFE EXPECTANCIES DID YOU USE IN THE REVISED RCNLD STUDY IN EXHIBIT NHH-1R TO YOUR REPLY TESTIMONY?

A. I used the remaining life and average service life years in the generation arrangement tables prepared by Qwest for each plant account which reflect the prescribed survivor curves and average service lives approved by the Commission in Decision No. 62507. For accounts and vintages that are depreciated using the ELG procedure, the remaining lives and average service lives were calculated using ELG depreciation. For the other vintages, the remaining lives and

average service lives were calculated using VG depreciation. See for example, the RCNLD analysis for Account 2232, Circuit Digital located at page 25 of Exhibit NHH-1R. As shown on the table, the years 1983 through 2003 are noted with an asterisk indicating vintage years that are depreciated using ELG depreciation. The years 1982 and earlier are depreciated using VG depreciation.

Q. EARLIER YOU STATED THAT MR. DUNKEL'S RCNLD STUDY INCORRECTLY TRUNCATES THE ANALYSIS AFTER THE REMAINING LIFE REACHES 0.50 YEAR. PLEASE EXPLAIN.

A. The best way to explain the error in Mr. Dunkel's RCNLD analyses is to compare his calculations with my calculations for a sample account. Exhibit NHH-2R is a copy of Mr. Dunkel's RCNLD analysis and my RCNLD analysis for Account 2423, Buried Cable-Metallic. Please note that both analyses are based on Qwest's prescribed depreciation parameters. (A copy of Mr. Dunkel's RCNLD analysis using Qwest's depreciation parameters was provided in the work papers to Mr. Dunkel's testimony.) As shown in Column H of Mr. Dunkel's analysis, once the remaining life equals 0.50 year (1968 vintage), the remaining life for all older vintages (1967 and prior years) is equal to zero, even though there is surviving plant in these vintages. As a result, the RCNLD value in column K for these vintages is equal to zero and the value of this older plant is not included in the total RCNLD value. The end result is that the condition percent (which is equal to the ratio of the RCNLD value divided by the Replacement Cost New (RCN) value) is understated. By comparison, the remaining life in my analysis is held constant at 0.50 year for the older surviving plant vintages to reflect the fact that although the plant is nearly fully depreciated it is still in service and has some value.

Q. PLEASE DESCRIBE THE ERROR IN MR. DUNKEL'S RCNLD ANALYSES REGARDING THE SURVIVING PLANT BALANCES FOR ACCOUNT 2422, UNDERGROUND CABLE - METALLIC; ACCOUNT 2423, BURIED CABLE - METALLIC; AND ACCOUNT 2426, INTRABUILDING CABLE - NON METALLIC.

A. A copy of Mr. Dunkel's RCNLD analysis for Account 2422, Underground Cable-Metallic; Account 2423, Buried Cable-Metallic; and Account 2426, Intrabuilding Cable-Non Metallic is provided in Exhibit NHH-3R. For each of these accounts, Mr. Dunkel's analysis shows a large surviving plant balance in the year 1925 that should have been excluded from the analysis. (In a previous rate case, Staff recommended that the 1925 vintage plant should be excluded from the depreciation analysis and Qwest agreed to exclude these amounts. The surviving plant balances used in my RCNLD study are consistent with the numbers filed in Qwest's Depreciation Schedule 8 filed as part of this rate case.) When the Telephone Plant Index is applied to the 1925 vintage plant balances, the trended RCN cost is quite large. For example, for Account 2422, Underground Cable-Metallic, the RCN value for the 1925 vintage plant is equal to $64,291,175, which overstates the RCN value for the account by approximately 9.5 percent. In addition, because the data is truncated after the remaining life equals 0.50 year, there is no RCNLD value associated with this vintage. The result of the error in Mr. Dunkel's analysis is to understate the condition percent for the three accounts identified.

Q. WHAT IS THE EFFECT OF CORRECTING THESE TWO ERRORS IN MR. DUNKEL'S RCNLD ANALYSIS?

A. The effect of correcting Mr. Dunkel's analysis so that 1) the data is not truncated after the remaining life of the plant reaches 0.50 year, and 2) the 1925 vintage plant balances are eliminated from Accounts 2422, 2423 and 2426, is to increase Mr. Dunkel's total RCNLD value

by $3,117,877. This amount is based on Staff's recommended depreciation lives and survivor curves, which Qwest does not agree with.

CONCLUSION

Q. PLEASE SUMMARIZE THE ASSUMPTIONS AND FACTORS REFLECTED IN YOUR REVISED RCNLD STUDY PRESENTED IN EXHIBIT NHH-1R.

A. The revised RCNLD study presented in Exhibit NHH-1R reflects the following assumptions and factors:

1. Qwest's current prescribed depreciation lives and survivor curves are used in the analysis.
2. The remaining life years and average service lives are calculated using the ELG procedure for those accounts and vintages that are depreciated using ELG.
3. The remaining life for older vintages with surviving plant balances is assumed to be equal to 0.50 year (i.e., no truncation of data after the remaining life reaches 0.50 year).
4. For Account 2422, Underground Cable-Metallic; Account 2423, Buried Cable-Metallic; and Account 2426, Intrabuilding Cable-Non Metallic, the surviving plant balance for vintage year 1925 is equal to zero.

Q. WHAT ARE THE RESULTS OF YOUR REVISED RCNLD STUDY?

A. Based on the results of my revised RCNLD study, the total estimated RCN and RCNLD values of the Arizona plant in service of Qwest as of December 31, 2003 are equal to:

Reproduction Cost New	$8,348,462,715
Reproduction Cost New Less Depreciation	$3,764,710,307
Condition Percent	45%

Detailed work papers showing the calculation of the revised RCNLD are provided in Exhibit NHH-1R to this rebuttal testimony.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

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

STATE OF WASHINGTON)
) ss AFFIDAVIT OF NANCY HELLER HUGHES
COUNTY OF KING)

Nancy Heller Hughes, of lawful age being first duly sworn, deposes and states:

1. My name is Nancy Heller Hughes. I am Senior Director of R. W. Beck, Inc., in Seattle, Washington and am appearing on behalf of Qwest Corporation. I have caused to be filed written rebuttal testimony in Docket No. T-01051B-03-0454 and T-00000D-00-0672.

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

Further affiant sayeth not.

Nancy Heller Hughes
Nancy Heller Hughes

SUBSCRIBED AND SWORN to before me this 14th day of December, 2004.

Linda L. Ross
Notary Public

My Commission Expires: 4-5-06

LINDA L. ROSS
STATE OF WASHINGTON
NOTARY PUBLIC
MY COMMISSION EXPIRES 4-05-06

BEFORE THE ARIZONA CORPORATION COMMISSION

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

REBUTTAL EXHIBITS OF

NANCY HELLER HUGHES

ON BEHALF OF
QWEST CORPORATION

December 20, 2004

INDEX OF REBUTTAL EXHIBITS OF

NANCY HELLER HUGHES

DESCRIPTION	EXHIBIT
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REBUTTAL EXHIBIT NHH-1R

Calculation of RCNLD Value as of December 31, 2003
Based on the ELG Depreciation Method

Table 1

QWEST COMMUNICATIONS, INC.

REPRODUCTION COST NEW LESS DEPRECIATION
VINTAGE PLANT

As of December 31, 2003

	Original Cost	Reproduction Cost New	Depreciation	Reproduction Cost New Less Depreciation
Vintage Plant [1]	$6,405,382,861	$7,906,181,526	$4,520,547,562	$3,385,633,964
Land	12,812,913	12,812,913	0	12,812,913
Artwork	126,381	126,381	0	126,381
Unregulated Plant [2]	92,578,697	92,578,697	38,775,506	53,803,191
Other Plant [3]	336,763,198	336,763,198	24,429,341	312,333,858
Total Arizona Plant	$6,847,664,050	$8,348,462,715	$4,583,752,408	$3,764,710,307

[1] See Table 2
[2] See Table 3
[3] See Table 4

Table 2

QWEST COMMUNICATIONS, INC.

REPRODUCTION COST NEW LESS DEPRECIATION
VINTAGE PLANT

As of December 31, 2003

Account	Description	Original Cost 12/31/2003	Telephone Plant Translator	Reproduction Cost New	Condition Percent	Reproduction Cost New Less Depreciation
2112	Motor Vehicles	$70,640,813	1.042	$73,623,095	46.1%	$33,922,236
2114	Special Purpose Vehicles	25,794	1.267	32,690	26.4%	8,624
2115	Garage Work Equip	1,518,694	1.199	1,821,162	64.5%	1,174,063
2116	Other Work Equip	38,319,200	1.053	40,359,391	56.4%	22,743,511
2121	Buildings	238,125,666	1.815	432,299,957	65.4%	282,893,297
2122	Furniture	1,770,500	1.170	2,071,162	56.9%	1,178,404
2123	Office Equipment	5,913,204	1.035	6,122,920	37.8%	2,316,209
2123	Company Comm Equip	2,428,544	1.056	2,565,553	50.7%	1,301,147
2124	Gen Purpose Computer	96,308,662	0.187	18,004,749	38.1%	6,867,921
2212	Digital SW Equip	1,134,442,323	0.788	894,056,694	69.5%	621,631,126
2220	Operator Systems	2,507,979	1.157	2,902,342	36.5%	1,060,348
2231	Radio Systems	32,674,980	1.122	36,669,330	34.7%	12,711,108
2232	Circuit Equip	1,732,041,544	0.992	1,718,536,462	75.0%	1,288,163,736
2362	Other Term Equip	61,115,593	0.968	59,157,645	92.5%	54,714,571
2411	Pole Lines	52,703,591	3.793	199,908,134	58.0%	115,854,620
2421	Aerial Cable	207,629,853	1.725	358,179,832	28.6%	102,450,768
2422	Underground Cable	569,838,528	1.542	878,963,480	29.9%	262,935,034
2423	Buried Cable	1,651,782,380	1.335	2,204,960,104	43.2%	952,160,136
2424	Sub Cable	2,572	1.770	4,552	0.0%	0
2426	Intra Bldg Cable	44,379,536	1.839	81,620,596	38.8%	31,631,572
2431	Aerial Wire	10,998,432	1.454	15,986,235	49.0%	7,831,234
2441	Conduit Systems	450,214,473	1.951	878,335,439	56.3%	494,617,923
	Total Vintage Plant	$6,405,382,861		$7,906,181,526		$4,298,167,585

Table 3

QWEST COMMUNICATIONS, INC.

REPRODUCTION COST NEW LESS DEPRECIATION
NONREGULATED ACCOUNTS

As of December 31, 2003

Account	Description	12/31/2003 Original Cost	12/31/2003 Reserve Balance	12/31/2003 Net Plant	Telephone Plant Translator	Reproduction Cost New	Reproduction Cost New Less Depreciation
2112	Motor Vehicles	$628,005	($260,853)	$888,857	1.00	$628,005	$888,857
2124	Computers	0	45	(45)	1.00	0	(45)
2212	Switching Equipment	20,633,339	16,325,072	4,308,267	1.00	20,633,339	4,308,267
2231	Radio Equip	216,463	115,909	100,554	1.00	216,463	100,554
2232	Circuit Equipment	16,596,544	(2,757,761)	19,354,305	1.00	16,596,544	19,354,305
2311	Station Apparatus	32,899,496	12,361,534	20,537,962	1.00	32,899,496	20,537,962
2351	Public Telephone	21,555,092	12,759,009	8,796,084	1.00	21,555,092	8,796,084
2362	Other Term Equip	50,000	15,708	34,292	1.00	50,000	34,292
2421	Aerial Cable	0	348	(348)	1.00	0	(348)
2422	Underground Cable	(243)	59	(302)	1.00	(243)	(302)
2423	Buried Cable	0	216,435	(216,435)	1.00	0	(216,435)
Total Non-Regulated Accounts		$92,578,697	$38,775,506	$53,803,191		$92,578,697	$53,803,191

Table 4

QWEST COMMUNICATIONS, INC.

REPRODUCTION COST NEW LESS DEPRECIATION
OTHER ACCOUNTS

As of December 31, 2003

Account	Description	12/31/2003 Original Cost	12/31/2003 Reserve Balance	12/31/2003 Net Plant	Telephone Plant Translator	Reproduction Cost New	Reproduction Cost New Less Depreciation
2681	Capital Leases - Buildings	$0	($35,548)	$35,548	1.00	$0	$35,548
2681	Capital Leases - Vehicles	15,713	12,167	3,546	1.00	15,713	3,546
2681	Capital Leases - Software	4,431,831	2,960,693	1,471,138	1.00	4,431,831	1,471,138
2681	Capital Leases - Other	684,601	36,929	647,672	1.00	684,601	647,672
2682	Leaseholds - Buildings	32,740,973	27,424,606	5,316,367	1.00	32,740,973	5,316,367
2682	Leaseholds - Computers	0	(9,020)	9,020	1.00	0	9,020
2690	Intangibles - Org Fees	0	(51,812)	51,812	1.00	0	51,812
2690	Intangibles - Other	29,405	(5,908,674)	5,938,079	1.00	29,405	5,938,079
2690	Intangibles - Software	270,377,124	0	270,377,124	1.00	270,377,124	270,377,124
2003	Under Construction - Short Term	25,471,555	0	25,471,555	1.00	25,471,555	25,471,555
2004	Under Construction - Long Term	2,642,220	0	2,642,220	1.00	2,642,220	2,642,220
2006	Non-Operating Plant	369,776	0	369,776	1.00	369,776	369,776
Total Other Accounts		$336,763,198	$24,429,341	$312,333,858		$336,763,198	$312,333,858

Reproduction Cost New Less Depreciation
Vintage Plant
As of December 31, 2003

Account Number	Category	Orignial Cost 12/31/03	Telephone Plant Translator	Reproduction Cost New	Condition Percent (% of Life Remaining)	Reproduction Cost New Less Depreciation
		A	B	C	D	E
2112	Motor Vehicles	70,640,813	1.042	73,623,095	40.45%	29,783,096
2114	Special Pupose Vehicles	25,794	1.267	32,690	27.41%	8,962
2115	Garage Work Equipment	1,518,694	1.199	1,821,162	64.93%	1,182,464
2116	Other Work Equipment	38,319,200	1.053	40,359,391	59.30%	23,931,932
2121	Buildings	238,125,666	1.815	432,299,957	59.83%	258,623,863
2122	Furniture	1,770,500	1.170	2,071,162	49.46%	1,024,327
2123.1	Office Equipment	5,913,204	1.035	6,122,920	19.89%	1,218,133
2123.2	Company Communications Equipment	2,428,544	1.056	2,565,553	43.80%	1,123,633
2124	General Purpose Computer	96,308,662	0.187	18,004,749	26.61%	4,791,770
2212	Digital Switching Equipment	1,134,442,323	0.788	894,056,694	51.65%	461,819,038
2220	Operator Systems	2,507,979	1.157	2,902,342	31.01%	900,070
2231	Radio Systems	32,674,980	1.122	36,669,330	27.65%	10,137,801
2232	Circuit DDS	5,472,751	0.987	5,400,555	34.15%	1,844,182
2232	Circuit Digital	1,687,132,597	0.992	1,673,497,550	51.02%	853,901,572
2232	Circuit Analog	39,436,196	1.005	39,638,357	18.74%	7,426,594
2362	Other Terminal Equipment	61,115,593	0.968	59,157,645	58.17%	34,411,794
2411	Pole Lines	52,703,591	3.793	199,908,134	63.93%	127,810,217
2421	Aerial Cable - Metallic	198,306,710	1.752	347,423,150	22.77%	79,117,938
2421	Aerial Cable - Non Metallic	9,323,143	1.154	10,756,682	56.78%	6,108,167
2422	Underground Cable - Metallic	387,857,802	1.752	679,518,893	19.63%	133,423,001
2422	Underground Cable - Non Metallic	181,980,726	1.096	199,444,587	50.47%	100,655,612
2423	Buried Cable - Metallic	1,628,171,174	1.338	2,178,731,279	32.46%	707,240,491
2423	Buried Cable - Non Metallic	23,611,206	1.111	26,228,825	48.37%	12,687,246
2424	Submarine Cable - Metallic	2,572	1.770	4,552	2.27%	103
2424	Submarine Cable - Non Metallic	0	0.000	0	0.00%	0
2426	Intrabuilding Cable - Metallic	43,325,426	1.857	80,436,382	29.51%	23,739,548
2426	Intrabuilding Cable - Non Metallic	1,054,110	1.123	1,184,215	57.96%	686,349
2431	Aerial Wire	10,998,432	1.454	15,986,235	39.95%	6,386,764
2441	Conduit Systems	450,214,473	1.951	878,335,439	56.43%	495,649,298
	TOTAL	6,405,382,861	1.234	7,906,181,526	42.82%	3,385,633,964

Company: Qwest - Arizona
Account: 2112 Motor Vehicles - Passenger Cars

Avg Life: 8.6
Iowa Curve: L3.0

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

	Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
	A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
	Total		**1,677,319**	**1.113**	**1,867,446**			**24.36%**	**454,965**
*	2003	0.5	1,615	1.047	1,691	7.08	7.58	93.40%	1,579
*	2002	1.5	0	1.023	0	6.10	7.60	80.26%	0
*	2001	2.5	236,343	1.011	238,943	5.20	7.70	67.53%	161,364
*	2000	3.5	329,192	1.000	329,192	4.38	7.88	55.58%	182,977
*	1999	4.5	0	1.011	0	3.63	8.13	44.65%	0
*	1998	5.5	0	1.023	0	3.03	8.53	35.52%	0
*	1997	6.5	0	0.993	0	2.62	9.12	28.73%	0
*	1996	7.5	0	0.975	0	2.40	9.90	24.24%	0
*	1995	8.5	0	0.996	0	2.28	10.78	21.15%	0
*	1994	9.5	0	0.993	0	2.18	11.68	18.66%	0
*	1993	10.5	0	1.031	0	2.04	12.54	16.27%	0
*	1992	11.5	15,091	1.072	16,178	1.82	13.35	13.63%	2,205
*	1991	12.5	233,796	1.116	260,916	1.64	14.14	11.60%	30,262
*	1990	13.5	148,017	1.159	171,552	1.43	14.93	9.58%	16,431
*	1989	14.5	426,757	1.175	501,439	1.22	15.72	7.76%	38,916
*	1988	15.5	260,394	1.212	315,598	1.03	16.53	6.23%	19,665
*	1987	16.5	26,114	1.223	31,937	0.85	17.35	4.90%	1,565

Company: Qwest - Arizona
Account: 2112 Motor Vehicles - Light Trucks

Avg Life: 8.6
Iowa Curve: L3.0

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

	Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
	A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
	Total		**64,373,307**	**1.028**	**66,168,652**			**42.79%**	**28,311,807**
*	2003	0.5	5,147,995	1.047	5,389,951	7.08	7.58	93.40%	5,034,413
*	2002	1.5	575,238	1.023	588,468	6.10	7.60	80.26%	472,323
*	2001	2.5	6,659,427	1.011	6,732,681	5.20	7.70	67.53%	4,546,745
*	2000	3.5	13,916,101	1.000	13,916,101	4.38	7.88	55.58%	7,735,092
*	1999	4.5	10,754,364	1.011	10,872,662	3.63	8.13	44.65%	4,854,583
*	1998	5.5	4,174,250	1.023	4,270,258	3.03	8.53	35.52%	1,516,868
*	1997	6.5	3,173,179	0.993	3,150,967	2.62	9.12	28.73%	905,212
*	1996	7.5	5,108,367	0.975	4,980,658	2.40	9.90	24.24%	1,207,432
*	1995	8.5	232,919	0.996	231,987	2.28	10.78	21.15%	49,066
*	1994	9.5	2,089,410	0.993	2,074,784	2.18	11.68	18.66%	387,246
*	1993	10.5	2,944,681	1.031	3,035,966	2.04	12.54	16.27%	493,889
*	1992	11.5	2,065,600	1.072	2,214,323	1.82	13.35	13.63%	301,878
*	1991	12.5	2,846,411	1.116	3,176,595	1.64	14.14	11.60%	368,431
*	1990	13.5	1,809,539	1.159	2,097,256	1.43	14.93	9.58%	200,876
*	1989	14.5	1,500,783	1.175	1,763,420	1.22	15.72	7.76%	136,856
*	1988	15.5	1,281,629	1.212	1,553,334	1.03	16.53	6.23%	96,790
*	1987	16.5	30,323	1.223	37,085	0.85	17.35	4.90%	1,817
*	1986	17.5	12,449	1.251	15,574	0.69	18.19	3.79%	591
*	1985	18.5	5,648	1.281	7,235	0.57	19.07	2.99%	216
*	1984	19.5	44,994	1.319	59,347	0.50	20.00	2.50%	1,484

Company: Qwest - Arizona
Account: 2112 Motor Vehicles - Heavy Trucks

Avg Life: 8.6
Iowa Curve: L3.0

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

	Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
	A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
	Total		**4,590,187**	**1.217**	**5,586,998**			**18.19%**	**1,016,324**
*	2003	0.5	0	1.047	0	7.08	7.58	93.40%	0
*	2002	1.5	872,602	1.023	892,672	6.10	7.60	80.26%	716,487
*	2001	2.5	0	1.011	0	5.20	7.70	67.53%	0
*	2000	3.5	0	1.000	0	4.38	7.88	55.58%	0
*	1999	4.5	0	1.011	0	3.63	8.13	44.65%	0
*	1998	5.5	7,342	1.023	7,511	3.03	8.53	35.52%	2,668
*	1997	6.5	0	0.993	0	2.62	9.12	28.73%	0
*	1996	7.5	0	0.975	0	2.40	9.90	24.24%	0
*	1995	8.5	5,702	0.996	5,679	2.28	10.78	21.15%	1,201
*	1994	9.5	116,604	0.993	115,788	2.18	11.68	18.66%	21,611
*	1993	10.5	612,830	1.031	631,828	2.04	12.54	16.27%	102,785
*	1992	11.5	265,615	1.072	284,739	1.82	13.35	13.63%	38,818
*	1991	12.5	74,476	1.116	83,115	1.64	14.14	11.60%	9,640
*	1990	13.5	229,936	1.159	266,496	1.43	14.93	9.58%	25,525
*	1989	14.5	38,833	1.175	45,629	1.22	15.72	7.76%	3,541
*	1988	15.5	0	1.212	0	1.03	16.53	6.23%	0
*	1987	16.5	0	1.223	0	0.85	17.35	4.90%	0
*	1986	17.5	0	1.251	0	0.69	18.19	3.79%	0
*	1985	18.5	462	1.281	592	0.57	19.07	2.99%	18
*	1984	19.5	704,193	1.319	928,831	0.50	20.00	2.50%	23,221
*	1983	20.5	862,315	1.352	1,165,850	0.50	21.00	2.38%	27,758
	1982	21.5	281,330	1.379	387,954	0.50	13.46	3.71%	14,407
	1981	22.5	388,471	1.446	561,729	0.50	14.41	3.47%	19,486
	1980	23.5	129,476	1.611	208,586	0.50	11.39	4.39%	9,157

Company: Qwest - Arizona
Account: 2114 Special Purpose Vehicles

Avg Life: 16.1
Iowa Curve: S6.0

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
Total		**25,794**	**1.267**	**32,690**			**27.41%**	**8,962**
2003	0.5	0	1.000	0	15.60	0.00	0.00%	0
2002	1.5	0	1.015	0	14.60	0.00	0.00%	0
2001	2.5	0	1.031	0	13.60	0.00	0.00%	0
2000	3.5	0	1.033	0	12.60	0.00	0.00%	0
1999	4.5	0	1.041	0	11.60	0.00	0.00%	0
1998	5.5	0	1.058	0	10.60	0.00	0.00%	0
1997	6.5	0	1.080	0	9.60	0.00	0.00%	0
1996	7.5	0	1.098	0	8.60	0.00	0.00%	0
1995	8.5	0	1.122	0	7.60	0.00	0.00%	0
1994	9.5	16,808	1.151	19,346	6.60	16.10	40.99%	7,931
1993	10.5	0	1.161	0	5.60	0.00	0.00%	0
1992	11.5	162	1.199	194	4.60	16.10	28.57%	55
1991	12.5	512	1.232	631	3.61	15.61	23.13%	146
1990	13.5	61	1.266	77	2.65	13.89	19.08%	15
1989	14.5	1,704	1.307	2,227	1.84	12.88	14.29%	318
1988	15.5	830	1.379	1,145	1.26	13.08	9.63%	110
1987	16.5	297	1.408	418	0.91	13.29	6.85%	29
1986	17.5	361	1.438	519	0.71	13.46	5.27%	27
1985	18.5	697	1.458	1,016	0.60	13.42	4.47%	45
1984	19.5	1,191	1.474	1,756	0.54	13.27	4.07%	71
1983	20.5	1,062	1.496	1,589	0.50	13.01	3.84%	61
1982	21.5	609	1.536	935	0.50	12.80	3.91%	37
1981	22.5	642	1.649	1,059	0.50	12.61	3.97%	42
1980	23.5	330	1.836	606	0.50	12.30	4.07%	25
1979	24.5	258	2.072	535	0.50	12.07	4.14%	22
1978	25.5	193	2.282	440	0.50	11.73	4.26%	19
1977	26.5	55	2.494	137	0.50	11.43	4.37%	6
1976	27.5	14	2.675	37	0.50	11.51	4.35%	2
1975	28.5	8	2.865	23	0.50	11.94	4.19%	1

Company: Qwest - Arizona
Account: 2115 Garage Work Equipment

Avg Life: 13.7
Iowa Curve: L0.0

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
Total		**1,518,694**	**1.199**	**1,821,162**			**64.93%**	**1,182,464**
2003	0.5	70,497	1.003	70,708	13.30	13.62	97.65%	69,047
2002	1.5	6,875	1.008	6,930	12.64	13.37	94.54%	6,552
2001	2.5	4,453	1.005	4,475	12.08	13.42	90.01%	4,028
2000	3.5	242,847	1.019	247,461	11.58	13.94	83.07%	205,567
1999	4.5	65,676	1.030	67,646	11.12	14.43	77.06%	52,129
1998	5.5	19,796	1.041	20,608	10.70	14.83	72.15%	14,869
1997	6.5	121,500	1.056	128,304	10.31	14.68	70.23%	90,110
1996	7.5	115,287	1.071	123,472	9.93	13.97	71.08%	87,765
1995	8.5	114,603	1.099	125,949	9.57	13.71	69.80%	87,916
1994	9.5	149,960	1.128	169,155	9.22	13.80	66.81%	113,015
1993	10.5	41,823	1.155	48,306	8.88	14.07	63.11%	30,487
1992	11.5	10,359	1.177	12,193	8.55	14.71	58.12%	7,087
1991	12.5	40,237	1.199	48,244	8.24	14.87	55.41%	26,734
1990	13.5	4,667	1.243	5,801	7.94	13.72	57.87%	3,357
1989	14.5	128,045	1.289	165,050	7.64	13.05	58.54%	96,627
1988	15.5	60,552	1.358	82,230	7.36	13.36	55.09%	45,300
1987	16.5	20,929	1.404	29,384	7.09	13.51	52.48%	15,421
1986	17.5	24,466	1.419	34,717	6.82	13.49	50.56%	17,552
1985	18.5	45,137	1.441	65,042	6.57	13.23	49.66%	32,300
1984	19.5	73,074	1.475	107,784	6.32	12.85	49.18%	53,011
1983	20.5	61,124	1.510	92,297	6.08	12.39	49.07%	45,292
1982	21.5	32,465	1.528	49,607	5.85	12.03	48.63%	24,123
1981	22.5	31,337	1.620	50,766	5.63	11.76	47.87%	24,304
1980	23.5	14,485	1.779	25,769	5.41	11.46	47.21%	12,165
1979	24.5	9,996	2.005	20,042	5.20	11.32	45.94%	9,207
1978	25.5	6,475	2.203	14,264	4.99	11.13	44.83%	6,395
1977	26.5	1,529	2.384	3,645	4.79	11.02	43.47%	1,584
1976	27.5	342	2.578	882	4.60	11.28	40.78%	360
1975	28.5	158	2.727	431	4.41	11.82	37.31%	161

Company: Qwest - Arizona
Account: 2116 Other Work Equipment

Avg Life: 11.5
Iowa Curve: L4.0

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
Total		**38,319,200**	**1.053**	**40,359,391**			**59.30%**	**23,931,932**
2003	0.5	5,998,553	0.928	5,566,657	11.00	11.46	95.99%	5,343,214
2002	1.5	2,852,736	1.000	2,852,736	10.00	10.99	90.99%	2,595,756
2001	2.5	4,564,066	0.996	4,545,810	9.00	11.00	81.82%	3,719,299
2000	3.5	7,581,569	1.019	7,725,619	8.00	11.20	71.43%	5,518,299
1999	4.5	3,706,115	1.026	3,802,474	7.01	10.97	63.90%	2,429,840
1998	5.5	78,815	1.038	81,810	6.05	6.05	100.00%	81,810
1997	6.5	2,118,684	1.046	2,216,143	5.15	9.43	54.61%	1,210,301
1996	7.5	1,333,907	1.054	1,405,938	4.32	9.24	46.75%	657,322
1995	8.5	552,117	1.071	591,317	3.56	9.39	37.91%	224,184
1994	9.5	1,067,032	1.088	1,160,931	2.93	9.67	30.30%	351,761
1993	10.5	920,236	1.119	1,029,744	2.52	10.25	24.59%	253,166
1992	11.5	1,669,477	1.133	1,891,517	2.29	10.04	22.81%	431,432
1991	12.5	1,167,819	1.162	1,357,006	2.16	9.90	21.82%	296,074
1990	13.5	611,606	1.193	729,646	1.99	10.49	18.97%	138,417
1989	14.5	1,135,613	1.248	1,417,245	1.79	10.92	16.39%	232,314
1988	15.5	1,225,595	1.295	1,587,146	1.57	11.26	13.94%	221,298
1987	16.5	662,041	1.327	878,528	1.38	11.53	11.97%	105,149
1986	17.5	155,934	1.347	210,043	1.20	11.61	10.34%	21,710
1985	18.5	245,832	1.381	339,494	1.04	11.48	9.06%	30,756
1984	19.5	324,516	1.432	464,707	0.90	11.31	7.96%	36,979
1983	20.5	208,839	1.439	300,519	0.78	11.14	7.00%	21,042
1982	21.5	79,467	1.439	114,353	0.69	11.13	6.20%	7,089
1981	22.5	45,633	1.503	68,586	0.62	11.25	5.51%	3,780
1980	23.5	12,998	1.648	21,421	0.50	11.39	4.39%	940

Company: Qwest - Arizona
Account: 2121 Buildings - Large Buildings

Avg Life: 43.0
Iowa Curve: R1.0

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

	Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
	A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
	Total		**162,649,292**	**1.963**	**319,239,708**			**56.75%**	**181,157,252**
*	2003	0.5	12,233,915	1.000	12,233,915	21.95	22.45	97.77%	11,961,445
*	2002	1.5	13,692,039	1.000	13,692,039	24.41	25.91	94.21%	12,899,370
*	2001	2.5	12,083,231	1.017	12,288,646	25.57	28.07	91.09%	11,194,182
*	2000	3.5	8,586,635	1.049	9,007,380	26.24	29.74	88.23%	7,947,332
*	1999	4.5	4,635,818	1.076	4,988,140	26.63	31.13	85.54%	4,267,079
*	1998	5.5	1,925,791	1.099	2,116,444	26.85	32.35	83.00%	1,756,616
*	1997	6.5	2,365,747	1.102	2,607,053	26.94	33.44	80.56%	2,100,299
*	1996	7.5	4,172,321	1.119	4,668,827	26.95	34.45	78.23%	3,652,392
*	1995	8.5	6,076,522	1.165	7,079,148	26.88	35.38	75.98%	5,378,392
*	1994	9.5	2,280,191	1.244	2,836,558	26.75	36.25	73.79%	2,093,184
*	1993	10.5	1,894,606	1.311	2,483,828	26.59	37.09	71.69%	1,780,669
*	1992	11.5	5,011,842	1.364	6,836,152	26.38	37.88	69.64%	4,760,763
*	1991	12.5	3,725,789	1.390	5,178,847	26.13	38.63	67.64%	3,503,061
*	1990	13.5	3,789,979	1.385	5,249,121	25.86	39.36	65.70%	3,448,736
*	1989	14.5	5,058,303	1.422	7,192,907	25.56	40.06	63.80%	4,589,383
*	1988	15.5	5,893,456	1.422	8,380,494	25.24	40.74	61.95%	5,192,039
*	1987	16.5	2,646,435	1.462	3,869,088	24.91	41.41	60.15%	2,327,433
*	1986	17.5	4,283,122	1.468	6,287,623	24.55	42.05	58.38%	3,670,895
*	1985	18.5	11,414,548	1.510	17,235,967	24.18	42.68	56.65%	9,764,894
*	1984	19.5	3,497,374	1.523	5,326,501	23.80	43.30	54.97%	2,927,730
*	1983	20.5	1,633,215	1.542	2,518,418	23.41	43.91	53.31%	1,342,659
	1982	21.5	4,772,278	1.596	7,616,556	28.07	42.04	66.77%	5,085,555
	1981	22.5	3,774,808	1.624	6,130,288	27.42	43.52	63.01%	3,862,420
	1980	23.5	1,983,005	1.731	3,432,582	26.78	43.35	61.78%	2,120,520
	1979	24.5	2,612,830	2.016	5,267,465	26.15	42.46	61.59%	3,244,094
	1978	25.5	1,163,221	2.211	2,571,882	25.52	42.18	60.50%	1,556,055
	1977	26.5	1,541,892	2.447	3,773,010	24.90	42.32	58.84%	2,219,942
	1976	27.5	262,349	2.566	673,188	24.29	41.16	59.01%	397,272
	1975	28.5	1,674,153	2.603	4,357,820	23.69	45.49	52.08%	2,269,439
	1974	29.5	1,427,013	2.936	4,189,710	23.09	45.42	50.84%	2,129,908
	1973	30.5	5,169,607	3.670	18,972,458	22.50	45.10	49.89%	9,465,195
	1972	31.5	4,384,991	3.946	17,303,174	21.92	50.28	43.60%	7,543,468
	1971	32.5	2,793,807	4.218	11,784,278	21.34	45.03	47.39%	5,584,643
	1970	33.5	1,724,529	4.705	8,113,909	20.77	43.82	47.40%	3,845,867
	1969	34.5	578,677	5.027	2,909,009	20.22	40.90	49.44%	1,438,146
	1968	35.5	762,742	5.319	4,057,025	19.67	48.04	40.95%	1,661,151
	1967	36.5	368,331	5.646	2,079,597	19.12	45.16	42.34%	880,467
	1966	37.5	266,322	5.734	1,527,090	18.59	48.79	38.10%	581,853
	1965	38.5	168,319	5.825	980,458	18.06	39.08	46.21%	453,098
	1964	39.5	908,176	5.919	5,375,494	17.54	50.52	34.72%	1,866,314
	1963	40.5	735,092	6.117	4,496,558	17.03	51.39	33.14%	1,490,103
	1962	41.5	240,631	6.117	1,471,940	16.53	50.71	32.60%	479,810
	1961	42.5	1,678,652	6.220	10,441,215	16.04	52.49	30.56%	3,190,648
	1960	43.5	1,787,060	6.328	11,308,516	15.55	48.78	31.88%	3,604,908
	1959	44.5	696,227	6.439	4,483,006	15.07	51.74	29.13%	1,305,738
	1958	45.5	424,433	6.673	2,832,241	14.60	48.14	30.33%	858,968
	1957	46.5	1,015,296	6.554	6,654,250	14.14	50.56	27.97%	1,860,979
	1956	47.5	455,020	6.925	3,151,014	13.69	44.41	30.83%	971,344
	1955	48.5	382,229	7.490	2,862,895	13.24	47.42	27.92%	799,341
	1954	49.5	173,825	7.809	1,357,399	12.80	46.56	27.49%	373,168
	1953	50.5	293,536	7.978	2,341,830	12.36	44.07	28.05%	656,796
	1952	51.5	265,831	8.341	2,217,296	11.94	49.62	24.06%	533,545
	1951	52.5	170,514	8.535	1,455,337	11.52	53.60	21.49%	312,789

Company: Qwest - Arizona
Account: 2121 Buildings - Large Buildings

Avg Life: 43.0
Iowa Curve: R1.0

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
1950	53.5	57,597	8.951	515,551	11.11	58.04	19.14%	98,687
1949	54.5	564,972	9.410	5,316,387	10.70	54.89	19.49%	1,036,352
1948	55.5	273,800	9.919	2,715,822	10.30	54.21	19.00%	516,011
1947	56.5	92,249	11.469	1,058,004	9.91	51.15	19.37%	204,982
1946	57.5	0	13.107	0	9.52	0.00	0.00%	0
1945	58.5	0	13.107	0	9.14	0.00	0.00%	0
1944	59.5	0	13.107	0	8.77	0.00	0.00%	0
1943	60.5	3,148	13.107	41,261	8.40	41.75	20.12%	8,302
1942	61.5	0	13.107	0	8.04	0.00	0.00%	0
1941	62.5	0	13.107	0	7.69	0.00	0.00%	0
1940	63.5	3,005	13.107	39,387	7.34	51.60	14.22%	5,603
1939	64.5	0	13.107	0	6.99	0.00	0.00%	0
1938	65.5	13,989	13.107	183,354	6.65	61.19	10.87%	19,927
1937	66.5	0	13.107	0	6.32	0.00	0.00%	0
1936	67.5	0	13.107	0	5.99	0.00	0.00%	0
1935	68.5	0	13.107	0	5.67	0.00	0.00%	0
1934	69.5	0	13.107	0	5.35	0.00	0.00%	0
1933	70.5	0	13.107	0	5.04	0.00	0.00%	0
1932	71.5	1,084	13.107	14,208	4.73	51.17	9.24%	1,313
1931	72.5	0	13.107	0	4.43	0.00	0.00%	0
1930	73.5	8,698	13.107	114,005	4.13	49.89	8.28%	9,438
1929	74.5	0	13.107	0	3.83	0.00	0.00%	0
1928	75.5	49,465	13.107	648,338	3.54	54.68	6.47%	41,974
1927	76.5	0	13.107	0	3.25	0.00	0.00%	0
1926	77.5	0	13.107	0	2.95	0.00	0.00%	0
1925	78.5	25,010	13.107	327,806	2.64	68.85	3.83%	12,569

Company: Qwest - Arizona
Account: 2121 Buildings - Other Buildings

Avg Life: 43.0
Iowa Curve: R1.0

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

	Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
	A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
	Total		**75,476,374**	**1.498**	**113,060,249**			**68.52%**	**77,466,611**
*	2003	0.5	14,766,733	1.000	14,766,733	21.95	22.45	97.77%	14,437,853
*	2002	1.5	5,742,252	1.000	5,742,252	24.41	25.91	94.21%	5,409,817
*	2001	2.5	8,824,884	1.017	8,974,907	25.57	28.07	91.09%	8,175,574
*	2000	3.5	5,386,922	1.049	5,650,881	26.24	29.74	88.23%	4,985,848
*	1999	4.5	1,177,759	1.076	1,267,269	26.63	31.13	85.54%	1,084,079
*	1998	5.5	2,580,429	1.099	2,835,891	26.85	32.35	83.00%	2,353,746
*	1997	6.5	718,366	1.102	791,639	26.94	33.44	80.56%	637,762
*	1996	7.5	209,473	1.119	234,400	26.95	34.45	78.23%	183,370
*	1995	8.5	316,075	1.165	368,227	26.88	35.38	75.98%	279,761
*	1994	9.5	810,062	1.244	1,007,717	26.75	36.25	73.79%	743,626
*	1993	10.5	946,552	1.311	1,240,930	26.59	37.09	71.69%	889,628
*	1992	11.5	798,448	1.364	1,089,083	26.38	37.88	69.64%	758,448
*	1991	12.5	918,344	1.390	1,276,498	26.13	38.63	67.64%	863,445
*	1990	13.5	2,220,613	1.385	3,075,549	25.86	39.36	65.70%	2,020,673
*	1989	14.5	2,837,237	1.422	4,034,551	25.56	40.06	63.80%	2,574,217
*	1988	15.5	3,630,477	1.422	5,162,538	25.24	40.74	61.95%	3,198,391
*	1987	16.5	3,393,714	1.462	4,961,610	24.91	41.41	60.15%	2,984,634
*	1986	17.5	3,432,672	1.468	5,039,162	24.55	42.05	58.38%	2,942,008
*	1985	18.5	3,809,662	1.510	5,752,590	24.18	42.68	56.65%	3,259,082
*	1984	19.5	830,774	1.523	1,265,269	23.80	43.30	54.97%	695,460
*	1983	20.5	1,920,439	1.542	2,961,317	23.41	43.91	53.31%	1,578,785
	1982	21.5	1,009,080	1.596	1,610,492	28.07	41.50	67.64%	1,089,313
	1981	22.5	890,722	1.624	1,446,533	27.42	44.41	61.74%	893,130
	1980	23.5	336,605	1.731	582,663	26.78	36.83	72.71%	423,669
	1979	24.5	705,534	2.016	1,422,357	26.15	34.89	74.95%	1,066,054
	1978	25.5	539,310	2.211	1,192,414	25.52	35.29	72.32%	862,296
	1977	26.5	326,973	2.447	800,103	24.90	36.11	68.96%	551,719
	1976	27.5	276,881	2.566	710,477	24.29	38.40	63.26%	449,413
	1975	28.5	1,158,301	2.603	3,015,058	23.69	49.82	47.55%	1,433,696
	1974	29.5	602,482	2.936	1,768,887	23.09	41.14	56.13%	992,795
	1973	30.5	856,704	3.670	3,144,104	22.50	43.53	51.69%	1,625,140
	1972	31.5	530,749	3.946	2,094,336	21.92	44.03	49.78%	1,042,649
	1971	32.5	327,003	4.218	1,379,299	21.34	38.51	55.41%	764,327
	1970	33.5	360,054	4.705	1,694,054	20.77	31.17	66.63%	1,128,826
	1969	34.5	145,845	5.027	733,163	20.22	44.07	45.88%	336,386
	1968	35.5	141,294	5.319	751,543	19.67	44.83	43.88%	329,753
	1967	36.5	55,395	5.646	312,760	19.12	41.09	46.53%	145,534
	1966	37.5	79,024	5.734	453,124	18.59	41.56	44.73%	202,685
	1965	38.5	50,016	5.825	291,343	18.06	39.76	45.42%	132,335
	1964	39.5	87,425	5.919	517,469	17.54	46.82	37.46%	193,857
	1963	40.5	148,358	6.117	907,506	17.03	44.72	38.08%	345,591
	1962	41.5	185,526	6.117	1,134,863	16.53	43.11	38.34%	435,149
	1961	42.5	427,040	6.220	2,656,189	16.04	48.46	33.10%	879,184
	1960	43.5	345,370	6.328	2,185,501	15.55	44.19	35.19%	769,055
	1959	44.5	29,233	6.439	188,231	15.07	27.54	54.72%	103,001
	1958	45.5	127,896	6.673	853,450	14.60	42.72	34.18%	291,675
	1957	46.5	106,837	6.554	700,210	14.14	52.57	26.90%	188,339
	1956	47.5	54,548	6.925	377,745	13.69	44.05	31.08%	117,397
	1955	48.5	92,851	7.490	695,454	13.24	44.60	29.69%	206,453
	1954	49.5	80,437	7.809	628,133	12.80	47.14	27.15%	170,558
	1953	50.5	6,133	7.978	48,929	12.36	39.75	31.09%	15,214
	1952	51.5	6,895	8.341	57,511	11.94	41.30	28.91%	16,627
	1951	52.5	3,975	8.535	33,927	11.52	55.79	20.65%	7,005

Company: Qwest - Arizona
Account: 2121 Buildings - Other Buildings

Avg Life: 43.0
Iowa Curve: R1.0

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
1950	53.5	15,814	8.951	141,551	11.11	55.46	20.03%	28,356
1949	54.5	54,779	9.410	515,470	10.70	51.92	20.61%	106,231
1948	55.5	0	9.919	0	10.30	0.00	0.00%	0
1947	56.5	0	11.469	0	9.91	0.00	0.00%	0
1946	57.5	3,399	13.107	44,551	9.52	55.03	17.30%	7,707
1945	58.5	0	13.107	0	9.14	0.00	0.00%	0
1944	59.5	7,532	13.107	98,722	8.77	58.95	14.88%	14,687
1943	60.5	0	13.107	0	8.40	0.00	0.00%	0
1942	61.5	4,668	13.107	61,183	8.04	55.98	14.36%	8,787
1941	62.5	0	13.107	0	7.69	0.00	0.00%	0
1940	63.5	1,077	13.107	14,116	7.34	50.94	14.41%	2,034
1939	64.5	0	13.107	0	6.99	0.00	0.00%	0
1938	65.5	2,791	13.107	36,582	6.65	38.74	17.17%	6,280
1937	66.5	0	13.107	0	6.32	0.00	0.00%	0
1936	67.5	5,691	13.107	74,592	5.99	42.54	14.08%	10,503
1935	68.5	0	13.107	0	5.67	0.00	0.00%	0
1934	69.5	0	13.107	0	5.35	0.00	0.00%	0
1933	70.5	0	13.107	0	5.04	0.00	0.00%	0
1932	71.5	0	13.107	0	4.73	0.00	0.00%	0
1931	72.5	0	13.107	0	4.43	0.00	0.00%	0
1930	73.5	0	13.107	0	4.13	0.00	0.00%	0
1929	74.5	2,496	13.107	32,715	3.83	36.81	10.40%	3,404
1928	75.5	2,702	13.107	35,415	3.54	36.80	9.62%	3,407
1927	76.5	6,423	13.107	84,186	3.25	36.83	8.82%	7,429
1926	77.5	2,619	13.107	34,327	2.95	36.80	8.02%	2,752

Company: Qwest - Arizona
Account: 2122 Furniture

Avg Life: 9.5
Iowa Curve: O4.0

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

	Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
	A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
	Total		**1,770,500**	**1.170**	**2,071,162**			**49.46%**	**1,024,327**
*	2003	0.5	62,031	1.003	62,217	2.95	3.45	85.51%	53,200
*	2002	1.5	0	1.018	0	3.74	5.24	71.37%	0
*	2001	2.5	0	1.018	0	4.38	6.88	63.66%	0
*	2000	3.5	4,853	1.030	4,999	5.03	8.53	58.97%	2,948
*	1999	4.5	0	1.042	0	5.73	10.23	56.01%	0
*	1998	5.5	729,508	1.052	767,442	6.44	11.94	53.94%	413,930
*	1997	6.5	72,399	1.058	76,598	7.12	13.62	52.28%	40,042
*	1996	7.5	285,895	1.078	308,195	7.75	15.25	50.82%	156,624
*	1995	8.5	9,792	1.102	10,791	8.29	16.79	49.37%	5,328
*	1994	9.5	31,279	1.123	35,126	8.74	18.24	47.92%	16,831
*	1993	10.5	8,526	1.161	9,899	9.10	19.60	46.43%	4,596
*	1992	11.5	81,008	1.180	95,589	9.36	20.86	44.87%	42,892
*	1991	12.5	0	1.197	0	9.54	22.04	43.28%	0
*	1990	13.5	0	1.222	0	9.63	23.13	41.63%	0
*	1989	14.5	299,670	1.266	379,382	9.66	24.16	39.98%	151,690
*	1988	15.5	20,160	1.319	26,591	9.63	25.13	38.32%	10,190
*	1987	16.5	4,607	1.377	6,344	9.54	26.04	36.64%	2,324
*	1986	17.5	15,207	1.416	21,533	9.41	26.91	34.97%	7,530
*	1985	18.5	26,114	1.458	38,074	9.23	27.73	33.29%	12,673
*	1984	19.5	20,115	1.515	30,474	9.01	28.51	31.60%	9,631
*	1983	20.5	15,580	1.563	24,352	8.77	29.27	29.96%	7,296
	1982	21.5	22,817	1.629	37,169	9.61	15.60	61.60%	22,897
	1981	22.5	24,923	1.744	43,466	9.18	14.39	63.79%	27,729
	1980	23.5	7,881	1.907	15,029	8.74	12.95	67.49%	10,143
	1979	24.5	450	2.029	913	8.30	14.27	58.16%	531
	1978	25.5	3,490	2.239	7,814	7.89	20.51	38.47%	3,006
	1977	26.5	7,070	2.410	17,039	7.43	14.52	51.17%	8,719
	1976	27.5	945	2.570	2,429	6.97	25.93	26.88%	653
	1975	28.5	4,531	2.711	12,284	6.50	23.10	28.14%	3,456
	1974	29.5	8,900	3.044	27,092	6.02	22.53	26.72%	7,239
	1973	30.5	0	3.470	0	5.54	0.00	0.00%	0
	1972	31.5	1,947	3.731	7,264	5.06	22.34	22.65%	1,645
	1971	32.5	802	3.813	3,058	4.57	23.95	19.08%	584

Company: Qwest - Arizona
Account: 2123.1 Office Equipment

Avg Life: 7.0
Iowa Curve: L0.5

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

	Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
	A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
	Total		**5,913,204**	**1.035**	**6,122,920**			**19.89%**	**1,218,133**
*	2003	0.5	1	1.013	1	3.95	4.45	88.76%	1
*	2002	1.5	0	1.006	0	3.87	5.37	72.07%	0
*	2001	2.5	389,146	1.006	391,481	3.71	6.21	59.74%	233,880
*	2000	3.5	46,533	1.013	47,138	3.57	7.07	50.50%	23,802
*	1999	4.5	258,339	1.013	261,697	3.44	7.94	43.32%	113,380
*	1998	5.5	14,226	1.013	14,411	3.28	8.78	37.36%	5,384
*	1997	6.5	457,409	1.013	463,355	3.11	9.61	32.36%	149,952
*	1996	7.5	100,004	1.019	101,904	2.94	10.44	28.16%	28,697
*	1995	8.5	655,465	1.019	667,919	2.77	11.27	24.58%	164,165
*	1994	9.5	58,226	1.026	59,740	2.60	12.10	21.49%	12,837
*	1993	10.5	22,445	1.026	23,029	2.43	12.93	18.79%	4,328
*	1992	11.5	227,485	1.019	231,807	2.27	13.77	16.49%	38,214
*	1991	12.5	114,269	1.039	118,725	2.12	14.62	14.50%	17,216
*	1990	13.5	1,322,201	1.032	1,364,511	1.98	15.48	12.79%	174,531
*	1989	14.5	1,668,506	1.039	1,733,578	1.85	16.35	11.31%	196,154
*	1988	15.5	168,236	1.067	179,508	1.74	17.24	10.09%	18,117
*	1987	16.5	73,456	1.089	79,994	1.64	18.14	9.04%	7,232
*	1986	17.5	78,773	1.112	87,596	1.55	19.05	8.14%	7,127
*	1985	18.5	3,678	1.120	4,119	1.46	19.96	7.31%	301
*	1984	19.5	188,754	1.120	211,404	1.38	20.88	6.61%	13,972
*	1983	20.5	0	1.112	0	1.27	21.77	5.83%	0
	1982	21.5	21,352	1.136	24,256	1.20	8.03	14.94%	3,625
	1981	22.5	17,262	1.169	20,179	1.05	8.13	12.92%	2,606
	1980	23.5	10,963	1.223	13,408	0.92	9.17	10.03%	1,345
	1979	24.5	3,990	1.293	5,159	0.70	9.67	7.24%	373
	1978	25.5	1,675	1.347	2,256	0.50	9.90	5.05%	114
	1977	26.5	4,349	1.407	6,119	0.50	10.03	4.98%	305
	1976	27.5	1,667	1.420	2,367	0.50	10.09	4.95%	117
	1975	28.5	0	1.432	0	0.50	0.00	0.00%	0
	1974	29.5	4,794	1.514	7,258	0.50	10.14	4.93%	358

Company: Qwest - Arizona
Account: 2123.2 Company Communication Equipment - Stand Alone

Avg Life: 8.3
Iowa Curve: L0.5

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
Total		**578,245**	**1.015**	**586,657**			**60.34%**	**354,009**
2003	0.5	4,741	1.013	4,803	7.88	8.38	94.03%	4,516
2002	1.5	5,594	1.006	5,628	7.16	8.66	82.68%	4,653
2001	2.5	1,494	1.006	1,503	6.55	9.05	72.38%	1,088
2000	3.5	501,840	1.013	508,364	6.05	9.55	63.35%	322,053
1999	4.5	5,151	1.013	5,218	5.63	10.13	55.58%	2,900
1998	5.5	0	1.013	0	5.26	0.00	0.00%	0
1997	6.5	0	1.013	0	4.91	0.00	0.00%	0
1996	7.5	3,003	1.019	3,060	4.58	12.08	37.91%	1,160
1995	8.5	2,637	1.019	2,687	4.28	12.78	33.49%	900
1994	9.5	12,454	1.026	12,778	3.99	13.49	29.58%	3,779
1993	10.5	25,923	1.026	26,597	3.73	14.23	26.21%	6,972
1992	11.5	2,801	1.019	2,854	3.48	6.64	52.41%	1,496
1991	12.5	2,033	1.039	2,112	3.25	7.53	43.16%	912
1990	13.5	3,272	1.032	3,377	3.03	8.44	35.90%	1,212
1989	14.5	4,092	1.039	4,252	2.83	9.35	30.27%	1,287
1988	15.5	3,210	1.067	3,425	2.65	8.39	31.59%	1,082

Company: Qwest - Arizona
Account: 2123.2 Company Communication Equipment - PBX & KEY Intrasystems

Avg Life: 8.3
Iowa Curve: L0.5

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
Total		**1,850,299**	**1.070**	**1,978,896**			**38.89%**	**769,624**
2003	0.5	309,855	1.013	313,883	7.88	8.38	94.03%	295,155
2002	1.5	32,486	1.006	32,681	7.16	8.66	82.68%	27,020
2001	2.5	77,633	1.006	78,099	6.55	9.05	72.38%	56,525
2000	3.5	30,365	1.013	30,760	6.05	9.55	63.35%	19,487
1999	4.5	127	1.013	129	5.63	10.13	55.58%	72
1998	5.5	191	1.013	193	5.26	10.76	48.88%	95
1997	6.5	0	1.013	0	4.91	0.00	0.00%	0
1996	7.5	22,790	1.019	23,223	4.58	12.08	37.91%	8,805
1995	8.5	0	1.019	0	4.28	0.00	0.00%	0
1994	9.5	118,364	1.026	121,441	3.99	11.63	34.31%	41,664
1993	10.5	69,199	1.026	70,998	3.73	7.93	47.04%	33,395
1992	11.5	134,813	1.019	137,374	3.48	7.47	46.59%	63,998
1991	12.5	23,524	1.039	24,441	3.25	11.49	28.29%	6,913
1990	13.5	51,101	1.032	52,736	3.03	6.49	46.69%	24,621
1989	14.5	55,921	1.039	58,102	2.83	6.97	40.60%	23,591
1988	15.5	71,080	1.067	75,842	2.65	11.28	23.49%	17,818
1987	16.5	3	1.089	3	2.48	18.98	13.07%	0
1986	17.5	567,820	1.112	631,416	2.33	18.27	12.75%	80,525
1985	18.5	28,391	1.120	31,798	2.19	8.43	25.98%	8,261
1984	19.5	33,322	1.120	37,321	2.07	14.85	13.94%	5,202
1983	20.5	157,399	1.112	175,028	1.96	8.16	24.02%	42,041
1982	21.5	21,419	1.136	24,332	1.85	12.13	15.25%	3,711
1981	22.5	3,260	1.169	3,811	1.76	1.59	110.69%	4,218
1980	23.5	1,724	1.223	2,108	1.65	11.94	13.82%	291
1979	24.5	873	1.293	1,129	1.53	8.80	17.39%	196
1978	25.5	38,639	1.347	52,047	1.41	12.19	11.57%	6,020

Company: Qwest - Arizona
Account: 2124 General Purpose Computers

Avg Life: 5.0
Iowa Curve: O1.0

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

	Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
	A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
	Total		**96,308,662**	**0.187**	**18,004,749**			**26.61%**	**4,791,770**
*	2003	0.5	1,004,059	0.600	602,435	2.80	3.30	84.85%	511,157
*	2002	1.5	618,035	0.429	265,137	3.02	4.52	66.81%	177,149
*	2001	2.5	3,745,344	0.333	1,247,200	2.94	5.44	54.04%	674,038
*	2000	3.5	12,205,074	0.273	3,331,985	2.72	6.22	43.73%	1,457,074
*	1999	4.5	9,345,624	0.231	2,158,839	2.41	6.91	34.88%	752,938
*	1998	5.5	7,757,745	0.214	1,660,157	2.05	7.55	27.15%	450,771
*	1997	6.5	6,228,698	0.214	1,332,941	1.66	8.16	20.34%	271,162
*	1996	7.5	7,056,088	0.200	1,411,218	1.24	8.74	14.19%	200,219
*	1995	8.5	6,692,413	0.150	1,003,862	0.81	9.31	8.70%	87,339
*	1994	9.5	9,049,741	0.143	1,294,113	0.50	10.00	5.00%	64,706
*	1993	10.5	10,101,085	0.143	1,444,455	0.50	11.00	4.55%	65,657
*	1992	11.5	3,749,176	0.143	536,132	0.50	12.00	4.17%	22,339
*	1991	12.5	914,675	0.125	114,334	0.50	13.00	3.85%	4,397
*	1990	13.5	2,245,636	0.103	231,301	0.50	14.00	3.57%	8,261
*	1989	14.5	11,873,954	0.097	1,151,774	0.50	15.00	3.33%	38,392
*	1988	15.5	289,548	0.070	20,268	0.50	16.00	3.13%	633
*	1987	16.5	802,716	0.064	51,374	0.50	17.00	2.94%	1,511
*	1986	17.5	1,313,168	0.064	84,043	0.50	18.00	2.78%	2,335
*	1985	18.5	143,196	0.063	9,021	0.50	19.00	2.63%	237
*	1984	19.5	225,883	0.063	14,231	0.50	20.00	2.50%	356
*	1983	20.5	864,442	0.043	37,171	0.50	21.00	2.38%	885
	1982	21.5	15,625	0.036	563	0.50	9.09	5.50%	31
	1981	22.5	64,507	0.033	2,129	0.50	6.02	8.31%	177
	1980	23.5	0	0.033	0	0.50	0.00	0.00%	0
	1979	24.5	0	0.033	0	0.50	0.00	0.00%	0
	1978	25.5	0	0.033	0	0.50	0.00	0.00%	0
	1977	26.5	0	0.033	0	0.50	0.00	0.00%	0
	1976	27.5	2,230	0.030	67	0.50	6.19	8.07%	5

Company: Qwest - Arizona
Account: 2212 Digital Switching Equipmen

Avg Life: 10.0
Iowa Curve: O1.0

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

	Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
	A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
	Total		**1,134,442,323**	**0.788**	**894,056,694**			**51.65%**	**461,819,038**
*	2003	0.5	27,734,792	1.000	27,734,792	4.96	5.46	90.84%	25,194,044
*	2002	1.5	53,438,012	0.957	51,140,177	5.69	7.19	79.14%	40,472,310
*	2001	2.5	145,915,984	0.957	139,641,597	5.94	8.44	70.39%	98,292,929
*	2000	3.5	177,091,265	0.917	162,392,690	5.99	9.49	63.10%	102,475,475
*	1999	4.5	110,962,602	0.880	97,647,090	5.91	10.41	56.76%	55,423,679
*	1998	5.5	86,876,362	0.846	73,497,402	5.75	11.25	51.09%	37,550,914
*	1997	6.5	47,158,668	0.846	39,896,233	5.52	12.02	45.94%	18,329,193
*	1996	7.5	57,707,968	0.815	47,031,994	5.26	12.76	41.21%	19,380,497
*	1995	8.5	89,531,418	0.710	63,567,307	4.95	13.45	36.81%	23,401,053
*	1994	9.5	53,580,540	0.688	36,863,412	4.62	14.12	32.71%	12,056,694
*	1993	10.5	40,903,147	0.710	29,041,234	4.26	14.76	28.85%	8,377,327
*	1992	11.5	43,747,640	0.710	31,060,824	3.87	15.37	25.20%	7,827,633
*	1991	12.5	25,867,038	0.667	17,253,314	3.47	15.97	21.75%	3,751,763
*	1990	13.5	25,657,289	0.579	14,855,570	3.06	16.56	18.46%	2,742,156
*	1989	14.5	32,037,057	0.550	17,620,381	2.62	17.12	15.33%	2,700,496
*	1988	15.5	33,143,160	0.440	14,582,990	2.18	17.68	12.34%	1,798,843
*	1987	16.5	28,772,605	0.393	11,307,634	1.73	18.23	9.48%	1,072,041
*	1986	17.5	24,680,755	0.393	9,699,537	1.27	18.77	6.77%	656,562
*	1985	18.5	9,383,136	0.386	3,621,890	0.82	19.32	4.25%	154,089
*	1984	19.5	5,173,901	0.386	1,997,126	0.50	20.00	2.50%	49,928
*	1983	20.5	2,066,464	0.286	591,009	0.50	21.00	2.38%	14,072
	1982	21.5	4,585,874	0.244	1,118,953	0.50	17.24	2.90%	32,460
	1981	22.5	1,905,156	0.227	432,470	0.50	15.09	3.31%	14,327
	1980	23.5	1,053,855	0.229	241,333	0.50	13.99	3.57%	8,628
	1979	24.5	1,508,253	0.229	345,390	0.50	16.59	3.01%	10,408
	1978	25.5	1,050,577	0.232	243,734	0.50	13.94	3.59%	8,742
	1977	26.5	898,191	0.232	208,380	0.50	15.96	3.13%	6,527
	1976	27.5	48,071	0.210	10,095	0.50	11.20	4.46%	451
	1975	28.5	265,619	0.210	55,780	0.50	11.50	4.35%	2,425
	1974	29.5	270,939	0.210	56,897	0.50	14.38	3.48%	1,978
	1973	30.5	368,379	0.210	77,360	0.50	14.15	3.53%	2,733
	1972	31.5	301,434	0.210	63,301	0.50	13.78	3.63%	2,297
	1971	32.5	340,067	0.210	71,414	0.50	13.62	3.67%	2,621
	1970	33.5	43,595	0.210	9,155	0.50	12.09	4.13%	379
	1969	34.5	8,581	0.210	1,802	0.50	6.73	7.43%	134
	1968	35.5	10,273	0.210	2,157	0.50	14.23	3.51%	76
	1967	36.5	1,152	0.210	242	0.50	14.15	3.53%	9
	1966	37.5	194,151	0.210	40,772	0.50	10.22	4.89%	1,995
	1965	38.5	8,057	0.210	1,692	0.50	14.31	3.50%	59
	1964	39.5	14,019	0.210	2,944	0.50	16.20	3.09%	91
	1963	40.5	75	0.210	16	0.50	28.93	1.73%	0
	1962	41.5	3,982	0.210	836	0.50	22.08	2.26%	19
	1961	42.5	38,681	0.210	8,123	0.50	11.34	4.41%	358
	1960	43.5	40,125	0.210	8,426	0.50	15.91	3.14%	265
	1959	44.5	7,751	0.210	1,628	0.50	16.76	2.98%	49
	1958	45.5	6,053	0.210	1,271	0.50	16.65	3.00%	38
	1957	46.5	21,099	0.210	4,431	0.50	14.79	3.38%	150
	1956	47.5	0	0.210	0	0.50	0.00	0.00%	0
	1955	48.5	0	0.210	0	0.50	0.00	0.00%	0
	1954	49.5	0	0.210	0	0.50	0.00	0.00%	0
	1953	50.5	0	0.210	0	0.50	0.00	0.00%	0
	1952	51.5	0	0.210	0	0.50	0.00	0.00%	0
	1951	52.5	0	0.210	0	0.50	0.00	0.00%	0
	1950	53.5	18,511	0.210	3,887	0.50	15.40	3.25%	126

Company: Qwest - Arizona
Account: 2220 Operator Systems

Avg Life: 10.7
Iowa Curve: S2.0

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

	Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
	A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
	Total		**2,507,979**	**1.157**	**2,902,342**			**31.01%**	**900,070**
*	2003	0.5	0	1.015	0	8.91	9.41	94.69%	0
*	2002	1.5	0	1.031	0	7.93	9.43	84.09%	0
*	2001	2.5	0	1.073	0	7.01	9.51	73.70%	0
*	2000	3.5	0	1.095	0	6.17	9.67	63.81%	0
*	1999	4.5	1,027,922	1.109	1,139,965	5.43	9.93	54.68%	623,284
*	1998	5.5	0	1.118	0	4.78	10.28	46.49%	0
*	1997	6.5	35,271	1.109	39,116	4.21	10.71	39.32%	15,381
*	1996	7.5	182,723	1.118	204,284	3.72	11.22	33.13%	67,686
*	1995	8.5	0	1.123	0	3.28	11.78	27.84%	0
*	1994	9.5	6,881	1.123	7,727	2.89	12.39	23.34%	1,803
*	1993	10.5	178,433	1.147	204,663	2.54	13.04	19.51%	39,921
*	1992	11.5	102,997	1.183	121,845	2.23	13.73	16.25%	19,795
*	1991	12.5	78,158	1.188	92,852	1.95	14.45	13.47%	12,503
*	1990	13.5	881,966	1.216	1,072,471	1.68	15.18	11.09%	118,892
*	1989	14.5	0	1.216	0	1.44	15.94	9.04%	0
*	1988	15.5	0	1.227	0	1.22	16.72	7.29%	0
*	1987	16.5	450	1.210	545	1.01	17.51	5.78%	31
*	1986	17.5	0	1.216	0	0.82	18.32	4.49%	0
*	1985	18.5	0	1.233	0	0.66	19.16	3.44%	0
*	1984	19.5	69	1.256	87	0.53	20.03	2.65%	2
*	1983	20.5	6,288	1.345	8,457	0.50	21.00	2.38%	201
	1982	21.5	5,732	1.432	8,208	0.50	9.04	5.53%	454
	1981	22.5	0	1.506	0	0.50	0.00	0.00%	0
	1980	23.5	0	1.688	0	0.50	0.00	0.00%	0
	1979	24.5	1,089	1.949	2,122	0.50	9.10	5.49%	117

Company: Qwest - Arizona
Account: 2231 Radio Systems

Avg Life: 15.1
Iowa Curve: S1.5

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

	Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
	A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
	Total		**32,674,980**	**1.122**	**36,669,330**			**27.65%**	**10,137,801**
*	2003	0.5	515,302	1.000	515,302	12.04	12.54	96.01%	494,756
*	2002	1.5	721,201	1.000	721,201	11.15	12.65	88.14%	635,683
*	2001	2.5	618,033	1.000	618,033	10.33	12.83	80.51%	497,606
*	2000	3.5	454,842	0.990	450,294	9.57	13.07	73.22%	329,710
*	1999	4.5	1,139,687	0.990	1,128,290	8.86	13.36	66.32%	748,252
*	1998	5.5	704,856	1.000	704,856	8.21	13.71	59.88%	422,091
*	1997	6.5	216,673	1.022	221,440	7.60	14.10	53.90%	119,358
*	1996	7.5	574,497	1.044	599,775	7.04	14.54	48.42%	290,400
*	1995	8.5	103,722	1.067	110,671	6.53	15.03	43.45%	48,083
*	1994	9.5	2,024,512	1.092	2,210,767	6.05	15.55	38.91%	860,138
*	1993	10.5	1,224,602	1.092	1,337,265	5.60	16.10	34.78%	465,136
*	1992	11.5	1,583,823	1.118	1,770,714	5.19	16.69	31.10%	550,629
*	1991	12.5	798,100	1.159	924,998	4.80	17.30	27.75%	256,647
*	1990	13.5	2,274,574	1.159	2,636,231	4.44	17.94	24.75%	652,445
*	1989	14.5	3,214,523	1.173	3,770,635	4.10	18.60	22.04%	831,162
*	1988	15.5	3,934,782	1.188	4,674,521	3.78	19.28	19.61%	916,478
*	1987	16.5	4,546,093	1.159	5,268,922	3.48	19.98	17.42%	917,710
*	1986	17.5	495,087	1.218	603,016	3.19	20.69	15.42%	92,973
*	1985	18.5	4,761,311	1.173	5,585,018	2.92	21.42	13.63%	761,356
*	1984	19.5	524,441	1.188	623,036	2.66	22.16	12.00%	74,787
*	1983	20.5	734,980	1.011	743,065	2.40	22.90	10.48%	77,876
	1982	21.5	48,020	1.044	50,133	2.28	13.94	16.36%	8,200
	1981	22.5	112,703	0.931	104,926	2.01	12.51	16.07%	16,859
	1980	23.5	60,842	0.950	57,800	1.76	13.31	13.22%	7,643
	1979	24.5	81,584	0.922	75,220	1.51	13.29	11.36%	8,546
	1978	25.5	222,321	0.896	199,200	1.26	15.40	8.18%	16,298
	1977	26.5	185,516	0.913	169,376	1.02	15.25	6.69%	11,329
	1976	27.5	131,235	0.969	127,167	0.79	16.02	4.93%	6,271
	1975	28.5	60,708	0.931	56,519	0.59	12.68	4.65%	2,630
	1974	29.5	43,535	0.931	40,531	0.50	14.05	3.56%	1,442
	1973	30.5	232,550	0.913	212,318	0.50	19.03	2.63%	5,580
	1972	31.5	160,356	0.931	149,291	0.50	18.48	2.71%	4,040
	1971	32.5	81,986	0.979	80,264	0.50	17.82	2.81%	2,252
	1970	33.5	42,919	1.218	52,275	0.50	19.62	2.55%	1,332
	1969	34.5	5,907	1.439	8,500	0.50	14.71	3.40%	289
	1968	35.5	27,351	1.532	41,902	0.50	19.85	2.52%	1,056
	1967	36.5	227	1.508	342	0.50	18.02	2.78%	10
	1966	37.5	1,675	1.638	2,744	0.50	20.32	2.46%	68
	1965	38.5	346	1.583	548	0.50	17.15	2.92%	16
	1964	39.5	2,661	1.827	4,862	0.50	17.66	2.83%	138
	1963	40.5	1,105	1.939	2,143	0.50	16.19	3.09%	66
	1962	41.5	117	2.065	242	0.50	17.01	2.94%	7
	1961	42.5	5,675	2.639	14,976	0.50	16.41	3.05%	456

Company: Qwest - Arizona
Account: 2232 Circuit DDS

Avg Life: 8.1
Iowa Curve: L1.0

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

	Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
	A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
	Total		**5,472,751**	**0.987**	**5,400,555**			**34.15%**	**1,844,182**
*	2003	0.5	50,945	1.000	50,945	5.03	5.53	90.96%	46,340
*	2002	1.5	99,979	1.000	99,979	4.64	6.14	75.58%	75,569
*	2001	2.5	314,214	1.027	322,698	4.30	6.80	63.24%	204,082
*	2000	3.5	264,470	1.056	279,280	4.05	7.55	53.65%	149,833
*	1999	4.5	1,118,818	1.086	1,215,036	3.87	8.37	46.25%	561,931
*	1998	5.5	508,941	1.056	537,442	3.70	9.20	40.24%	216,254
*	1997	6.5	299,174	1.086	324,903	3.52	10.02	35.12%	114,115
*	1996	7.5	306,396	1.000	306,396	3.33	10.83	30.72%	94,136
*	1995	8.5	379,638	1.027	389,888	3.13	11.63	26.91%	104,922
*	1994	9.5	228,458	0.974	222,518	2.93	12.43	23.58%	52,480
*	1993	10.5	267,317	0.974	260,367	2.74	13.24	20.67%	53,814
*	1992	11.5	303,287	1.000	303,287	2.54	14.04	18.10%	54,892
*	1991	12.5	136,541	1.118	152,653	2.35	14.85	15.83%	24,158
*	1990	13.5	160,013	1.118	178,895	2.16	15.66	13.81%	24,698
*	1989	14.5	89,462	1.086	97,156	1.98	16.48	12.01%	11,667
*	1988	15.5	186,543	1.086	202,586	1.80	17.30	10.40%	21,070
*	1987	16.5	199,791	0.974	194,596	1.62	18.12	8.96%	17,437
*	1986	17.5	55,069	0.644	35,464	1.45	18.95	7.67%	2,720
*	1985	18.5	232,317	0.487	113,138	1.29	19.79	6.51%	7,364
*	1984	19.5	82,738	0.463	38,308	1.13	20.63	5.47%	2,095
*	1983	20.5	88,613	0.396	35,091	0.97	21.47	4.54%	1,592
	1982	21.5	84,150	0.404	33,997	0.85	11.13	7.60%	2,582
	1981	22.5	9,276	0.409	3,794	0.72	9.16	7.88%	299
	1980	23.5	2,582	0.355	917	0.59	9.39	6.29%	58
	1979	24.5	251	0.317	80	0.50	6.42	7.79%	6
	1978	25.5	3,180	0.299	951	0.50	7.92	6.31%	60
	1977	26.5	57	0.302	17	0.50	7.90	6.33%	1
	1976	27.5	531	0.328	174	0.50	13.01	3.84%	7

Company: Qwest - Arizona
Account: 2232 Circuit Digital

Avg Life: **10.0**
Iowa Curve: O2.0

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

	Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
	A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
	Total		**1,687,132,597**	**0.992**	**1,673,497,550**			**51.02%**	**853,901,572**
*	2003	0.5	72,004,486	1.000	72,004,486	4.59	5.09	90.19%	64,938,141
*	2002	1.5	76,899,569	1.000	76,899,569	5.30	6.80	77.93%	59,929,128
*	2001	2.5	258,256,113	1.027	265,229,028	5.56	8.06	68.97%	182,921,052
*	2000	3.5	219,201,984	1.056	231,477,295	5.63	9.13	61.66%	142,724,424
*	1999	4.5	206,614,234	1.086	224,383,058	5.60	10.10	55.44%	124,393,760
*	1998	5.5	107,969,354	1.056	114,015,638	5.51	11.01	50.03%	57,046,291
*	1997	6.5	69,971,255	1.086	75,988,783	5.38	11.88	45.29%	34,416,618
*	1996	7.5	104,613,875	1.000	104,613,875	5.24	12.74	41.13%	43,024,608
*	1995	8.5	74,354,133	1.027	76,361,695	5.10	13.60	37.50%	28,632,185
*	1994	9.5	55,959,572	0.974	54,504,623	4.98	14.48	34.38%	18,736,887
*	1993	10.5	41,708,477	0.974	40,624,057	4.89	15.39	31.76%	12,901,766
*	1992	11.5	47,096,186	1.000	47,096,186	4.84	16.34	29.62%	13,949,593
*	1991	12.5	47,712,287	1.118	53,342,337	4.84	17.34	27.90%	14,880,882
*	1990	13.5	43,969,383	1.118	49,157,770	4.86	18.36	26.49%	13,020,210
*	1989	14.5	34,318,002	1.086	37,269,350	4.90	19.40	25.26%	9,413,697
*	1988	15.5	36,715,165	1.086	39,872,669	4.92	20.42	24.09%	9,604,718
*	1987	16.5	33,900,647	0.974	33,019,230	4.90	21.40	22.89%	7,558,251
*	1986	17.5	43,886,757	0.644	28,263,072	4.83	22.33	21.62%	6,110,731
*	1985	18.5	41,973,150	0.487	20,440,924	4.70	23.20	20.26%	4,142,127
*	1984	19.5	25,181,269	0.463	11,658,928	4.52	24.02	18.82%	2,194,492
*	1983	20.5	17,211,323	0.396	6,815,684	4.29	24.79	17.31%	1,179,689
	1982	21.5	9,497,706	0.404	3,837,073	4.31	16.74	25.72%	987,075
	1981	22.5	5,914,799	0.409	2,419,153	3.93	16.37	24.00%	580,509
	1980	23.5	3,330,371	0.355	1,182,282	3.53	14.87	23.72%	280,394
	1979	24.5	1,713,050	0.317	543,037	3.10	13.79	22.50%	122,195
	1978	25.5	810,257	0.299	242,267	2.66	13.11	20.30%	49,191
	1977	26.5	576,947	0.302	174,238	2.21	12.20	18.11%	31,563
	1976	27.5	1,172,227	0.328	384,490	1.75	11.98	14.59%	56,083
	1975	28.5	750,787	0.362	271,785	1.28	13.30	9.64%	26,191
	1974	29.5	1,152,890	0.365	420,805	0.83	16.43	5.03%	21,158
	1973	30.5	925,950	0.365	337,972	0.50	16.64	3.00%	10,154
	1972	31.5	469,822	0.365	171,485	0.50	17.86	2.80%	4,801
	1971	32.5	465,803	0.365	170,018	0.50	17.04	2.93%	4,988
	1970	33.5	199,584	0.365	72,848	0.50	17.59	2.84%	2,071
	1969	34.5	308,095	0.365	112,455	0.50	20.87	2.40%	2,695
	1968	35.5	12,064	0.365	4,403	0.50	22.02	2.27%	100
	1967	36.5	73,343	0.365	26,770	0.50	18.23	2.74%	734
	1966	37.5	57,294	0.365	20,912	0.50	18.19	2.75%	575
	1965	38.5	20,065	0.365	7,324	0.50	18.04	2.77%	203
	1964	39.5	39,455	0.365	14,401	0.50	19.04	2.63%	378
	1963	40.5	7,251	0.365	2,647	0.50	16.88	2.96%	78
	1962	41.5	0	0.365	0	0.50	0.00	0.00%	0
	1961	42.5	20,999	0.365	7,665	0.50	17.70	2.83%	217
	1960	43.5	1,050	0.365	383	0.50	18.24	2.74%	11
	1959	44.5	664	0.365	242	0.50	18.36	2.72%	7
	1958	45.5	0	0.365	0	0.50	0.00	0.00%	0
	1957	46.5	63,778	0.365	23,279	0.50	17.12	2.92%	680
	1956	47.5	0	0.365	0	0.50	0.00	0.00%	0
	1955	48.5	472	0.365	172	0.50	15.64	3.20%	6
	1954	49.5	747	0.365	273	0.50	18.50	2.70%	7
	1953	50.5	0	0.365	0	0.50	0.00	0.00%	0
	1952	51.5	0	0.365	0	0.50	0.00	0.00%	0
	1951	52.5	0	0.365	0	0.50	0.00	0.00%	0

Company: Qwest - Arizona
Account: 2232 Circuit Digital

Avg Life: **10.0**
Iowa Curve: O2.0

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
1950	53.5	29,316	0.365	10,700	0.50	21.13	2.37%	253
1949	54.5	0	0.365	0	0.50	0.00	0.00%	0
1948	55.5	0	0.365	0	0.50	0.00	0.00%	0
1947	56.5	0	0.365	0	0.50	0.00	0.00%	0
1946	57.5	0	0.365	0	0.50	0.00	0.00%	0
1945	58.5	0	0.365	0	0.50	0.00	0.00%	0
1944	59.5	0	0.365	0	0.50	0.00	0.00%	0
1943	60.5	0	0.365	0	0.50	0.00	0.00%	0
1942	61.5	590	0.365	215	0.50	22.61	2.21%	5

Company: Qwest - Arizona
Account: 2232 Circuit Analog

Avg Life: 8.0
Iowa Curve: L0.0

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

	Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
	A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
	Total		**39,436,196**	**1.005**	**39,638,357**			**18.74%**	**7,426,594**
*	2003	0.5	244,997	1.000	244,997	4.10	4.60	89.13%	218,365
*	2002	1.5	289,039	1.007	291,062	4.31	5.81	74.19%	215,950
*	2001	2.5	510,480	1.014	517,627	4.35	6.85	63.53%	328,835
*	2000	3.5	711,959	1.000	711,959	4.32	7.82	55.26%	393,452
*	1999	4.5	1,687,434	1.007	1,699,246	4.24	8.74	48.53%	824,645
*	1998	5.5	1,303,392	1.007	1,312,516	4.13	9.63	42.86%	562,566
*	1997	6.5	445,098	0.993	441,982	3.99	10.49	38.02%	168,030
*	1996	7.5	630,912	0.986	622,079	3.83	11.33	33.83%	210,467
*	1995	8.5	624,786	0.966	603,543	3.68	12.18	30.19%	182,203
*	1994	9.5	702,621	0.960	674,516	3.51	13.01	26.99%	182,084
*	1993	10.5	1,126,394	0.966	1,088,097	3.35	13.85	24.18%	263,099
*	1992	11.5	1,710,060	0.980	1,675,859	3.18	14.68	21.69%	363,444
*	1991	12.5	1,076,586	0.986	1,061,514	3.02	15.52	19.47%	206,684
*	1990	13.5	1,175,087	1.000	1,175,087	2.86	16.36	17.49%	205,550
*	1989	14.5	2,248,516	1.000	2,248,516	2.70	17.20	15.72%	353,488
*	1988	15.5	2,380,162	1.021	2,430,145	2.55	18.05	14.13%	343,387
*	1987	16.5	3,357,293	0.986	3,310,291	2.40	18.90	12.70%	420,316
*	1986	17.5	3,535,757	1.000	3,535,757	2.25	19.75	11.40%	403,137
*	1985	18.5	3,333,371	0.947	3,156,702	2.11	20.61	10.23%	322,971
*	1984	19.5	2,309,746	0.947	2,187,329	1.97	21.47	9.17%	200,569
*	1983	20.5	2,722,746	0.935	2,545,768	1.83	22.33	8.20%	208,831
	1982	21.5	2,181,598	1.091	2,380,123	1.79	13.88	12.87%	306,302
	1981	22.5	1,283,700	1.125	1,444,163	1.64	13.70	11.98%	173,059
	1980	23.5	941,101	1.108	1,042,740	1.50	12.68	11.84%	123,512
	1979	24.5	885,764	1.180	1,045,202	1.37	12.54	10.89%	113,825
	1978	25.5	347,169	1.210	420,074	1.23	11.55	10.68%	44,852
	1977	26.5	208,513	1.220	254,386	1.11	11.81	9.41%	23,948
	1976	27.5	139,036	1.297	180,330	0.98	12.87	7.59%	13,689
	1975	28.5	157,488	1.286	202,530	0.85	12.64	6.71%	13,584
	1974	29.5	132,267	1.333	176,312	0.50	13.84	3.61%	6,370
	1973	30.5	157,040	1.385	217,500	0.50	14.98	3.34%	7,260
	1972	31.5	120,389	1.333	160,479	0.50	14.98	3.34%	5,356
	1971	32.5	158,836	1.125	178,691	0.50	16.12	3.10%	5,543
	1970	33.5	100,412	0.883	88,664	0.50	15.46	3.23%	2,868
	1969	34.5	41,985	0.906	38,038	0.50	18.18	2.75%	1,046
	1968	35.5	17,039	0.832	14,176	0.50	17.91	2.79%	396
	1967	36.5	20,469	0.686	14,042	0.50	17.25	2.90%	407
	1966	37.5	22,929	0.643	14,743	0.50	17.90	2.79%	412
	1965	38.5	10,022	0.673	6,745	0.50	18.18	2.75%	185
	1964	39.5	6,735	0.632	4,257	0.50	17.64	2.83%	121
	1963	40.5	301,575	0.615	185,469	0.50	19.48	2.57%	4,761
	1962	41.5	5,432	0.527	2,863	0.50	17.37	2.88%	82
	1961	42.5	1,359	0.485	659	0.50	17.32	2.89%	19
	1960	43.5	11,590	0.462	5,355	0.50	16.86	2.97%	159
	1959	44.5	5,585	0.482	2,692	0.50	18.26	2.74%	74
	1958	45.5	35,857	0.475	17,032	0.50	16.95	2.95%	502
	1957	46.5	4,922	0.454	2,235	0.50	17.32	2.89%	65
	1956	47.5	2,305	0.451	1,040	0.50	19.66	2.54%	26
	1955	48.5	92	0.463	43	0.50	15.11	3.31%	1
	1954	49.5	3,297	0.414	1,365	0.50	17.49	2.86%	39
	1953	50.5	0	0.359	0	0.50	0.00	0.00%	0
	1952	51.5	733	0.351	257	0.50	13.47	3.71%	10
	1951	52.5	1,971	0.340	670	0.50	14.99	3.34%	22
	1950	53.5	359	0.351	126	0.50	16.27	3.07%	4
	1949	54.5	2,191	0.350	767	0.50	17.54	2.85%	22

Company: Qwest - Arizona
Account: 2362 Other Termination Equipment

Avg Life: 6.8
Iowa Curve: O3.0

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
Total		**61,115,593**	**0.968**	**59,157,645**			**58.17%**	**34,411,794**
2003	0.5	2,666,983	1.000	2,666,983	6.73	7.23	93.08%	2,482,544
2002	1.5	3,458,316	1.000	3,458,316	6.61	7.95	83.14%	2,875,405
2001	2.5	7,305,577	0.995	7,269,049	6.57	9.05	72.60%	5,277,089
2000	3.5	8,894,105	0.979	8,707,329	6.58	10.08	65.28%	5,683,951
1999	4.5	7,739,440	0.984	7,615,609	6.63	11.13	59.57%	4,536,522
1998	5.5	6,079,312	0.974	5,921,250	6.69	12.12	55.20%	3,268,413
1997	6.5	5,746,090	0.945	5,430,055	6.73	13.04	51.61%	2,802,475
1996	7.5	5,403,628	0.926	5,003,760	6.73	14.21	47.36%	2,369,831
1995	8.5	5,079,136	0.896	4,550,906	6.68	15.12	44.18%	2,010,585
1994	9.5	3,676,515	0.875	3,216,951	6.58	15.68	41.96%	1,349,970
1993	10.5	1,787,158	0.875	1,563,763	6.43	12.92	49.77%	778,251
1992	11.5	370,843	0.883	327,454	6.23	13.12	47.48%	155,491
1991	12.5	457,973	0.879	402,558	5.98	12.50	47.84%	192,584
1990	13.5	303,940	0.892	271,114	5.70	12.02	47.42%	128,565
1989	14.5	122,361	0.892	109,146	5.38	7.54	71.35%	77,879
1988	15.5	385,584	0.909	350,496	5.03	18.58	27.07%	94,887
1987	16.5	35,275	0.867	30,583	4.65	9.37	49.63%	15,177
1986	17.5	125,246	0.871	109,089	4.25	11.65	36.48%	39,797
1985	18.5	25,119	0.892	22,406	3.83	4.51	84.92%	19,028
1984	19.5	83,658	0.917	76,714	3.40	4.95	68.69%	52,693
1983	20.5	140,391	0.964	135,337	2.95	14.65	20.14%	27,252
1982	21.5	68,596	1.132	77,651	2.49	18.79	13.25%	10,290
1981	22.5	14,248	1.260	17,952	2.02	13.07	15.46%	2,775
1980	23.5	151,883	1.340	203,523	1.55	4.18	37.08%	75,469
1979	24.5	198,672	1.488	295,624	1.07	12.98	8.24%	24,370
1978	25.5	175,486	1.588	278,672	0.60	9.52	6.30%	17,563
1977	26.5	101,450	1.673	169,726	0.50	17.61	2.84%	4,819
1976	27.5	78,015	1.703	132,860	0.50	11.26	4.44%	5,902
1975	28.5	54,695	1.734	94,841	0.50	8.85	5.65%	5,356
1974	29.5	75,587	1.766	133,487	0.50	10.55	4.74%	6,326
1973	30.5	36,120	1.766	63,788	0.50	12.27	4.07%	2,599
1972	31.5	6,834	1.750	11,960	0.50	10.81	4.62%	553
1971	32.5	123,907	1.750	216,837	0.50	10.70	4.67%	10,131
1970	33.5	6,027	1.750	10,547	0.50	11.23	4.45%	469
1969	34.5	658	1.615	1,063	0.50	11.36	4.40%	47
1968	35.5	1,017	1.575	1,602	0.50	16.65	3.00%	48
1967	36.5	0	1.537	0	0.50	0.00	0.00%	0
1966	37.5	135,748	1.537	208,645	0.50	15.59	3.21%	6,690

Company: Qwest - Arizona
Account: 2411 Pole Lines

Avg Life: 46.4
Iowa Curve: O1.0

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

	Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
	A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
	Total		**52,703,591**	**3.793**	**199,908,134**			**63.93%**	**127,810,217**
*	2003	0.5	1,545,388	1.017	1,571,660	17.57	18.07	97.23%	1,528,172
*	2002	1.5	1,626,411	1.044	1,697,973	20.73	22.23	93.25%	1,583,400
*	2001	2.5	1,720,203	1.073	1,845,778	22.53	25.03	90.01%	1,661,421
*	2000	3.5	1,785,254	1.108	1,978,061	23.77	27.27	87.17%	1,724,185
*	1999	4.5	1,651,339	1.121	1,851,151	24.70	29.20	84.59%	1,565,871
*	1998	5.5	1,596,604	1.148	1,832,901	25.41	30.91	82.21%	1,506,762
*	1997	6.5	1,834,927	1.183	2,170,719	25.97	32.47	79.98%	1,736,174
*	1996	7.5	736,300	1.238	911,539	26.42	33.92	77.89%	709,990
*	1995	8.5	1,339,717	1.282	1,717,517	26.77	35.27	75.90%	1,303,599
*	1994	9.5	1,813,694	1.296	2,350,547	27.06	36.56	74.02%	1,739,765
*	1993	10.5	1,713,925	1.404	2,406,351	27.28	37.78	72.21%	1,737,566
*	1992	11.5	1,377,190	1.451	1,998,303	27.44	38.94	70.47%	1,408,152
*	1991	12.5	1,642,215	1.511	2,481,387	27.56	40.06	68.80%	1,707,115
*	1990	13.5	1,681,640	1.582	2,660,354	27.64	41.14	67.19%	1,787,365
*	1989	14.5	2,344,916	1.631	3,824,558	27.69	42.19	65.63%	2,510,121
*	1988	15.5	1,287,205	1.683	2,166,366	27.70	43.20	64.12%	1,389,082
*	1987	16.5	929,899	1.603	1,490,628	27.68	44.18	62.65%	933,920
*	1986	17.5	1,592,751	1.620	2,580,257	27.64	45.14	61.23%	1,579,936
*	1985	18.5	1,166,511	1.671	1,949,240	27.58	46.08	59.85%	1,166,667
*	1984	19.5	878,184	1.726	1,515,746	27.49	46.99	58.50%	886,739
*	1983	20.5	1,144,745	1.758	2,012,462	27.38	47.88	57.18%	1,150,819
*	1982	21.5	1,024,363	1.819	1,863,316	27.26	48.76	55.91%	1,041,715
	1981	22.5	222,184	1.892	420,372	35.15	41.87	83.95%	352,904
	1980	23.5	188,518	2.039	384,388	34.65	44.06	78.64%	302,293
	1979	24.5	186,429	2.274	423,940	34.15	40.52	84.28%	357,294
	1978	25.5	367,319	2.613	959,805	33.65	44.25	76.05%	729,885
	1977	26.5	333,341	2.815	938,355	33.15	46.81	70.82%	664,526
	1976	27.5	1,244,435	2.975	3,702,194	32.65	50.36	64.83%	2,400,251
	1975	28.5	169,250	3.032	513,166	32.15	37.61	85.48%	438,668
	1974	29.5	275,336	3.611	994,238	31.65	43.60	72.59%	721,735
	1973	30.5	379,857	4.421	1,679,348	31.15	39.25	79.36%	1,332,782
	1972	31.5	209,134	4.876	1,019,737	30.65	35.75	85.73%	874,264
	1971	32.5	266,245	5.315	1,415,092	30.15	41.85	72.04%	1,019,475
	1970	33.5	349,418	5.840	2,040,601	29.65	41.84	70.87%	1,446,076
	1969	34.5	340,418	6.064	2,064,295	29.15	39.28	74.21%	1,531,930
	1968	35.5	297,226	6.307	1,874,604	28.65	38.44	74.53%	1,397,175
	1967	36.5	245,720	6.662	1,636,987	28.15	36.78	76.54%	1,252,887
	1966	37.5	346,500	6.757	2,341,301	27.65	39.01	70.88%	1,659,497
	1965	38.5	526,287	6.855	3,607,697	27.15	38.24	71.00%	2,561,427
	1964	39.5	650,338	7.060	4,591,386	26.65	41.25	64.61%	2,966,314
	1963	40.5	756,437	7.167	5,421,384	26.15	43.12	60.64%	3,287,783
	1962	41.5	647,718	7.167	4,642,195	25.65	39.57	64.82%	3,009,156
	1961	42.5	870,839	7.391	6,436,371	25.15	40.61	61.93%	3,986,081
	1960	43.5	1,545,738	7.508	11,605,401	24.65	45.26	54.46%	6,320,661
	1959	44.5	1,640,871	7.629	12,518,205	24.15	44.27	54.55%	6,828,883
	1958	45.5	1,192,432	7.629	9,097,064	23.65	45.06	52.49%	4,774,646
	1957	46.5	920,944	8.298	7,641,993	23.15	42.83	54.05%	4,130,566
	1956	47.5	710,713	8.759	6,225,135	22.65	38.46	58.89%	3,666,129
	1955	48.5	659,822	9.460	6,241,916	22.15	35.67	62.10%	3,876,043
	1954	49.5	791,192	9.275	7,338,306	21.65	37.73	57.38%	4,210,822
	1953	50.5	573,021	9.854	5,646,549	21.15	34.81	60.76%	3,430,753
	1952	51.5	435,518	10.283	4,478,432	20.65	30.24	68.29%	3,058,188
	1951	52.5	373,063	10.511	3,921,265	20.15	29.14	69.15%	2,711,513

Company: Qwest - Arizona
Account: 2411 Pole Lines

Avg Life: 46.4
Iowa Curve: O1.0

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
1950	53.5	338,330	11.262	3,810,272	19.65	26.58	73.93%	2,816,849
1949	54.5	249,942	11.537	2,883,581	19.15	26.92	71.14%	2,051,284
1948	55.5	235,842	11.825	2,788,832	18.65	24.98	74.66%	2,082,134
1947	56.5	231,074	12.447	2,876,178	18.15	25.08	72.37%	2,081,445
1946	57.5	176,794	13.912	2,459,558	17.65	23.42	75.36%	1,853,595
1945	58.5	133,984	13.912	1,863,985	17.15	27.58	62.18%	1,159,077
1944	59.5	51,361	13.912	714,534	16.65	25.56	65.14%	465,454
1943	60.5	39,511	13.912	549,677	16.15	25.13	64.27%	353,254
1942	61.5	79,463	13.912	1,105,489	15.65	25.87	60.49%	668,763
1941	62.5	135,322	13.912	1,882,600	15.15	22.65	66.89%	1,259,222
1940	63.5	125,685	13.912	1,748,530	14.65	29.02	50.48%	882,700
1939	64.5	49,007	13.912	681,785	14.15	23.81	59.43%	405,177
1938	65.5	41,895	13.912	582,843	13.66	25.36	53.86%	313,945
1937	66.5	62,423	13.912	868,429	13.15	21.46	61.28%	532,145
1936	67.5	41,990	13.912	584,165	12.66	25.36	49.92%	291,622
1935	68.5	57,250	13.912	796,462	12.15	20.96	57.97%	461,690
1934	69.5	21,247	13.912	295,588	11.65	21.52	54.14%	160,019
1933	70.5	27,175	13.912	378,059	11.15	26.94	41.39%	156,472
1932	71.5	26,477	13.912	368,348	10.65	25.76	41.34%	152,287
1931	72.5	19,885	13.912	276,640	10.16	26.51	38.33%	106,023
1930	73.5	85,499	13.912	1,189,462	9.66	23.79	40.61%	482,985
1929	74.5	82,575	13.912	1,148,783	9.16	24.08	38.04%	436,996
1928	75.5	84,747	13.912	1,179,000	8.66	32.12	26.96%	317,875
1927	76.5	71,426	13.912	993,679	8.16	25.43	32.09%	318,852
1926	77.5	27,292	13.912	379,686	7.66	25.04	30.59%	116,150
1925	78.5	57,751	13.912	803,432	7.16	25.56	28.01%	225,062

Company: Qwest - Arizona
Account: 2421 Aerial Cable - Metallic

Avg Life: 12.0
Iowa Curve: R1.0

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
Total		**198,306,710**	**1.752**	**347,423,150**			**22.77%**	**79,117,938**
* 2003	0.5	9,268,010	1.020	9,453,370	7.05	7.55	93.38%	8,827,609
* 2002	1.5	8,174,820	1.057	8,640,785	7.52	9.02	83.36%	7,203,168
* 2001	2.5	10,204,118	1.070	10,918,406	7.50	10.00	75.00%	8,189,142
* 2000	3.5	13,297,453	1.103	14,667,091	7.30	10.80	67.59%	9,913,531
* 1999	4.5	7,739,297	1.124	8,698,970	6.99	11.49	60.85%	5,293,116
* 1998	5.5	7,735,931	1.093	8,455,373	6.63	12.13	54.64%	4,620,242
* 1997	6.5	9,638,886	1.080	10,409,997	6.22	12.72	48.91%	5,092,026
* 1996	7.5	10,816,115	1.096	11,854,462	5.81	13.31	43.63%	5,172,341
* 1995	8.5	8,425,887	1.142	9,622,363	5.38	13.88	38.77%	3,730,774
* 1994	9.5	6,477,344	1.252	8,109,635	4.96	14.46	34.31%	2,782,798
* 1993	10.5	6,398,621	1.252	8,011,073	4.55	15.05	30.24%	2,422,623
* 1992	11.5	6,289,128	1.284	8,075,240	4.15	15.65	26.53%	2,142,052
* 1991	12.5	7,189,042	1.279	9,194,785	3.76	16.26	23.15%	2,128,324
* 1990	13.5	7,560,340	1.288	9,737,718	3.39	16.89	20.08%	1,955,230
* 1989	14.5	6,717,356	1.298	8,719,128	3.03	17.53	17.30%	1,508,116
* 1988	15.5	7,071,987	1.509	10,671,628	2.69	18.19	14.78%	1,576,909
* 1987	16.5	6,131,969	1.555	9,535,212	2.36	18.86	12.50%	1,191,596
* 1986	17.5	4,764,405	1.583	7,542,053	2.04	19.54	10.44%	787,191
* 1985	18.5	4,650,293	1.535	7,138,200	1.74	20.24	8.58%	612,621
* 1984	19.5	4,156,437	1.689	7,020,222	1.45	20.95	6.92%	485,475
* 1983	20.5	3,671,077	1.650	6,057,277	1.18	21.68	5.43%	328,617
* 1982	21.5	5,091,699	1.722	8,767,906	0.91	22.41	4.08%	357,571
1981	22.5	1,794,184	1.792	3,215,178	0.65	20.93	3.11%	99,947
1980	23.5	1,681,363	1.829	3,075,213	0.50	19.62	2.55%	78,385
1979	24.5	1,471,680	2.089	3,074,340	0.50	20.70	2.42%	74,273
1978	25.5	454,994	2.338	1,063,776	0.50	19.98	2.50%	26,618
1977	26.5	1,293,319	2.451	3,169,925	0.50	22.05	2.27%	71,888
1976	27.5	902,886	2.615	2,361,047	0.50	23.49	2.13%	50,256
1975	28.5	928,167	2.824	2,621,144	0.50	23.27	2.15%	56,311
1974	29.5	1,320,187	2.824	3,728,208	0.50	23.64	2.11%	78,849
1973	30.5	1,437,313	3.299	4,741,696	0.50	23.85	2.10%	99,425
1972	31.5	1,453,781	3.530	5,131,847	0.50	23.95	2.09%	107,121
1971	32.5	1,208,286	3.639	4,396,953	0.50	24.79	2.02%	88,683
1970	33.5	1,922,415	3.677	7,068,720	0.50	26.59	1.88%	132,938
1969	34.5	1,475,986	4.057	5,988,075	0.50	27.54	1.82%	108,729
1968	35.5	1,098,470	4.202	4,615,771	0.50	26.01	1.92%	88,717
1967	36.5	1,072,421	4.358	4,673,611	0.50	26.40	1.89%	88,527
1966	37.5	1,179,106	4.468	5,268,246	0.50	27.66	1.81%	95,220
1965	38.5	1,310,308	4.707	6,167,620	0.50	28.55	1.75%	108,008
1964	39.5	1,393,408	4.903	6,831,879	0.50	27.54	1.82%	124,021
1963	40.5	1,645,491	4.972	8,181,381	0.50	29.82	1.68%	137,160
1962	41.5	1,490,763	4.836	7,209,330	0.50	29.90	1.67%	120,545
1961	42.5	1,384,880	4.836	6,697,280	0.50	30.06	1.66%	111,408
1960	43.5	2,991,048	4.707	14,078,863	0.50	32.00	1.56%	220,012
1959	44.5	1,697,618	4.903	8,323,421	0.50	29.65	1.69%	140,342
1958	45.5	1,010,403	4.972	5,023,724	0.50	28.57	1.75%	87,914
1957	46.5	532,810	4.903	2,612,367	0.50	26.96	1.85%	48,454
1956	47.5	357,880	4.770	1,707,088	0.50	25.29	1.98%	33,747
1955	48.5	451,343	5.191	2,342,922	0.50	26.13	1.91%	44,839
1954	49.5	431,428	5.516	2,379,757	0.50	24.94	2.00%	47,708
1953	50.5	267,511	5.603	1,498,864	0.50	21.41	2.34%	35,005
1952	51.5	157,813	5.787	913,264	0.50	17.74	2.82%	25,734
1951	52.5	75,762	6.086	461,088	0.50	20.81	2.40%	11,080

Company: Qwest - Arizona
Account: 2421 Aerial Cable - Metallic

Avg Life: **12.0**
Iowa Curve: R1.0

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
1950	53.5	30,507	7.060	215,379	0.50	18.87	2.65%	5,706
1949	54.5	26,543	7.204	191,216	0.50	21.57	2.32%	4,433
1948	55.5	15,174	7.060	107,128	0.50	15.85	3.15%	3,379
1947	56.5	7,960	7.511	59,788	0.50	19.71	2.54%	1,516
1946	57.5	6,981	8.023	56,009	0.50	19.71	2.54%	1,421
1945	58.5	568	8.023	4,557	0.50	20.98	2.38%	109
1944	59.5	1,858	8.023	14,907	0.50	17.41	2.87%	428
1943	60.5	1,837	8.023	14,738	0.50	15.31	3.27%	481
1942	61.5	13,563	8.023	108,816	0.50	21.76	2.30%	2,500
1941	62.5	13,990	8.023	112,242	0.50	25.02	2.00%	2,243
1940	63.5	5,099	8.023	40,909	0.50	23.57	2.12%	868
1939	64.5	6,856	8.023	55,006	0.50	24.51	2.04%	1,122
1938	65.5	1,581	8.023	12,684	0.50	26.41	1.89%	240
1937	66.5	2,522	8.023	20,234	0.50	24.09	2.08%	420
1936	67.5	4,709	8.023	37,780	0.50	27.46	1.82%	688
1935	68.5	5,522	8.023	44,303	0.50	23.76	2.10%	932
1934	69.5	927	8.023	7,437	0.50	24.82	2.01%	150
1933	70.5	1,575	8.023	12,636	0.50	23.87	2.09%	265
1932	71.5	1,180	8.023	9,467	0.50	30.05	1.66%	158
1931	72.5	1,707	8.023	13,695	0.50	27.85	1.80%	246
1930	73.5	1,266	8.023	10,157	0.50	24.74	2.02%	205
1929	74.5	11,790	8.023	94,591	0.50	27.41	1.82%	1,725
1928	75.5	9,281	8.023	74,461	0.50	28.76	1.74%	1,295
1927	76.5	4,298	8.023	34,483	0.50	34.51	1.45%	500
1926	77.5	3,534	8.023	28,353	0.50	24.77	2.02%	572
1925	78.5	762,643	8.023	6,118,685	0.50	24.79	2.02%	123,399

Company: Qwest - Arizona
Account: 2421 Aerial Cable - Non-Metallic

Avg Life: 14.5
Iowa Curve: SQ

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

	Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
	A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
	Total		**9,323,143**	**1.154**	**10,756,682**			**56.78%**	**6,108,167**
*	2003	0.5	618,238	1.019	629,985	14.50	15.00	96.67%	608,985
*	2002	1.5	782,990	1.029	805,697	13.50	15.00	90.00%	725,127
*	2001	2.5	480,633	1.059	508,990	12.50	15.00	83.33%	424,159
*	2000	3.5	1,199,502	1.092	1,309,856	11.50	15.00	76.67%	1,004,223
*	1999	4.5	157,044	1.126	176,832	10.50	15.00	70.00%	123,782
*	1998	5.5	385,583	1.151	443,806	9.50	15.00	63.33%	281,077
*	1997	6.5	249,466	1.176	293,372	8.50	15.00	56.67%	166,244
*	1996	7.5	1,818,041	1.189	2,161,651	7.50	15.00	50.00%	1,080,825
*	1995	8.5	1,878,764	1.216	2,284,577	6.50	15.00	43.33%	989,983
*	1994	9.5	1,184,032	1.230	1,456,359	5.50	15.00	36.67%	533,998
*	1993	10.5	273,120	1.216	332,114	4.50	15.00	30.00%	99,634
*	1992	11.5	140,030	1.202	168,316	3.50	15.00	23.33%	39,274
*	1991	12.5	155,700	1.189	185,127	2.50	15.00	16.67%	30,855

Company: Qwest - Arizona
Account: 2422 Underground Cable - Metallic

Avg Life: **15.0**
Iowa Curve: R1.5

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

	Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
	A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
	Total		**387,857,802**	**1.752**	**679,518,893**			**19.63%**	**133,423,001**
*	2003	0.5	10,298,510	1.020	10,504,480	9.51	10.01	95.00%	9,979,705
*	2002	1.5	11,233,325	1.051	11,806,225	9.89	11.39	86.83%	10,251,775
*	2001	2.5	14,486,224	1.051	15,225,021	9.79	12.29	79.65%	12,127,259
*	2000	3.5	5,072,264	1.080	5,478,045	9.50	13.00	73.08%	4,003,255
*	1999	4.5	22,299,668	1.091	24,328,938	9.12	13.62	66.96%	16,291,733
*	1998	5.5	20,776,309	1.040	21,607,361	8.69	14.19	61.24%	13,231,854
*	1997	6.5	10,596,082	1.013	10,733,831	8.22	14.72	55.86%	5,995,491
*	1996	7.5	11,983,240	1.030	12,342,737	7.74	15.24	50.80%	6,269,763
*	1995	8.5	8,537,959	1.080	9,220,996	7.26	15.76	46.05%	4,246,370
*	1994	9.5	10,703,859	1.210	12,951,669	6.77	16.27	41.61%	5,389,080
*	1993	10.5	9,612,807	1.196	11,496,917	6.29	16.79	37.47%	4,307,557
*	1992	11.5	3,367,541	1.220	4,108,400	5.83	17.33	33.62%	1,381,363
*	1991	12.5	7,832,804	1.196	9,368,034	5.38	17.88	30.07%	2,817,180
*	1990	13.5	13,212,089	1.183	15,629,901	4.95	18.45	26.81%	4,190,498
*	1989	14.5	10,157,069	1.187	12,056,441	4.54	19.04	23.83%	2,873,560
*	1988	15.5	10,882,745	1.420	15,453,498	4.15	19.65	21.13%	3,265,738
*	1987	16.5	11,653,275	1.495	17,421,646	3.79	20.29	18.69%	3,256,760
*	1986	17.5	13,252,383	1.517	20,103,865	3.46	20.96	16.50%	3,317,478
*	1985	18.5	15,995,809	1.433	22,921,994	3.15	21.65	14.53%	3,331,453
*	1984	19.5	15,669,691	1.611	25,243,872	2.85	22.35	12.77%	3,222,447
*	1983	20.5	12,375,873	1.532	18,959,837	2.58	23.08	11.17%	2,117,032
*	1982	21.5	16,977,824	1.579	26,807,984	2.31	23.81	9.71%	2,602,890
	1981	22.5	6,891,039	1.620	11,163,483	2.16	23.91	9.03%	1,007,740
	1980	23.5	9,427,523	1.611	15,187,740	1.89	24.79	7.62%	1,157,545
	1979	24.5	9,222,789	1.862	17,172,833	1.64	25.31	6.48%	1,113,239
	1978	25.5	7,688,388	2.101	16,153,303	1.41	26.51	5.34%	861,869
	1977	26.5	4,997,476	2.190	10,944,472	1.20	27.07	4.43%	484,696
	1976	27.5	2,214,408	2.321	5,139,641	0.95	26.98	3.53%	181,260
	1975	28.5	3,916,789	2.488	9,744,971	0.66	27.11	2.45%	238,289
	1974	29.5	8,769,462	2.449	21,476,412	0.50	28.41	1.76%	378,014
	1973	30.5	11,341,147	2.907	32,968,714	0.50	29.55	1.69%	557,824
	1972	31.5	8,476,603	3.110	26,362,235	0.50	30.52	1.64%	431,953
	1971	32.5	7,627,374	3.141	23,957,582	0.50	30.98	1.61%	386,675
	1970	33.5	7,043,593	3.141	22,123,926	0.50	32.14	1.56%	344,171
	1969	34.5	4,434,672	3.456	15,326,226	0.50	32.65	1.53%	234,736
	1968	35.5	2,226,073	3.616	8,049,480	0.50	32.82	1.52%	122,615
	1967	36.5	2,372,006	3.702	8,781,166	0.50	34.35	1.46%	127,822
	1966	37.5	1,962,642	3.840	7,536,545	0.50	34.21	1.46%	110,145
	1965	38.5	2,274,941	4.039	9,188,487	0.50	35.95	1.39%	127,806
	1964	39.5	1,949,709	4.203	8,194,627	0.50	36.07	1.39%	113,582
	1963	40.5	1,470,787	4.203	6,181,718	0.50	34.26	1.46%	90,213
	1962	41.5	1,528,803	4.092	6,255,862	0.50	38.35	1.30%	81,565
	1961	42.5	1,736,795	4.092	7,106,965	0.50	39.50	1.27%	89,971
	1960	43.5	2,966,381	3.937	11,678,642	0.50	38.07	1.31%	153,403
	1959	44.5	1,482,663	4.039	5,988,476	0.50	40.61	1.23%	73,736
	1958	45.5	1,509,947	4.092	6,178,703	0.50	40.03	1.25%	77,176
	1957	46.5	1,877,607	3.987	7,486,019	0.50	40.99	1.22%	91,306
	1956	47.5	1,357,526	3.793	5,149,096	0.50	36.98	1.35%	69,625
	1955	48.5	1,262,410	4.147	5,235,214	0.50	40.29	1.24%	64,973
	1954	49.5	662,908	4.443	2,945,300	0.50	40.15	1.25%	36,682
	1953	50.5	499,906	4.443	2,221,082	0.50	41.36	1.21%	26,849
	1952	51.5	280,364	4.642	1,301,450	0.50	35.67	1.40%	18,243
	1951	52.5	189,834	4.859	922,403	0.50	40.98	1.22%	11,255

Company: Qwest - Arizona
Account: 2422 Underground Cable - Metallic

Avg Life: **15.0**
Iowa Curve: R1.5

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
1950	53.5	41,680	5.655	235,700	0.50	36.49	1.37%	3,230
1949	54.5	45,480	5.868	266,877	0.50	15.25	3.28%	8,752
1948	55.5	82,986	5.759	477,916	0.50	25.36	1.97%	9,422
1947	56.5	289,927	5.981	1,734,053	0.50	47.82	1.05%	18,133
1946	57.5	10,785	6.479	69,876	0.50	18.38	2.72%	1,900
1945	58.5	3,742	6.479	24,244	0.50	27.48	1.82%	441
1944	59.5	0	6.479	0	0.50	0.00	0.00%	0
1943	60.5	56,594	6.479	366,673	0.50	44.94	1.11%	4,080
1942	61.5	27,054	6.479	175,283	0.50	45.99	1.09%	1,906
1941	62.5	113,280	6.479	733,941	0.50	50.98	0.98%	7,198
1940	63.5	69,954	6.479	453,232	0.50	45.60	1.10%	4,970
1939	64.5	15,460	6.479	100,165	0.50	42.63	1.17%	1,175
1938	65.5	13,749	6.479	89,080	0.50	46.01	1.09%	968
1937	66.5	59,532	6.479	385,708	0.50	51.15	0.98%	3,771
1936	67.5	7,585	6.479	49,143	0.50	56.95	0.88%	431
1935	68.5	10	6.479	65	0.50	64.36	0.78%	1
1934	69.5	34,034	6.479	220,506	0.50	60.93	0.82%	1,809
1933	70.5	12,406	6.479	80,378	0.50	59.29	0.84%	678
1932	71.5	700	6.479	4,535	0.50	30.18	1.66%	75
1931	72.5	347	6.479	2,248	0.50	42.62	1.17%	26
1930	73.5	30,031	6.479	194,571	0.50	36.99	1.35%	2,630
1929	74.5	177,061	6.479	1,147,178	0.50	57.87	0.86%	9,913
1928	75.5	74,154	6.479	480,444	0.50	67.59	0.74%	3,554
1927	76.5	22,833	6.479	147,935	0.50	64.79	0.77%	1,142
1926	77.5	28,503	6.479	184,671	0.50	58.59	0.85%	1,576
1925	78.5		6.479	0			0.00%	0

Company: Qwest - Arizona
Account: 2422 Underground Cable - Non-Metallic

Avg Life: 13.1
Iowa Curve: SQ

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

	Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
	A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
	Total		**181,980,726**	**1.096**	**199,444,587**			**50.47%**	**100,655,612**
*	2003	0.5	5,033,852	1.012	5,094,258	12.50	13.00	96.15%	4,898,325
*	2002	1.5	8,246,191	1.024	8,444,100	11.50	13.00	88.46%	7,469,780
*	2001	2.5	27,061,817	1.061	28,712,588	10.50	13.00	80.77%	23,190,936
*	2000	3.5	39,173,769	1.088	42,621,061	9.50	13.00	73.08%	31,146,160
*	1999	4.5	18,300,034	1.115	20,404,538	8.50	13.00	65.38%	13,341,429
*	1998	5.5	6,748,344	1.145	7,726,854	7.50	13.00	57.69%	4,457,800
*	1997	6.5	4,323,993	1.160	5,015,832	6.50	13.00	50.00%	2,507,916
*	1996	7.5	9,554,552	1.176	11,236,153	5.50	13.00	42.31%	4,753,757
*	1995	8.5	7,553,392	1.192	9,003,643	4.50	13.00	34.62%	3,116,646
*	1994	9.5	6,581,443	1.208	7,950,383	3.50	13.00	26.92%	2,140,488
*	1993	10.5	7,431,762	1.176	8,739,752	2.50	13.00	19.23%	1,680,722
*	1992	11.5	5,179,360	1.145	5,930,367	1.50	13.00	11.54%	684,273
*	1991	12.5	9,151,597	1.130	10,341,305	0.50	13.00	3.85%	397,742
*	1990	13.5	4,225,532	1.160	4,901,617	0.50	14.00	3.57%	175,058
*	1989	14.5	5,662,558	1.145	6,483,629	0.50	15.00	3.33%	216,121
*	1988	15.5	3,824,838	1.176	4,498,009	0.50	16.00	3.13%	140,563
*	1987	16.5	2,292,089	0.879	2,014,746	0.50	17.00	2.94%	59,257
*	1986	17.5	5,307,728	0.926	4,914,956	0.50	18.00	2.78%	136,527
*	1985	18.5	6,039,378	0.861	5,199,904	0.50	19.00	2.63%	136,840
*	1984	19.5	288,497	0.731	210,891	0.50	20.00	2.50%	5,272

Company: Qwest - Arizona
Account: 2423 Buried Cable Metallic

Avg Life: 12.0
Iowa Curve: L1.5

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

	Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
	A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
	Total		**1,628,171,174**	**1.338**	**2,178,731,279**			**32.46%**	**707,240,491**
*	2003	0.5	63,550,598	1.021	64,885,161	8.19	8.69	94.25%	61,151,899
*	2002	1.5	68,916,847	1.049	72,293,773	7.63	9.13	83.58%	60,420,607
*	2001	2.5	119,473,541	1.046	124,969,324	7.08	9.58	73.92%	92,371,249
*	2000	3.5	141,529,013	1.072	151,719,102	6.58	10.08	65.28%	99,039,122
*	1999	4.5	102,216,637	1.084	110,802,835	6.12	10.62	57.62%	63,849,769
*	1998	5.5	86,892,236	1.024	88,977,650	5.72	11.22	50.98%	45,362,431
*	1997	6.5	92,883,712	0.990	91,954,875	5.40	11.90	45.38%	41,726,086
*	1996	7.5	91,141,285	1.003	91,414,709	5.15	12.65	40.69%	37,195,779
*	1995	8.5	69,927,991	1.057	73,913,886	4.94	13.44	36.74%	27,153,061
*	1994	9.5	44,263,132	1.197	52,982,969	4.76	14.26	33.37%	17,678,675
*	1993	10.5	33,488,287	1.178	39,449,202	4.60	15.10	30.44%	12,009,106
*	1992	11.5	35,981,118	1.197	43,069,398	4.44	15.94	27.85%	11,994,195
*	1991	12.5	34,697,266	1.164	40,387,618	4.28	16.78	25.50%	10,299,673
*	1990	13.5	34,346,643	1.151	39,532,986	4.11	17.61	23.35%	9,229,235
*	1989	14.5	40,979,775	1.146	46,962,822	3.94	18.44	21.35%	10,025,856
*	1988	15.5	47,281,737	1.393	65,863,460	3.75	19.25	19.49%	12,838,381
*	1987	16.5	57,779,416	1.490	86,091,330	3.57	20.07	17.77%	15,298,616
*	1986	17.5	51,397,405	1.513	77,764,274	3.38	20.88	16.18%	12,581,733
*	1985	18.5	59,990,601	1.406	84,346,785	3.19	21.69	14.71%	12,408,929
*	1984	19.5	53,499,362	1.594	85,277,983	3.01	22.51	13.36%	11,395,853
*	1983	20.5	38,354,000	1.497	57,415,938	2.83	23.33	12.12%	6,961,662
*	1982	21.5	50,176,909	1.544	77,473,147	2.65	24.15	10.99%	8,512,752
	1981	22.5	21,061,546	1.577	33,214,058	2.66	23.98	11.08%	3,679,048
	1980	23.5	20,006,214	1.552	31,049,644	2.47	24.45	10.08%	3,131,207
	1979	24.5	19,527,131	1.795	35,051,200	2.28	25.54	8.94%	3,134,299
	1978	25.5	17,663,610	2.027	35,804,137	2.11	26.31	8.02%	2,870,640
	1977	26.5	11,938,044	2.099	25,057,954	1.94	26.54	7.33%	1,836,176
	1976	27.5	8,522,878	2.241	19,099,770	1.79	27.32	6.54%	1,248,671
	1975	28.5	7,285,589	2.403	17,507,270	1.64	26.43	6.19%	1,083,670
	1974	29.5	13,335,239	2.328	31,044,436	1.49	27.69	5.38%	1,670,680
	1973	30.5	22,447,435	2.785	62,516,106	1.35	28.08	4.80%	3,001,189
	1972	31.5	12,266,613	2.980	36,554,507	1.21	28.49	4.25%	1,553,251
	1971	32.5	12,159,835	2.980	36,236,308	1.08	28.51	3.77%	1,367,858
	1970	33.5	12,104,735	2.950	35,708,968	0.89	28.94	3.09%	1,104,081
	1969	34.5	7,867,593	3.275	25,766,367	0.75	28.92	2.59%	668,101
	1968	35.5	4,092,856	3.425	14,018,032	0.50	29.35	1.70%	238,847
	1967	36.5	3,304,809	3.506	11,586,660	0.50	29.81	1.68%	194,365
	1966	37.5	3,348,121	3.634	12,167,072	0.50	31.65	1.58%	192,241
	1965	38.5	2,036,749	3.870	7,882,219	0.50	32.43	1.54%	121,535
	1964	39.5	2,717,453	4.027	10,943,183	0.50	32.36	1.54%	169,067
	1963	40.5	2,538,316	3.973	10,084,729	0.50	33.04	1.51%	152,631
	1962	41.5	1,471,783	3.870	5,695,800	0.50	33.83	1.48%	84,183
	1961	42.5	1,084,117	3.821	4,142,411	0.50	33.40	1.50%	62,021
	1960	43.5	823,545	3.679	3,029,822	0.50	30.42	1.64%	49,800
	1959	44.5	289,326	3.772	1,091,338	0.50	31.77	1.57%	17,177
	1958	45.5	184,169	3.821	703,710	0.50	29.85	1.67%	11,787
	1957	46.5	224,482	3.679	825,869	0.50	26.86	1.86%	15,375
	1956	47.5	449,632	3.506	1,576,410	0.50	26.22	1.91%	30,060
	1955	48.5	156,131	3.821	596,577	0.50	25.44	1.97%	11,724
	1954	49.5	251,252	4.139	1,039,932	0.50	29.65	1.69%	17,539
	1953	50.5	53,309	4.082	217,607	0.50	26.87	1.86%	4,049
	1952	51.5	90,420	4.257	384,918	0.50	33.06	1.51%	5,821
	1951	52.5	4,091	4.515	18,471	0.50	26.54	1.88%	348

Company: Qwest - Arizona
Account: 2423 Buried Cable Metallic

Avg Life: 12.0
Iowa Curve: L1.5

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
1950	53.5	2,444	5.228	12,777	0.50	23.90	2.09%	267
1949	54.5	10,083	5.418	54,630	0.50	24.08	2.08%	1,134
1948	55.5	3,151	5.321	16,766	0.50	28.73	1.74%	292
1947	56.5	317	5.519	1,750	0.50	35.50	1.41%	25
1946	57.5	361	5.960	2,152	0.50	36.33	1.38%	30
1945	58.5	1,303	5.960	7,766	0.50	36.81	1.36%	105
1944	59.5	0	5.960	0	0.50	0.00	0.00%	0
1943	60.5	0	5.960	0	0.50	0.00	0.00%	0
1942	61.5	6,996	5.960	41,696	0.50	37.02	1.35%	563
1941	62.5	60,465	5.960	360,371	0.50	37.21	1.34%	4,843
1940	63.5	2,340	5.960	13,946	0.50	32.36	1.55%	216
1939	64.5	0	5.960	0	0.50	0.00	0.00%	0
1938	65.5	1,619	5.960	9,649	0.50	36.83	1.36%	131
1937	66.5	227	5.960	1,353	0.50	28.75	1.74%	24
1936	67.5	4,958	5.960	29,550	0.50	32.32	1.55%	457
1935	68.5	0	5.960	0	0.50	0.00	0.00%	0
1934	69.5	0	5.960	0	0.50	0.00	0.00%	0
1933	70.5	0	5.960	0	0.50	0.00	0.00%	0
1932	71.5	0	5.960	0	0.50	0.00	0.00%	0
1931	72.5	92	5.960	548	0.50	26.89	1.86%	10
1930	73.5	2,284	5.960	13,613	0.50	24.16	2.07%	282
1929	74.5	0	5.960	0	0.50	0.00	0.00%	0
1928	75.5	0	5.960	0	0.50	0.00	0.00%	0
1927	76.5	0	5.960	0	0.50	0.00	0.00%	0
1926	77.5	0	5.960	0	0.50	0.00	0.00%	0
1925	78.5	0	5.960	0	0.50	0.00	0.00%	0

Company: Qwest - Arizona
Account: 2423 Buried Cable - Non-Metallic

Avg Life: 17.6
Iowa Curve: SQ

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

	Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
	A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
	Total		**23,611,206**	**1.111**	**26,228,825**			**48.37%**	**12,687,246**
*	2003	0.5	1,063,455	1.024	1,088,978	17.50	18.00	97.22%	1,058,729
*	2002	1.5	717,178	1.037	743,714	16.50	18.00	91.67%	681,737
*	2001	2.5	563,593	1.063	599,099	15.50	18.00	86.11%	515,891
*	2000	3.5	3,550,447	1.091	3,873,538	14.50	18.00	80.56%	3,120,350
*	1999	4.5	400,860	1.120	448,963	13.50	18.00	75.00%	336,722
*	1998	5.5	558,075	1.135	633,415	12.50	18.00	69.44%	439,872
*	1997	6.5	254,229	1.151	292,618	11.50	18.00	63.89%	186,950
*	1996	7.5	1,332,257	1.167	1,554,744	10.50	18.00	58.33%	906,934
*	1995	8.5	2,358,672	1.200	2,830,406	9.50	18.00	52.78%	1,493,826
*	1994	9.5	1,228,278	1.217	1,494,814	8.50	18.00	47.22%	705,885
*	1993	10.5	1,171,150	1.167	1,366,732	7.50	18.00	41.67%	569,472
*	1992	11.5	963,481	1.135	1,093,551	6.50	18.00	36.11%	394,893
*	1991	12.5	3,908,017	1.120	4,376,979	5.50	18.00	30.56%	1,337,410
*	1990	13.5	1,871,908	1.151	2,154,566	4.50	18.00	25.00%	538,642
*	1989	14.5	240,697	1.135	273,191	3.50	18.00	19.44%	53,120
*	1988	15.5	1,509,741	1.167	1,761,868	2.50	18.00	13.89%	244,704
*	1987	16.5	1,201,640	0.857	1,029,805	1.50	18.00	8.33%	85,817
*	1986	17.5	144,757	0.903	130,716	0.50	18.00	2.78%	3,631
*	1985	18.5	572,771	0.840	481,128	0.50	19.00	2.63%	12,661

Company: Qwest - Arizona
Account: 2424 Submarine Cable - Metallic

Avg Life: 15.0
Iowa Curve: SQ

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

	Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
	A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
	Total		**2,572**	**1.770**	**4,552**			**2.27%**	**103**
*	2003	0.5	0	1.020	0	14.50	15.00	96.67%	0
*	2002	1.5	0	1.047	0	13.50	15.00	90.00%	0
*	2001	2.5	0	1.060	0	12.50	15.00	83.33%	0
*	2000	3.5	0	1.089	0	11.50	15.00	76.67%	0
*	1999	4.5	0	1.110	0	10.50	15.00	70.00%	0
*	1998	5.5	0	1.093	0	9.50	15.00	63.33%	0
*	1997	6.5	0	1.089	0	8.50	15.00	56.67%	0
*	1996	7.5	0	1.106	0	7.50	15.00	50.00%	0
*	1995	8.5	0	1.149	0	6.50	15.00	43.33%	0
*	1994	9.5	0	1.233	0	5.50	15.00	36.67%	0
*	1993	10.5	0	1.242	0	4.50	15.00	30.00%	0
*	1992	11.5	0	1.273	0	3.50	15.00	23.33%	0
*	1991	12.5	0	1.278	0	2.50	15.00	16.67%	0
*	1990	13.5	0	1.301	0	1.50	15.00	10.00%	0
*	1989	14.5	0	1.321	0	0.50	15.00	3.33%	0
*	1988	15.5	0	1.481	0	0.50	16.00	3.13%	0
*	1987	16.5	0	1.487	0	0.50	17.00	2.94%	0.00
*	1986	17.5	0	1.513	0	0.50	18.00	2.78%	0.00
*	1985	18.5	0	1.494	0	0.50	19.00	2.63%	0.00
*	1984	19.5	0	1.616	0	0.50	20.00	2.50%	0.00
*	1983	20.5	0	1.609	0	0.50	21.00	2.38%	0.00
*	1982	21.5	0	1.686	0	0.50	22.00	2.27%	0.00
	1981	22.5	2,572	1.770	4,552	0.50	22.00	2.27%	103.46

Company: Qwest - Arizona
Account: 2426 Intrabuilding Cable - Metallic

Avg Life: **19.0**
Iowa Curve: L2.0

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

	Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
	A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
	Total		**43,325,426**	**1.857**	**80,436,382**			**29.51%**	**23,739,548**
*	2003	0.5	1,588,436	1.020	1,620,205	14.52	15.02	96.67%	1,566,278
*	2002	1.5	1,425,325	1.054	1,502,293	13.63	15.13	90.09%	1,353,399
*	2001	2.5	1,565,164	1.067	1,670,030	12.82	15.32	83.69%	1,397,573
*	2000	3.5	1,410,809	1.100	1,551,890	12.07	15.57	77.52%	1,203,086
*	1999	4.5	1,312,223	1.121	1,471,002	11.37	15.87	71.64%	1,053,779
*	1998	5.5	1,176,260	1.090	1,282,123	10.69	16.19	66.03%	846,614
*	1997	6.5	1,305,076	1.080	1,409,482	10.04	16.54	60.71%	855,655
*	1996	7.5	989,299	1.097	1,085,261	9.43	16.93	55.69%	604,410
*	1995	8.5	787,681	1.143	900,319	8.87	17.37	51.08%	459,844
*	1994	9.5	503,731	1.248	628,656	8.40	17.90	46.91%	294,928
*	1993	10.5	478,468	1.253	599,520	7.99	18.49	43.22%	259,135
*	1992	11.5	615,315	1.280	787,603	7.66	19.16	39.98%	314,869
*	1991	12.5	830,355	1.275	1,058,703	7.38	19.88	37.13%	393,127
*	1990	13.5	1,034,159	1.285	1,328,894	7.15	20.65	34.64%	460,281
*	1989	14.5	1,191,252	1.299	1,547,436	6.96	21.46	32.43%	501,897
*	1988	15.5	1,390,509	1.498	2,082,982	6.79	22.29	30.47%	634,761
*	1987	16.5	2,081,916	1.544	3,214,478	6.64	23.14	28.71%	922,816
*	1986	17.5	2,562,121	1.571	4,025,092	6.50	24.00	27.10%	1,090,656
*	1985	18.5	1,864,327	1.524	2,841,234	6.37	24.87	25.60%	727,460
*	1984	19.5	2,080,071	1.676	3,486,199	6.23	25.73	24.20%	843,782
*	1983	20.5	1,949,437	1.637	3,191,228	6.08	26.58	22.88%	730,005
*	1982	21.5	2,177,055	1.709	3,720,587	5.93	27.43	21.60%	803,827
	1981	22.5	1,246,757	1.787	2,227,955	6.56	25.68	25.53%	568,819
	1980	23.5	1,075,107	1.824	1,960,995	6.31	26.54	23.77%	466,109
	1979	24.5	1,202,879	2.083	2,505,597	6.06	26.58	22.79%	571,102
	1978	25.5	835,562	2.331	1,947,695	5.81	25.88	22.44%	437,009
	1977	26.5	659,813	2.444	1,612,583	5.56	23.08	24.07%	388,186
	1976	27.5	755,979	2.607	1,970,837	5.31	25.65	20.68%	407,656
	1975	28.5	778,996	2.816	2,193,653	5.06	27.08	18.69%	409,889
	1974	29.5	1,000,638	2.816	2,817,797	4.82	29.43	16.37%	461,357
	1973	30.5	941,536	3.290	3,097,653	4.58	26.41	17.35%	537,450
	1972	31.5	687,503	3.520	2,420,011	4.35	27.60	15.76%	381,491
	1971	32.5	628,804	3.629	2,281,930	4.12	24.86	16.59%	378,578
	1970	33.5	572,491	3.705	2,121,079	3.90	27.12	14.39%	305,291
	1969	34.5	332,972	4.046	1,347,205	3.69	27.40	13.45%	181,254
	1968	35.5	250,086	4.190	1,047,860	3.48	29.30	11.86%	124,320
	1967	36.5	271,825	4.346	1,181,351	3.27	27.44	11.92%	140,776
	1966	37.5	223,594	4.456	996,335	3.07	28.30	10.83%	107,936
	1965	38.5	190,109	4.693	892,182	2.87	29.58	9.69%	86,482
	1964	39.5	273,931	4.889	1,339,249	2.67	28.98	9.23%	123,554
	1963	40.5	190,237	4.958	943,195	2.48	27.77	8.94%	84,295
	1962	41.5	153,974	4.822	742,463	2.29	30.74	7.46%	55,413
	1961	42.5	187,552	4.889	916,942	2.11	27.77	7.59%	69,630
	1960	43.5	103,029	4.693	483,515	1.93	27.93	6.91%	33,399
	1959	44.5	83,823	4.889	409,811	1.75	26.42	6.64%	27,204
	1958	45.5	54,158	4.958	268,515	1.57	32.18	4.89%	13,140
	1957	46.5	80,955	4.958	401,375	1.41	31.12	4.53%	18,192
	1956	47.5	48,173	4.757	229,159	1.25	24.68	5.05%	11,570
	1955	48.5	46,948	5.176	243,003	1.08	30.68	3.54%	8,592
	1954	49.5	35,777	5.500	196,774	0.99	28.46	3.47%	6,829
	1953	50.5	13,804	5.587	77,123	0.93	20.01	4.64%	3,580
	1952	51.5	17,879	5.867	104,896	0.50	19.56	2.56%	2,681
	1951	52.5	14,253	6.175	88,012	0.50	24.63	2.03%	1,787

Company: Qwest - Arizona
Account: 2426 Intrabuilding Cable - Metallic

Avg Life: 19.0
Iowa Curve: L2.0

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
1950	53.5	3,460	7.040	24,358	0.50	20.76	2.41%	587
1949	54.5	4,247	7.184	30,510	0.50	26.09	1.92%	585
1948	55.5	8,168	7.184	58,679	0.50	19.19	2.60%	1,529
1947	56.5	935	7.489	7,002	0.50	23.72	2.11%	148
1946	57.5	3,489	8.000	27,912	0.50	24.25	2.06%	575
1945	58.5	1,229	8.000	9,832	0.50	23.42	2.13%	210
1944	59.5	1,388	8.000	11,104	0.50	17.43	2.87%	319
1943	60.5	1,865	8.000	14,920	0.50	16.20	3.09%	461
1942	61.5	2,651	8.000	21,208	0.50	22.55	2.22%	470
1941	62.5	235	8.000	1,880	0.50	23.81	2.10%	39
1940	63.5	1,187	8.000	9,496	0.50	24.00	2.08%	198
1939	64.5	1,289	8.000	10,312	0.50	25.16	1.99%	205
1938	65.5	1,293	8.000	10,344	0.50	30.47	1.64%	170
1937	66.5	1,002	8.000	8,016	0.50	25.86	1.93%	155
1936	67.5	4,315	8.000	34,520	0.50	28.03	1.78%	616
1935	68.5	300	8.000	2,400	0.50	23.17	2.16%	52
1934	69.5	446	8.000	3,568	0.50	24.75	2.02%	72
1933	70.5	549	8.000	4,392	0.50	28.48	1.76%	77
1932	71.5	576	8.000	4,608	0.50	31.66	1.58%	73
1931	72.5	1,181	8.000	9,448	0.50	29.21	1.71%	162
1930	73.5	2,652	8.000	21,216	0.50	24.97	2.00%	425
1929	74.5	2,652	8.000	21,216	0.50	27.55	1.82%	385
1928	75.5	2,005	8.000	16,040	0.50	30.63	1.63%	262
1927	76.5	0	8.000	0	0.50	0.00	0.00%	0
1926	77.5	179	8.000	1,432	0.50	27.70	1.80%	26
1925	78.5	0	8.000	0			0.00%	0

Company: Qwest - Arizona
Account: 2426 Intrabuilding Cable - Non-Metallic

Avg Life: **11.5**
Iowa Curve: O1.0

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

	Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
	A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
	Total		**1,054,110**	**1.123**	**1,184,215**			**57.96%**	**686,349**
*	2003	0.5	121,548	1.019	123,857	5.56	6.06	91.75%	113,639
*	2002	1.5	113,856	1.038	118,183	6.43	7.93	81.08%	95,817
*	2001	2.5	80,935	1.069	86,520	6.77	9.27	73.02%	63,175
*	2000	3.5	145,083	1.102	159,881	6.88	10.38	66.27%	105,954
*	1999	4.5	142,322	1.137	161,820	6.86	11.36	60.37%	97,691
*	1998	5.5	57,700	1.149	66,297	6.74	12.24	55.08%	36,518
*	1997	6.5	52,172	1.174	61,250	6.57	13.07	50.26%	30,786
*	1996	7.5	90,147	1.187	107,004	6.34	13.84	45.82%	49,031
*	1995	8.5	70,585	1.227	86,608	6.08	14.58	41.69%	36,107
*	1994	9.5	37,742	1.241	46,838	5.78	15.28	37.82%	17,715
*	1993	10.5	29,774	1.213	36,116	5.45	15.95	34.18%	12,344
*	1992	11.5	16,093	1.200	19,312	5.10	16.60	30.73%	5,935
*	1991	12.5	19,622	1.200	23,546	4.73	17.23	27.46%	6,466
*	1990	13.5	14,019	1.241	17,398	4.34	17.84	24.34%	4,235
*	1989	14.5	6,351	1.227	7,793	3.94	18.44	21.36%	1,665
*	1988	15.5	21,102	1.271	26,821	3.52	19.02	18.51%	4,964
*	1987	16.5	4,309	0.982	4,231	3.09	19.59	15.77%	667
*	1986	17.5	14,650	1.029	15,075	2.65	20.15	13.14%	1,980
*	1985	18.5	16,100	0.973	15,665	2.19	20.69	10.61%	1,661

Company: Qwest - Arizona
Account: 2441 Conduit Systems

Avg Life: 56.6
Iowa Curve: SQ

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

	Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
	A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
	Total		**450,214,473**	**1.951**	**878,335,439**			**56.43%**	**495,649,298**
*	2003	0.5	13,429,750	1.022	13,725,205	56.50	57.00	99.12%	13,604,808
*	2002	1.5	17,241,746	1.042	17,965,899	55.50	57.00	97.37%	17,493,113
*	2001	2.5	27,813,268	1.085	30,177,396	54.50	57.00	95.61%	28,853,826
*	2000	3.5	65,516,109	1.117	73,181,494	53.50	57.00	93.86%	68,687,893
*	1999	4.5	16,273,471	1.147	18,665,671	52.50	57.00	92.11%	17,192,066
*	1998	5.5	26,196,115	1.183	30,990,004	51.50	57.00	90.35%	27,999,740
*	1997	6.5	12,056,797	1.203	14,504,327	50.50	57.00	88.60%	12,850,325
*	1996	7.5	19,268,558	1.227	23,642,521	49.50	57.00	86.84%	20,531,663
*	1995	8.5	13,668,859	1.249	17,072,405	48.50	57.00	85.09%	14,526,520
*	1994	9.5	10,633,652	1.280	13,611,075	47.50	57.00	83.33%	11,342,562
*	1993	10.5	12,490,677	1.324	16,537,656	46.50	57.00	81.58%	13,491,246
*	1992	11.5	8,206,032	1.362	11,176,616	45.50	57.00	79.82%	8,921,684
*	1991	12.5	14,643,297	1.376	20,149,177	44.50	57.00	78.07%	15,730,498
*	1990	13.5	24,324,453	1.389	33,786,665	43.50	57.00	76.32%	25,784,560
*	1989	14.5	18,474,463	1.394	25,753,401	42.50	57.00	74.56%	19,202,098
*	1988	15.5	14,912,844	1.559	23,249,124	41.50	57.00	72.81%	16,926,994
*	1987	16.5	10,390,264	1.531	15,907,494	40.50	57.00	71.05%	11,302,693
*	1986	17.5	10,024,407	1.559	15,628,051	39.50	57.00	69.30%	10,829,965
*	1985	18.5	9,719,510	1.613	15,677,570	38.50	57.00	67.54%	10,589,236
*	1984	19.5	7,318,416	1.657	12,126,615	37.50	57.00	65.79%	7,978,036
*	1983	20.5	7,566,847	1.740	13,166,314	36.50	57.00	64.04%	8,431,061
*	1982	21.5	10,704,923	1.896	20,296,534	35.50	57.00	62.28%	12,640,824
	1981	22.5	1,289,144	1.986	2,560,240	34.50	55.81	61.82%	1,582,660
	1980	23.5	2,370,954	2.148	5,092,809	33.50	56.63	59.16%	3,012,698
	1979	24.5	3,812,204	2.352	8,966,304	32.50	55.62	58.43%	5,239,210
	1978	25.5	2,324,227	2.615	6,077,854	31.50	56.21	56.04%	3,406,020
	1977	26.5	1,306,974	2.845	3,718,341	30.50	56.49	53.99%	2,007,601
	1976	27.5	955,288	3.029	2,893,567	29.50	54.74	53.89%	1,559,376
	1975	28.5	1,788,606	3.264	5,838,010	28.50	56.19	50.72%	2,961,084
	1974	29.5	5,473,494	3.598	19,693,631	27.50	56.42	48.74%	9,598,987
	1973	30.5	5,706,173	3.935	22,453,791	26.50	54.87	48.30%	10,844,277
	1972	31.5	2,009,443	4.127	8,292,971	25.50	55.96	45.57%	3,778,963
	1971	32.5	4,298,951	4.432	19,052,951	24.50	56.04	43.72%	8,329,716
	1970	33.5	5,525,887	4.784	26,435,843	23.50	56.21	41.81%	11,052,167
	1969	34.5	2,221,055	5.012	11,131,928	22.50	55.18	40.78%	4,539,115
	1968	35.5	1,264,066	5.012	6,335,499	21.50	54.15	39.70%	2,515,480
	1967	36.5	979,999	5.012	4,911,755	20.50	56.42	36.33%	1,784,668
	1966	37.5	1,366,832	4.953	6,769,919	19.50	56.69	34.40%	2,328,690
	1965	38.5	1,343,925	5.072	6,816,388	18.50	56.31	32.85%	2,239,445
	1964	39.5	1,607,653	5.134	8,253,691	17.50	55.30	31.65%	2,611,927
	1963	40.5	1,030,861	5.263	5,425,421	16.50	55.00	30.00%	1,627,626
	1962	41.5	1,141,055	5.329	6,080,682	15.50	56.03	27.66%	1,682,145
	1961	42.5	872,162	5.329	4,647,751	14.50	55.48	26.14%	1,214,715
	1960	43.5	5,143,290	5.397	27,758,336	13.50	56.03	24.09%	6,688,159
	1959	44.5	1,385,419	5.539	7,673,836	12.50	56.06	22.30%	1,711,076
	1958	45.5	1,150,898	5.689	6,547,459	11.50	56.19	20.47%	1,340,021
	1957	46.5	1,167,969	6.101	7,125,779	10.50	56.15	18.70%	1,332,514
	1956	47.5	1,103,111	6.284	6,931,950	9.50	55.40	17.15%	1,188,692
	1955	48.5	1,475,445	6.477	9,556,457	8.50	52.05	16.33%	1,560,613
	1954	49.5	325,476	6.379	2,076,211	7.50	53.60	13.99%	290,515
	1953	50.5	482,573	6.790	3,276,671	6.50	53.92	12.05%	394,999
	1952	51.5	1,471,458	6.683	9,833,754	5.50	52.38	10.50%	1,032,563
	1951	52.5	204,434	6.790	1,388,107	4.50	54.46	8.26%	114,699

Company: Qwest - Arizona
Account: 2431 Aerial Wire

Avg Life: 8.9
Iowa Curve: L0.0

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
Total		**10,998,432**	**1.454**	**15,986,235**			**39.95%**	**6,386,764**
2003	0.5	558,903	1.021	570,640	8.52	8.98	94.87%	541,387
2002	1.5	694,745	1.057	734,345	7.91	9.30	85.13%	625,122
2001	2.5	653,204	1.080	705,460	7.42	9.72	76.34%	538,561
2000	3.5	698,879	1.110	775,756	6.99	10.19	68.56%	531,834
1999	4.5	812,752	1.146	931,414	6.59	10.71	61.59%	573,694
1998	5.5	751,369	1.146	861,069	6.23	11.23	55.45%	477,422
1997	6.5	952,473	1.174	1,118,203	5.88	11.76	50.00%	559,072
1996	7.5	568,033	1.191	676,527	5.55	12.20	45.51%	307,898
1995	8.5	447,168	1.217	544,203	5.24	12.48	42.01%	228,606
1994	9.5	468,533	1.256	588,477	4.95	12.78	38.71%	227,806
1993	10.5	444,142	1.289	572,499	4.67	12.90	36.21%	207,296
1992	11.5	287,162	1.320	379,054	4.41	12.91	34.14%	129,416
1991	12.5	408,907	1.356	554,478	4.16	13.13	31.66%	175,563
1990	13.5	306,303	1.410	431,887	3.92	13.12	29.86%	128,968
1989	14.5	231,419	1.441	333,475	3.69	13.06	28.26%	94,242
1988	15.5	249,972	1.531	382,707	3.47	13.23	26.26%	100,506
1987	16.5	265,590	1.562	414,852	3.27	13.41	24.36%	101,070
1986	17.5	218,968	1.562	342,028	3.07	13.64	22.50%	76,960
1985	18.5	179,725	1.581	284,145	2.88	14.00	20.57%	58,457
1984	19.5	122,575	1.640	201,023	2.70	14.07	19.18%	38,563
1983	20.5	212,830	1.727	367,557	2.53	12.58	20.07%	73,767
1982	21.5	136,195	1.823	248,283	2.36	12.32	19.14%	47,511
1981	22.5	175,951	1.894	333,251	2.20	9.21	23.86%	79,500
1980	23.5	274,504	2.042	560,537	2.04	7.51	27.18%	152,381
1979	24.5	138,463	2.292	317,357	1.89	11.42	16.58%	52,620
1978	25.5	79,535	2.631	209,257	1.75	11.88	14.72%	30,799
1977	26.5	65,368	2.703	176,690	1.61	11.17	14.42%	25,483
1976	27.5	62,540	2.841	177,676	1.48	11.23	13.16%	23,377
1975	28.5	79,456	3.015	239,560	1.35	10.00	13.47%	32,269
1974	29.5	98,232	3.136	308,056	1.23	9.76	12.61%	38,843
1973	30.5	72,142	3.664	264,328	1.13	10.27	11.00%	29,087
1972	31.5	57,971	3.920	227,246	1.04	10.20	10.21%	23,210
1971	32.5	49,444	4.170	206,181	0.85	10.30	8.28%	17,076
1970	33.5	24,257	4.356	105,663	0.50	10.89	4.59%	4,852
1969	34.5	14,535	4.780	69,477	0.50	11.28	4.43%	3,080
1968	35.5	13,601	5.026	68,359	0.50	11.71	4.27%	2,919
1967	36.5	16,025	5.227	83,763	0.50	13.11	3.81%	3,195
1966	37.5	16,547	5.227	86,491	0.50	13.44	3.72%	3,217
1965	38.5	11,124	5.444	60,559	0.50	12.46	4.01%	2,430
1964	39.5	9,778	5.681	55,549	0.50	12.63	3.96%	2,199
1963	40.5	8,364	5.765	48,218	0.50	12.25	4.08%	1,967
1962	41.5	21,380	5.851	125,094	0.50	15.28	3.27%	4,094
1961	42.5	14,044	6.031	84,699	0.50	14.14	3.54%	2,995
1960	43.5	9,908	6.031	59,755	0.50	12.77	3.92%	2,339
1959	44.5	6,703	6.222	41,706	0.50	11.93	4.19%	1,748
1958	45.5	4,007	6.533	26,178	0.50	9.07	5.51%	1,442
1957	46.5	2,619	6.877	18,011	0.50	8.77	5.70%	1,027
1956	47.5	1,262	6.759	8,530	0.50	8.35	5.99%	511
1955	48.5	688	7.127	4,903	0.50	7.87	6.36%	312
1954	49.5	132	7.686	1,015	0.50	7.49	6.67%	68
1953	50.5	5	8.000	40	0.50	7.29	6.86%	3

Company: Qwest - Arizona
Account: 2441 Conduit Systems

Avg Life: 56.6
Iowa Curve: SQ

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
1950	53.5	132,321	7.136	944,243	3.50	52.81	6.63%	62,580
1949	54.5	128,422	7.136	916,419	2.50	53.18	4.70%	43,081
1948	55.5	448,638	7.259	3,256,663	1.50	54.04	2.78%	90,396
1947	56.5	824,542	7.518	6,198,907	0.50	52.67	0.95%	58,847
1946	57.5	51,477	7.655	394,056	0.50	54.25	0.92%	3,632
1945	58.5	33,299	7.655	254,904	0.50	51.93	0.96%	2,454
1944	59.5	61	7.655	467	0.50	52.40	0.95%	4
1943	60.5	43,114	7.655	330,038	0.50	58.87	0.85%	2,803
1942	61.5	271	7.655	2,075	0.50	33.04	1.51%	31
1941	62.5	57,168	7.655	437,621	0.50	45.58	1.10%	4,801
1940	63.5	4,056	7.655	31,049	0.50	47.73	1.05%	325
1939	64.5	11,619	7.655	88,943	0.50	53.74	0.93%	828
1938	65.5	1,087	7.655	8,321	0.50	49.50	1.01%	84
1937	66.5	7,160	7.655	54,810	0.50	44.02	1.14%	623
1936	67.5	83,574	7.655	639,759	0.50	60.26	0.83%	5,308
1935	68.5	3,241	7.655	24,810	0.50	52.00	0.96%	239
1934	69.5	794	7.655	6,078	0.50	33.87	1.48%	90
1933	70.5	103,398	7.655	791,512	0.50	65.04	0.77%	6,085
1932	71.5	6,869	7.655	52,582	0.50	58.27	0.86%	451
1931	72.5	3,265	7.655	24,994	0.50	54.81	0.91%	228
1930	73.5	166,778	7.655	1,276,686	0.50	62.10	0.81%	10,279
1929	74.5	304,723	7.655	2,332,655	0.50	63.94	0.78%	18,241
1928	75.5	293,773	7.655	2,248,832	0.50	66.81	0.75%	16,831
1927	76.5	81,099	7.655	620,813	0.50	64.61	0.77%	4,804
1926	77.5	191,186	7.655	1,463,529	0.50	62.72	0.80%	11,668
1925	78.5	13,759,054	7.655	105,325,558	0.50	64.01	0.78%	822,755

REBUTTAL EXHIBIT NHH-2R

Truncation of Data:
Comparison of Dunkel and Hughes RCNLD Analyses for Account 2423, Buried Cable-Metallic

Company: Qwest - Arizona
Account: 2423 Buried Cable Metallic

Avg Life: 12.0
Iowa Curve: L1.5

Dunkel Workpaper

Reproduction Cost New Less Depreciation

Correct Average Remaining and Average Service Lives in Hughes Calculation

Vintage	Age	Experience to 1/1/2004 Amount Surviving	Proportion Surviving	Realized Life	Hughes Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
A	B	C	D	E	F	G = C*F	H	I	J = H/I	K = G*J
Total		**1,644,110,671**			**1.383**	**2,273,730,682**			**31.06%**	**706,158,862**
• 2003	0.5	63,550,598	0.9997	0.50	1.021	64,885,161	8.19	8.69	94.25%	61,151,837
• 2002	1.5	68,916,847	0.9879	1.49	1.049	72,293,773	7.63	9.13	83.57%	60,416,373
• 2001	2.5	119,473,541	0.9849	2.47	1.046	124,969,324	7.08	9.58	73.90%	92,357,287
• 2000	3.5	141,529,013	0.9832	3.47	1.072	151,719,102	6.58	10.08	65.28%	99,038,858
• 1999	4.5	102,216,637	0.9634	4.41	1.084	110,802,835	6.12	10.62	57.63%	63,852,481
• 1998	5.5	86,892,236	0.9781	5.44	1.024	88,977,650	5.72	11.22	50.98%	45,361,155
• 1997	6.5	92,883,712	0.9912	6.47	0.990	91,954,875	5.40	11.90	45.38%	41,727,422
• 1996	7.5	91,141,285	0.9875	7.45	1.003	91,414,709	5.15	12.65	40.71%	37,216,265
• 1995	8.5	69,927,991	0.9868	8.45	1.057	73,913,886	4.94	13.44	36.76%	27,167,753
• 1994	9.5	44,263,132	0.9795	9.40	1.197	52,982,969	4.76	14.26	33.38%	17,685,760
• 1993	10.5	33,488,287	0.9800	10.38	1.178	39,449,202	4.60	15.10	30.46%	12,017,638
• 1992	11.5	35,981,118	0.9816	11.41	1.197	43,069,398	4.44	15.94	27.85%	11,996,746
• 1991	12.5	34,697,266	0.9707	12.32	1.164	40,387,618	4.28	16.78	25.51%	10,301,490
• 1990	13.5	34,346,643	0.9616	13.22	1.151	39,532,986	4.11	17.61	23.34%	9,228,608
• 1989	14.5	40,979,775	0.9662	14.25	1.146	46,962,822	3.94	18.44	21.37%	10,034,356
• 1988	15.5	47,281,737	0.9603	15.20	1.393	65,863,460	3.75	19.25	19.48%	12,830,544
• 1987	16.5	57,779,416	0.9417	16.10	1.490	86,091,330	3.57	20.07	17.79%	15,313,704
• 1986	17.5	51,397,405	0.9501	17.15	1.513	77,764,274	3.38	20.88	16.19%	12,588,278
• 1985	18.5	59,990,601	0.4315	16.11	1.406	84,346,785	3.19	21.69	14.71%	12,405,083
• 1984	19.5	53,499,362	0.9200	18.65	1.594	85,277,983	3.01	22.51	13.37%	11,403,231
• 1983	20.5	38,354,000	0.9296	19.79	1.497	57,415,938	2.83	23.33	12.13%	6,964,728
• 1982	21.5	50,176,909	0.9300	20.79	1.544	77,473,147	2.65	24.15	10.97%	8,501,194
1981	22.5	21,061,546	0.9212	21.54	1.577	33,214,058	2.66	23.98	11.09%	3,684,295
1980	23.5	20,006,214	0.9022	22.23	1.552	31,049,644	2.47	24.45	10.10%	3,136,713
1979	24.5	19,527,131	0.9175	23.44	1.795	35,051,200	2.28	25.54	8.93%	3,129,081
1978	25.5	17,663,610	0.9136	24.38	2.027	35,804,137	2.11	26.31	8.02%	2,871,407
1977	26.5	11,938,044	0.8707	24.85	2.099	25,057,954	1.94	26.54	7.31%	1,831,667
1976	27.5	8,522,878	0.8745	25.76	2.241	19,099,770	1.79	27.33	6.55%	1,250,955
1975	28.5	7,285,589	0.7358	25.23	2.403	17,507,270	1.64	26.43	6.21%	1,086,338
1974	29.5	13,335,239	0.7874	26.52	2.328	31,044,436	1.49	27.69	5.38%	1,670,502
1973	30.5	22,447,435	0.7435	27.08	2.785	62,516,106	1.35	28.08	4.81%	3,005,582
1972	31.5	12,266,613	0.6481	27.71	2.980	36,554,507	1.21	28.49	4.25%	1,552,508
1971	32.5	12,159,835	0.6692	27.79	2.980	36,236,308	1.07	28.50	3.75%	1,360,451
1970	33.5	12,104,735	0.6718	28.34	2.950	35,708,968	0.91	28.95	3.14%	1,122,458
1969	34.5	7,867,593	0.5899	28.48	3.275	25,766,367	0.74	28.92	2.56%	659,305
1968	35.5	4,092,856	0.6044	29.04	3.425	14,018,032	0.50	29.35	1.70%	238,808
1967	36.5	3,304,809	0.5992	29.51	3.506	11,586,660	0.00	0.00	0.00%	0
1966	37.5	3,348,121	0.6135	31.34	3.634	12,167,072	0.00	0.00	0.00%	0
1965	38.5	2,036,749	0.6131	32.12	3.870	7,882,219	0.00	0.00	0.00%	0
1964	39.5	2,717,453	0.6223	32.05	4.027	10,943,183	0.00	0.00	0.00%	0
1963	40.5	2,536,316	0.5881	32.74	3.973	10,084,729	0.00	0.00	0.00%	0
1962	41.5	1,471,783	0.5783	33.54	3.870	5,695,800	0.00	0.00	0.00%	0
1961	42.5	1,084,117	0.4718	33.16	3.821	4,142,411	0.00	0.00	0.00%	0
1960	43.5	823,545	0.3702	30.23	3.679	3,029,822	0.00	0.00	0.00%	0
1959	44.5	289,326	0.4011	31.57	3.772	1,091,338	0.00	0.00	0.00%	0
1958	45.5	184,169	0.2750	29.71	3.821	703,710	0.00	0.00	0.00%	0
1957	46.5	224,482	0.2054	26.75	3.679	825,869	0.00	0.00	0.00%	0
1956	47.5	449,632	0.2030	26.12	3.506	1,576,410	0.00	0.00	0.00%	0
1955	48.5	156,131	0.1609	25.36	3.821	596,577	0.00	0.00	0.00%	0
1954	49.5	251,252	0.1464	29.57	4.139	1,039,932	0.00	0.00	0.00%	0
1953	50.5	53,309	0.0711	26.84	4.082	217,607	0.00	0.00	0.00%	0
1952	51.5	90,420	0.2333	32.94	4.257	384,918	0.00	0.00	0.00%	0
1951	52.5	4,091	0.0385	26.52	4.515	18,471	0.00	0.00	0.00%	0
1950	53.5	2,444	0.0124	23.89	5.228	12,777	0.00	0.00	0.00%	0
1949	54.5	10,083	0.0707	24.04	5.418	54,630	0.00	0.00	0.00%	0
1948	55.5	3,151	0.2004	28.63	5.321	16,766	0.00	0.00	0.00%	0
1947	56.5	317	0.0036	35.50	5.519	1,750	0.00	0.00	0.00%	0
1946	57.5	361	0.0476	36.30	5.960	2,152	0.00	0.00	0.00%	0
1945	58.5	1,303	0.1437	36.74	5.960	7,766	0.00	0.00	0.00%	0
1944	59.5	0	0.0000	0.00	5.960	0	0.00	0.00	0.00%	0
1943	60.5	0	0.0000	0.00	5.960	0	0.00	0.00	0.00%	0
1942	61.5	6,996	0.1661	36.94	5.960	41,696	0.00	0.00	0.00%	0
1941	62.5	60,465	0.1683	37.12	5.960	360,371	0.00	0.00	0.00%	0

Average Remaining Life and Average Service Life from Qwest Response to WDA 01-001S2, Attachment A

Company: Qwest - Arizona
Account: 2423 Buried Cable Metallic

Avg Life: 12.0
Iowa Curve: L1.5

Dunkel Workpaper

Reproduction Cost New Less Depreciation

Correct Average Remaining and Average Service Lives in Hughes Calculation

Vintage	Age	Experience to 1/1/2004 Amount Surviving	Proportion Surviving	Realized Life	Hughes Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
A	B	C	D	E	F	G = C*F	H	I	J = H/I	K = G*J
1940	63.5	2,340	0.0682	32.32	5.960	13,946	0.00	0.00	0.00%	0
1939	64.5	0	0.0000	0.00	5.960	0	0.00	0.00	0.00%	0
1938	65.5	1,619	0.2709	36.70	5.960	9,649	0.00	0.00	0.00%	0
1937	66.5	227	0.0041	28.74	5.960	1,353	0.00	0.00	0.00%	0
1936	67.5	4,958	0.0240	32.31	5.960	29,550	0.00	0.00	0.00%	0
1935	68.5	0	0.0000	0.00	5.960	0	0.00	0.00	0.00%	0
1934	69.5	0	0.0000	0.00	5.960	0	0.00	0.00	0.00%	0
1933	70.5	0	0.0000	0.00	5.960	0	0.00	0.00	0.00%	0
1932	71.5	0	0.0000	0.00	5.960	0	0.00	0.00	0.00%	0
1931	72.5	92	0.0851	26.84	5.960	548	0.00	0.00	0.00%	0
1930	73.5	2,284	0.1157	24.10	5.960	13,613	0.00	0.00	0.00%	0
1929	74.5	0	0.0000	0.00	5.960	0	0.00	0.00	0.00%	0
1928	75.5	0	0.0000	0.00	5.960	0	0.00	0.00	0.00%	0
1927	76.5	0	0.0000	0.00	5.960	0	0.00	0.00	0.00%	0
1926	77.5	0	0.0000	0.00	5.960	0	0.00	0.00	0.00%	0
1925	78.5	15,939,497	0.1445	21.20	5.960	94,999,402	0.00	0.00	0.00%	0

Company: Qwest - Arizona
Account: 2423 Buried Cable Metallic

Avg Life: 12.0
Iowa Curve: L1.5

Hughes Analysis

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

	Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
	A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
	Total		**1,628,171,174**	**1.338**	**2,178,731,279**			**32.46%**	**707,240,491**
*	2003	0.5	63,550,598	1.021	64,885,161	8.19	8.69	94.25%	61,151,899
*	2002	1.5	68,916,847	1.049	72,293,773	7.63	9.13	83.58%	60,420,607
*	2001	2.5	119,473,541	1.046	124,969,324	7.08	9.58	73.92%	92,371,249
*	2000	3.5	141,529,013	1.072	151,719,102	6.58	10.08	65.28%	99,039,122
*	1999	4.5	102,216,637	1.084	110,802,835	6.12	10.62	57.62%	63,849,769
*	1998	5.5	86,892,236	1.024	88,977,650	5.72	11.22	50.98%	45,362,431
*	1997	6.5	92,883,712	0.990	91,954,875	5.40	11.90	45.38%	41,726,086
*	1996	7.5	91,141,285	1.003	91,414,709	5.15	12.65	40.69%	37,195,779
*	1995	8.5	69,927,991	1.057	73,913,886	4.94	13.44	36.74%	27,153,061
*	1994	9.5	44,263,132	1.197	52,982,969	4.76	14.26	33.37%	17,678,675
*	1993	10.5	33,488,287	1.178	39,449,202	4.60	15.10	30.44%	12,009,106
*	1992	11.5	35,981,118	1.197	43,069,398	4.44	15.94	27.85%	11,994,195
*	1991	12.5	34,697,266	1.164	40,387,618	4.28	16.78	25.50%	10,299,673
*	1990	13.5	34,346,643	1.151	39,532,986	4.11	17.61	23.35%	9,229,235
*	1989	14.5	40,979,775	1.146	46,962,822	3.94	18.44	21.35%	10,025,856
*	1988	15.5	47,281,737	1.393	65,863,460	3.75	19.25	19.49%	12,838,381
*	1987	16.5	57,779,416	1.490	86,091,330	3.57	20.07	17.77%	15,298,616
*	1986	17.5	51,397,405	1.513	77,764,274	3.38	20.88	16.18%	12,581,733
*	1985	18.5	59,990,601	1.406	84,346,785	3.19	21.69	14.71%	12,408,929
*	1984	19.5	53,499,362	1.594	85,277,983	3.01	22.51	13.36%	11,395,853
*	1983	20.5	38,354,000	1.497	57,415,938	2.83	23.33	12.12%	6,961,662
*	1982	21.5	50,176,909	1.544	77,473,147	2.65	24.15	10.99%	8,512,752
	1981	22.5	21,061,546	1.577	33,214,058	2.66	23.98	11.08%	3,679,048
	1980	23.5	20,006,214	1.552	31,049,644	2.47	24.45	10.08%	3,131,207
	1979	24.5	19,527,131	1.795	35,051,200	2.28	25.54	8.94%	3,134,299
	1978	25.5	17,663,610	2.027	35,804,137	2.11	26.31	8.02%	2,870,640
	1977	26.5	11,938,044	2.099	25,057,954	1.94	26.54	7.33%	1,836,176
	1976	27.5	8,522,878	2.241	19,099,770	1.79	27.32	6.54%	1,248,671
	1975	28.5	7,285,589	2.403	17,507,270	1.64	26.43	6.19%	1,083,670
	1974	29.5	13,335,239	2.328	31,044,436	1.49	27.69	5.38%	1,670,680
	1973	30.5	22,447,435	2.785	62,516,106	1.35	28.08	4.80%	3,001,189
	1972	31.5	12,266,613	2.980	36,554,507	1.21	28.49	4.25%	1,553,251
	1971	32.5	12,159,835	2.980	36,236,308	1.08	28.51	3.77%	1,367,858
	1970	33.5	12,104,735	2.950	35,708,968	0.89	28.94	3.09%	1,104,081
	1969	34.5	7,867,593	3.275	25,766,367	0.75	28.92	2.59%	668,101
	1968	35.5	4,092,856	3.425	14,018,032	0.50	29.35	1.70%	238,847
	1967	36.5	3,304,809	3.506	11,586,660	0.50	29.81	1.68%	194,365
	1966	37.5	3,348,121	3.634	12,167,072	0.50	31.65	1.58%	192,241
	1965	38.5	2,036,749	3.870	7,882,219	0.50	32.43	1.54%	121,535
	1964	39.5	2,717,453	4.027	10,943,183	0.50	32.36	1.54%	169,067
	1963	40.5	2,538,316	3.973	10,084,729	0.50	33.04	1.51%	152,631
	1962	41.5	1,471,783	3.870	5,695,800	0.50	33.83	1.48%	84,183
	1961	42.5	1,084,117	3.821	4,142,411	0.50	33.40	1.50%	62,021
	1960	43.5	823,545	3.679	3,029,822	0.50	30.42	1.64%	49,800
	1959	44.5	289,326	3.772	1,091,338	0.50	31.77	1.57%	17,177
	1958	45.5	184,169	3.821	703,710	0.50	29.85	1.67%	11,787
	1957	46.5	224,482	3.679	825,869	0.50	26.86	1.86%	15,375
	1956	47.5	449,632	3.506	1,576,410	0.50	26.22	1.91%	30,060
	1955	48.5	156,131	3.821	596,577	0.50	25.44	1.97%	11,724
	1954	49.5	251,252	4.139	1,039,932	0.50	29.65	1.69%	17,539
	1953	50.5	53,309	4.082	217,607	0.50	26.87	1.86%	4,049
	1952	51.5	90,420	4.257	384,918	0.50	33.06	1.51%	5,821
	1951	52.5	4,091	4.515	18,471	0.50	26.54	1.88%	348

Company: Qwest - Arizona
Account: 2423 Buried Cable Metallic

Avg Life: 12.0
Iowa Curve: L1.5

Hughes Analysis

Reproduction Cost New Less Depreciation
Telephone Plant in Service as of December 31, 2003

Vintage	Age	Plant Surviving as of 12/31/03	Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
A	B	C	D	E = C*D	F	G	H= F/G	I = E*H
1950	53.5	2,444	5.228	12,777	0.50	23.90	2.09%	267
1949	54.5	10,083	5.418	54,630	0.50	24.08	2.08%	1,134
1948	55.5	3,151	5.321	16,766	0.50	28.73	1.74%	292
1947	56.5	317	5.519	1,750	0.50	35.50	1.41%	25
1946	57.5	361	5.960	2,152	0.50	36.33	1.38%	30
1945	58.5	1,303	5.960	7,766	0.50	36.81	1.36%	105
1944	59.5	0	5.960	0	0.50	0.00	0.00%	0
1943	60.5	0	5.960	0	0.50	0.00	0.00%	0
1942	61.5	6,996	5.960	41,696	0.50	37.02	1.35%	563
1941	62.5	60,465	5.960	360,371	0.50	37.21	1.34%	4,843
1940	63.5	2,340	5.960	13,946	0.50	32.36	1.55%	216
1939	64.5	0	5.960	0	0.50	0.00	0.00%	0
1938	65.5	1,619	5.960	9,649	0.50	36.83	1.36%	131
1937	66.5	227	5.960	1,353	0.50	28.75	1.74%	24
1936	67.5	4,958	5.960	29,550	0.50	32.32	1.55%	457
1935	68.5	0	5.960	0	0.50	0.00	0.00%	0
1934	69.5	0	5.960	0	0.50	0.00	0.00%	0
1933	70.5	0	5.960	0	0.50	0.00	0.00%	0
1932	71.5	0	5.960	0	0.50	0.00	0.00%	0
1931	72.5	92	5.960	548	0.50	26.89	1.86%	10
1930	73.5	2,284	5.960	13,613	0.50	24.16	2.07%	282
1929	74.5	0	5.960	0	0.50	0.00	0.00%	0
1928	75.5	0	5.960	0	0.50	0.00	0.00%	0
1927	76.5	0	5.960	0	0.50	0.00	0.00%	0
1926	77.5	0	5.960	0	0.50	0.00	0.00%	0
1925	78.5	0	5.960	0	0.50	0.00	0.00%	0

REBUTTAL EXHIBIT NHH-3R

Incorrect Surviving Plant Balances:
Dunkel RCNLD Analyses for Account 2422, Underground Cable-Metallic;
Account 2423, Buried Cable-Metallic;
and Account 2426, Intrabuilding Cable-Non Metallic

Company: Qwest - Arizona
Account: 2422 Underground Cable - Metallic

Avg Life: 15.0
Iowa Curve: R1.5

Dunkel Workpaper

Reproduction Cost New Less Depreciation

Correct Average Remaining and Average Service Lives in Hughes Calculation

	Vintage	Age	Experience to 1/1/2004 Amount Surviving	Proportion Surviving	Realized Life	Hughes Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
	A	B	C	D	E	F	G = C*F	H	I	J = H/I	K = G*J
	Total		**397,780,811**			**1.870**	**743,810,068**			**17.46%**	**129,892,202**
*	2003	0.5	10,298,510	0.9984	0.50	1.020	10,504,480	9.51	10.01	95.00%	9,979,781
*	2002	1.5	11,233,325	0.9768	1.49	1.051	11,806,225	9.89	11.39	86.83%	10,251,410
*	2001	2.5	14,486,224	0.9054	2.36	1.051	15,225,021	9.79	12.29	79.66%	12,127,987
*	2000	3.5	5,072,264	0.9773	3.47	1.080	5,478,045	9.50	13.00	73.08%	4,003,187
*	1999	4.5	22,299,868	0.9480	4.36	1.091	24,328,938	9.12	13.62	66.96%	16,290,742
*	1998	5.5	20,776,309	0.9860	5.46	1.040	21,607,361	8.69	14.19	61.24%	13,232,415
*	1997	6.5	10,596,082	0.9837	6.41	1.013	10,733,831	8.22	14.72	55.84%	5,994,028
*	1996	7.5	11,983,240	0.9802	7.43	1.030	12,342,737	7.74	15.24	50.79%	6,268,556
*	1995	8.5	8,537,959	0.9729	8.37	1.080	9,220,996	7.26	15.76	46.07%	4,247,743
*	1994	9.5	10,703,859	0.9840	9.43	1.210	12,951,669	6.77	16.27	41.61%	5,389,232
*	1993	10.5	9,612,807	0.9658	10.30	1.196	11,496,917	6.29	16.79	37.46%	4,307,064
*	1992	11.5	3,367,541	0.9821	11.34	1.220	4,108,400	5.83	17.33	33.64%	1,382,110
*	1991	12.5	7,832,804	0.9880	12.42	1.196	9,368,034	5.38	17.88	30.09%	2,818,793
*	1990	13.5	13,212,089	0.9816	13.35	1.183	15,629,901	4.95	18.45	26.83%	4,193,388
*	1989	14.5	10,157,069	0.9729	14.30	1.187	12,056,441	4.54	19.04	23.84%	2,874,803
*	1988	15.5	10,882,745	0.9686	15.25	1.420	15,453,498	4.15	19.65	21.12%	3,263,716
*	1987	16.5	11,653,275	0.9579	16.04	1.495	17,421,646	3.79	20.29	18.68%	3,254,216
*	1986	17.5	13,252,383	0.9295	16.87	1.517	20,103,865	3.46	20.96	16.51%	3,318,672
*	1985	18.5	15,995,809	0.8044	17.46	1.433	22,921,994	3.15	21.65	14.55%	3,335,071
*	1984	19.5	15,669,691	0.9140	18.93	1.611	25,243,872	2.85	22.35	12.75%	3,219,017
*	1983	20.5	12,375,873	0.8416	19.84	1.532	18,959,837	2.58	23.08	11.18%	2,119,427
*	1982	21.5	16,977,824	0.8710	20.62	1.579	26,807,984	2.31	23.81	9.70%	2,600,859
	1981	22.5	6,891,039	0.9522	21.86	1.620	11,163,483	2.16	23.91	9.03%	1,008,495
	1980	23.5	9,427,523	0.9569	22.99	1.611	15,187,740	1.89	24.79	7.62%	1,157,920
	1979	24.5	9,222,789	0.9427	23.76	1.862	17,172,833	1.64	25.31	6.48%	1,112,740
	1978	25.5	7,688,388	0.9701	25.13	2.101	16,153,303	1.41	26.50	5.32%	859,476
	1977	26.5	4,997,476	0.9568	25.92	2.190	10,944,472	1.20	27.07	4.43%	485,163
	1976	27.5	2,214,408	0.8919	26.13	2.321	5,139,641	0.95	26.98	3.52%	180,973
	1975	28.5	3,916,789	0.8364	26.55	2.488	9,744,971	0.66	27.11	2.43%	237,244
	1974	29.5	8,769,462	0.8877	27.96	2.449	21,476,412	0.50	28.41	1.76%	377,973
	1973	30.5	11,341,147	0.9071	29.10	2.907	32,968,714	0.00	0.00	0.00%	0
	1972	31.5	8,476,603	0.8989	30.07	3.110	26,362,235	0.00	0.00	0.00%	0
	1971	32.5	7,627,374	0.8685	30.54	3.141	23,957,582	0.00	0.00	0.00%	0
	1970	33.5	7,043,593	0.9027	31.69	3.141	22,123,926	0.00	0.00	0.00%	0
	1969	34.5	4,434,672	0.8403	32.23	3.456	15,326,226	0.00	0.00	0.00%	0
	1968	35.5	2,226,073	0.8259	32.41	3.616	8,049,480	0.00	0.00	0.00%	0
	1967	36.5	2,372,006	0.8277	33.94	3.702	8,781,166	0.00	0.00	0.00%	0
	1966	37.5	1,962,642	0.8007	33.81	3.840	7,536,545	0.00	0.00	0.00%	0
	1965	38.5	2,274,941	0.8142	35.54	4.039	9,188,487	0.00	0.00	0.00%	0
	1964	39.5	1,949,709	0.7670	35.69	4.203	8,194,627	0.00	0.00	0.00%	0
	1963	40.5	1,470,787	0.6430	33.94	4.203	6,181,718	0.00	0.00	0.00%	0
	1962	41.5	1,528,803	0.7838	37.96	4.092	6,255,862	0.00	0.00	0.00%	0
	1961	42.5	1,736,795	0.8206	39.09	4.092	7,106,965	0.00	0.00	0.00%	0
	1960	43.5	2,966,381	0.6614	37.73	3.937	11,678,642	0.00	0.00	0.00%	0
	1959	44.5	1,482,663	0.7879	40.21	4.039	5,988,476	0.00	0.00	0.00%	0
	1958	45.5	1,509,947	0.7438	39.66	4.092	6,178,703	0.00	0.00	0.00%	0
	1957	46.5	1,877,607	0.7322	40.63	3.987	7,486,019	0.00	0.00	0.00%	0
	1956	47.5	1,357,526	0.6100	36.67	3.793	5,149,096	0.00	0.00	0.00%	0
	1955	48.5	1,262,410	0.6985	39.94	4.147	5,235,214	0.00	0.00	0.00%	0
	1954	49.5	662,908	0.6564	39.82	4.443	2,945,300	0.00	0.00	0.00%	0
	1953	50.5	499,906	0.6374	41.04	4.443	2,221,082	0.00	0.00	0.00%	0
	1952	51.5	280,364	0.2070	35.57	4.642	1,301,450	0.00	0.00	0.00%	0
	1951	52.5	189,834	0.4075	40.77	4.859	922,403	0.00	0.00	0.00%	0
	1950	53.5	41,680	0.3270	36.32	5.655	235,700	0.00	0.00	0.00%	0
	1949	54.5	45,480	0.1306	15.18	5.868	266,877	0.00	0.00	0.00%	0
	1948	55.5	82,986	0.1392	25.29	5.759	477,916	0.00	0.00	0.00%	0
	1947	56.5	289,927	0.6584	47.49	5.981	1,734,053	0.00	0.00	0.00%	0
	1946	57.5	10,785	0.1466	18.31	6.479	69,876	0.00	0.00	0.00%	0
	1945	58.5	3,742	0.2314	27.36	6.479	24,244	0.00	0.00	0.00%	0
	1944	59.5	0	0.0000	0.00	6.479	0	0.00	0.00	0.00%	0
	1943	60.5	56,594	0.5833	44.65	6.479	366,673	0.00	0.00	0.00%	0
	1942	61.5	27,054	0.6759	45.65	6.479	175,283	0.00	0.00	0.00%	0
	1941	62.5	113,280	0.5130	50.72	6.479	733,941	0.00	0.00	0.00%	0

Average Remaining Life and Average Service Life from Qwest Response to WDA 01-001S2, Attachment A

Company: Qwest - Arizona
Account: 2422 Underground Cable - Metallic

Avg Life: 15.0
Iowa Curve: R1.5

Dunkel Workpaper

Reproduction Cost New Less Depreciation

Correct Average Remaining and Average Service Lives in Hughes Calculation

Vintage	Age	Experience to 1/1/2004 Amount Surviving	Proportion Surviving	Realized Life	Hughes Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
A	B	C	D	E	F	G = C*F	H	I	J = H/I	K = G*J
1940	63.5	69,954	0.4901	45.35	6.479	453,232	0.00	0.00	0.00%	0
1939	64.5	15,460	0.4978	42.38	6.479	100,185	0.00	0.00	0.00%	0
1938	65.5	13,749	0.3737	45.82	6.479	89,080	0.00	0.00	0.00%	0
1937	66.5	59,532	0.6455	50.83	6.479	385,708	0.00	0.00	0.00%	0
1936	67.5	7,585	0.6669	56.61	6.479	49,143	0.00	0.00	0.00%	0
1935	68.5	10	0.9190	63.90	6.479	65	0.00	0.00	0.00%	0
1934	69.5	34,034	0.7252	60.57	6.479	220,506	0.00	0.00	0.00%	0
1933	70.5	12,406	0.4145	59.08	6.479	80,378	0.00	0.00	0.00%	0
1932	71.5	700	0.0131	30.18	6.479	4,535	0.00	0.00	0.00%	0
1931	72.5	347	0.1680	42.54	6.479	2,248	0.00	0.00	0.00%	0
1930	73.5	30,031	0.0946	36.94	6.479	194,571	0.00	0.00	0.00%	0
1929	74.5	177,061	0.3854	57.67	6.479	1,147,178	0.00	0.00	0.00%	0
1928	75.5	74,154	0.6686	67.26	6.479	480,444	0.00	0.00	0.00%	0
1927	76.5	22,833	0.4447	64.57	6.479	147,935	0.00	0.00	0.00%	0
1926	77.5	28,503	0.3479	58.41	6.479	184,671	0.00	0.00	0.00%	0
1925	78.5	9,923,009	0.3040	54.86	6.479	64,291,175	0.00	0.00	0.00%	0

Average Remaining Life and Average Service Life from Qwest Response to WDA 01-001S2, Attachment A

Company: Qwest - Arizona
Account: 2423 Buried Cable Metallic

Avg Life: 12.0
Iowa Curve: L1.5

Dunkel Workpaper

Reproduction Cost New Less Depreciation

Correct Average Remaining and Average Service Lives in Hughes Calculation

	Vintage	Age	Experience to 1/1/2004 Amount Surviving	Experience to 1/1/2004 Proportion Surviving	Experience to 1/1/2004 Realized Life	Hughes Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
	A	B	C	D	E	F	G = C*F	H	I	J = H/I	K = G*J
	Total		**1,644,110,671**			**1.383**	**2,273,730,682**			**31.06%**	**706,158,862**
*	2003	0.5	63,550,598	0.9997	0.50	1.021	64,885,161	8.19	8.69	94.25%	61,151,837
*	2002	1.5	68,916,847	0.9879	1.49	1.049	72,293,773	7.63	9.13	83.57%	60,416,373
*	2001	2.5	119,473,541	0.9849	2.47	1.046	124,969,324	7.08	9.58	73.90%	92,357,287
*	2000	3.5	141,529,013	0.9832	3.47	1.072	151,719,102	6.58	10.08	65.28%	99,038,858
*	1999	4.5	102,216,637	0.9634	4.41	1.084	110,802,835	6.12	10.62	57.63%	63,852,481
*	1998	5.5	86,892,236	0.9781	5.44	1.024	88,977,650	5.72	11.22	50.98%	45,361,155
*	1997	6.5	92,883,712	0.9912	6.47	0.990	91,954,875	5.40	11.90	45.38%	41,727,422
*	1996	7.5	91,141,285	0.9875	7.45	1.003	91,414,709	5.15	12.65	40.71%	37,216,265
*	1995	8.5	69,927,991	0.9868	8.45	1.057	73,913,886	4.94	13.44	36.76%	27,167,753
*	1994	9.5	44,263,132	0.9795	9.40	1.197	52,982,969	4.76	14.26	33.38%	17,685,760
*	1993	10.5	33,488,287	0.9800	10.38	1.178	39,449,202	4.60	15.10	30.46%	12,017,638
*	1992	11.5	35,981,116	0.9816	11.41	1.197	43,089,398	4.44	15.94	27.85%	11,996,746
*	1991	12.5	34,697,266	0.9707	12.32	1.164	40,387,618	4.28	16.78	25.51%	10,301,490
*	1990	13.5	34,346,643	0.9616	13.22	1.151	39,532,986	4.11	17.61	23.34%	9,226,608
*	1989	14.5	40,979,775	0.9662	14.25	1.146	46,962,822	3.94	18.44	21.37%	10,034,356
*	1988	15.5	47,281,737	0.9603	15.20	1.393	65,863,460	3.75	19.25	19.48%	12,830,544
*	1987	16.5	57,779,416	0.9417	16.10	1.490	86,091,330	3.57	20.07	17.79%	15,313,704
*	1986	17.5	51,397,405	0.9501	17.15	1.513	77,764,274	3.38	20.88	16.19%	12,588,278
*	1985	18.5	59,990,601	0.4315	16.11	1.406	84,346,785	3.19	21.69	14.71%	12,405,083
*	1984	19.5	53,499,362	0.9200	18.65	1.594	85,277,983	3.01	22.51	13.37%	11,403,231
*	1983	20.5	38,354,000	0.9296	19.79	1.497	57,415,938	2.83	23.33	12.13%	6,964,728
*	1982	21.5	50,176,909	0.9300	20.79	1.544	77,473,147	2.65	24.15	10.97%	8,501,194
	1981	22.5	21,061,546	0.9212	21.54	1.577	33,214,058	2.66	23.98	11.09%	3,684,295
	1980	23.5	20,006,214	0.9022	22.23	1.552	31,049,644	2.47	24.45	10.10%	3,136,713
	1979	24.5	19,527,131	0.9175	23.44	1.795	35,051,200	2.28	25.54	8.93%	3,129,081
	1978	25.5	17,663,610	0.9136	24.38	2.027	35,804,137	2.11	26.31	8.02%	2,871,407
	1977	26.5	11,938,044	0.8707	24.85	2.099	25,057,954	1.94	26.54	7.31%	1,831,667
	1976	27.5	8,522,878	0.8745	25.76	2.241	19,099,770	1.79	27.33	6.55%	1,250,955
	1975	28.5	7,285,589	0.7358	25.23	2.403	17,507,270	1.64	26.43	6.21%	1,086,338
	1974	29.5	13,335,239	0.7874	26.52	2.328	31,044,436	1.49	27.69	5.38%	1,670,502
	1973	30.5	22,447,435	0.7435	27.08	2.785	62,516,106	1.35	28.08	4.81%	3,005,582
	1972	31.5	12,266,613	0.6461	27.71	2.980	36,554,507	1.21	28.49	4.25%	1,552,508
	1971	32.5	12,159,835	0.6692	27.79	2.980	36,236,308	1.07	28.50	3.75%	1,360,451
	1970	33.5	12,104,735	0.6718	28.34	2.950	35,708,968	0.91	28.95	3.14%	1,122,458
	1969	34.5	7,867,593	0.5899	28.48	3.275	25,766,367	0.74	28.92	2.56%	659,305
	1968	35.5	4,092,856	0.6044	29.04	3.425	14,018,032	0.50	29.35	1.70%	238,808
	1967	36.5	3,304,809	0.5992	29.51	3.506	11,586,660	0.00	0.00	0.00%	0
	1966	37.5	3,348,121	0.6135	31.34	3.634	12,167,072	0.00	0.00	0.00%	0
	1965	38.5	2,036,749	0.6131	32.12	3.870	7,882,219	0.00	0.00	0.00%	0
	1964	39.5	2,717,453	0.6223	32.05	4.027	10,943,183	0.00	0.00	0.00%	0
	1963	40.5	2,538,316	0.5881	32.74	3.973	10,084,729	0.00	0.00	0.00%	0
	1962	41.5	1,471,783	0.5783	33.54	3.870	5,695,800	0.00	0.00	0.00%	0
	1961	42.5	1,084,117	0.4718	33.16	3.821	4,142,411	0.00	0.00	0.00%	0
	1960	43.5	823,545	0.3702	30.23	3.679	3,029,822	0.00	0.00	0.00%	0
	1959	44.5	289,326	0.4011	31.57	3.772	1,091,338	0.00	0.00	0.00%	0
	1958	45.5	184,169	0.2750	29.71	3.821	703,710	0.00	0.00	0.00%	0
	1957	46.5	224,482	0.2054	26.75	3.679	825,869	0.00	0.00	0.00%	0
	1956	47.5	449,632	0.2030	26.12	3.506	1,576,410	0.00	0.00	0.00%	0
	1955	48.5	156,131	0.1609	25.36	3.821	596,577	0.00	0.00	0.00%	0
	1954	49.5	251,252	0.1464	29.57	4.139	1,039,932	0.00	0.00	0.00%	0
	1953	50.5	53,309	0.0711	26.84	4.082	217,607	0.00	0.00	0.00%	0
	1952	51.5	90,420	0.2333	32.94	4.257	384,918	0.00	0.00	0.00%	0
	1951	52.5	4,091	0.0385	26.52	4.515	18,471	0.00	0.00	0.00%	0
	1950	53.5	2,444	0.0124	23.89	5.228	12,777	0.00	0.00	0.00%	0
	1949	54.5	10,083	0.0707	24.04	5.418	54,630	0.00	0.00	0.00%	0
	1948	55.5	3,151	0.2004	28.63	5.321	16,766	0.00	0.00	0.00%	0
	1947	56.5	317	0.0036	35.50	5.519	1,750	0.00	0.00	0.00%	0
	1946	57.5	361	0.0476	36.30	5.960	2,152	0.00	0.00	0.00%	0
	1945	58.5	1,303	0.1437	36.74	5.960	7,766	0.00	0.00	0.00%	0
	1944	59.5	0	0.0000	0.00	5.960	0	0.00	0.00	0.00%	0
	1943	60.5	0	0.0000	0.00	5.960	0	0.00	0.00	0.00%	0
	1942	61.5	6,996	0.1661	36.94	5.960	41,696	0.00	0.00	0.00%	0
	1941	62.5	60,465	0.1683	37.12	5.960	360,371	0.00	0.00	0.00%	0

Average Remaining Life and Average Service Life from Qwest Response to WDA 01-001S2, Attachment A

Company: Qwest - Arizona
Account: 2423 Buried Cable Metallic

Avg Life: 12.0
Iowa Curve: L1.5

Dunkel Workpaper

Reproduction Cost New Less Depreciation

Correct Average Remaining and Average Service Lives in Hughes Calculation

Vintage	Age	Experience to 1/1/2004 Amount Surviving	Proportion Surviving	Realized Life	Hughes Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
A	B	C	D	E	F	G = C*F	H	I	J = H/I	K = G*J
1940	63.5	2,340	0.0682	32.32	5.960	13,946	0.00	0.00	0.00%	0
1939	64.5	0	0.0000	0.00	5.960	0	0.00	0.00	0.00%	0
1938	65.5	1,619	0.2709	36.70	5.960	9,649	0.00	0.00	0.00%	0
1937	66.5	227	0.0041	28.74	5.960	1,353	0.00	0.00	0.00%	0
1936	67.5	4,958	0.0240	32.31	5.960	29,550	0.00	0.00	0.00%	0
1935	68.5	0	0.0000	0.00	5.960	0	0.00	0.00	0.00%	0
1934	69.5	0	0.0000	0.00	5.960	0	0.00	0.00	0.00%	0
1933	70.5	0	0.0000	0.00	5.960	0	0.00	0.00	0.00%	0
1932	71.5	0	0.0000	0.00	5.960	0	0.00	0.00	0.00%	0
1931	72.5	92	0.0851	26.84	5.960	548	0.00	0.00	0.00%	0
1930	73.5	2,284	0.1157	24.10	5.960	13,613	0.00	0.00	0.00%	0
1929	74.5	0	0.0000	0.00	5.960	0	0.00	0.00	0.00%	0
1928	75.5	0	0.0000	0.00	5.960	0	0.00	0.00	0.00%	0
1927	76.5	0	0.0000	0.00	5.960	0	0.00	0.00	0.00%	0
1926	77.5	0	0.0000	0.00	5.960	0	0.00	0.00	0.00%	0
1925	78.5	15,939,497	0.1445	21.20	5.960	94,999,402	0.00	0.00	0.00%	0

Average Remaining Life and Average Service Life from Qwest Response to WDA 01-001S2, Attachment A

Company: Qwest - Arizona
Account: 2426 Intrabuilding Cable - Metallic

Avg Life: 19.0
Iowa Curve: L2.0

Dunkel Workpaper

Reproduction Cost New Less Depreciation

Correct Average Remaining and Average Service Lives in Hughes Calculation

Vintage	Age	Experience to 1/1/2004 Amount Surviving	Proportion Surviving	Realized Life	Hughes Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
A	B	C	D	E	F	G = C*F	H	I	J = H/I	K = G*J
Total		**46,453,239**			**2.270**	**105,458,886**			**22.50%**	**23,731,080**
* 2003	0.5	1,588,436	0.9926	0.50	1.020	1,620,205	14.52	15.02	96.67%	1,566,270
* 2002	1.5	1,425,325	0.9465	1.45	1.054	1,502,293	13.63	15.13	90.09%	1,353,354
* 2001	2.5	1,565,164	0.9464	2.43	1.067	1,670,030	12.82	15.32	83.68%	1,397,506
* 2000	3.5	1,410,809	0.9253	3.35	1.100	1,551,890	12.07	15.57	77.52%	1,203,039
* 1999	4.5	1,312,223	0.8752	4.26	1.121	1,471,002	11.37	15.87	71.64%	1,053,894
* 1998	5.5	1,176,260	0.9624	5.38	1.090	1,282,123	10.69	16.19	66.03%	846,566
* 1997	6.5	1,305,076	0.9925	6.48	1.080	1,409,482	10.04	16.54	60.70%	855,574
* 1996	7.5	989,299	0.9939	7.48	1.097	1,085,261	9.43	16.93	55.70%	604,490
* 1995	8.5	787,681	0.9853	8.43	1.143	900,319	8.87	17.37	51.07%	459,749
* 1994	9.5	503,731	0.9821	9.40	1.248	628,656	8.40	17.90	46.93%	295,012
* 1993	10.5	478,468	0.9436	10.09	1.253	599,520	7.99	18.49	43.21%	259,068
* 1992	11.5	615,315	0.9514	11.15	1.280	787,603	7.66	19.18	39.98%	314,877
* 1991	12.5	830,355	0.9734	12.28	1.275	1,058,703	7.38	19.88	37.12%	393,019
* 1990	13.5	1,034,159	0.9370	12.95	1.285	1,328,894	7.15	20.65	34.62%	460,126
* 1989	14.5	1,191,252	0.9169	13.73	1.299	1,547,436	6.96	21.46	32.43%	501,871
* 1988	15.5	1,390,509	0.9300	14.81	1.498	2,082,982	6.79	22.29	30.46%	634,520
* 1987	16.5	2,081,916	0.9595	16.16	1.544	3,214,478	6.64	23.14	28.69%	922,391
* 1986	17.5	2,562,121	0.9100	16.19	1.571	4,025,092	6.50	24.00	27.08%	1,090,129
* 1985	18.5	1,864,327	0.7947	16.31	1.524	2,841,234	6.37	24.87	25.61%	727,731
* 1984	19.5	2,080,071	0.8196	17.47	1.676	3,486,199	6.23	25.73	24.21%	844,113
* 1983	20.5	1,949,437	0.7139	17.17	1.637	3,191,228	6.08	26.58	22.87%	729,972
* 1982	21.5	2,177,055	0.8824	19.96	1.709	3,720,587	5.93	27.43	21.62%	804,341
1981	22.5	1,246,757	0.8236	20.28	1.787	2,227,955	6.56	25.68	25.55%	569,135
1980	23.5	1,075,107	0.8393	21.25	1.824	1,960,995	6.31	26.54	23.78%	466,235
1979	24.5	1,202,879	0.7917	21.78	2.083	2,505,597	6.06	26.58	22.80%	571,253
1978	25.5	835,562	0.7318	21.63	2.331	1,947,695	5.81	25.88	22.45%	437,253
1977	26.5	659,813	0.5387	20.08	2.444	1,612,583	5.56	23.08	24.09%	388,473
1976	27.5	755,979	0.6221	22.35	2.607	1,970,837	5.31	25.66	20.69%	407,839
1975	28.5	778,996	0.7034	23.52	2.816	2,193,653	5.06	27.08	18.69%	409,892
1974	29.5	1,000,638	0.7825	25.66	2.816	2,817,797	4.82	29.43	16.38%	461,494
1973	30.5	941,536	0.5888	23.71	3.290	3,097,653	4.58	26.41	17.34%	537,192
1972	31.5	687,503	0.5746	25.10	3.520	2,420,011	4.35	27.60	15.76%	381,415
1971	32.5	628,804	0.4666	22.93	3.629	2,281,930	4.12	24.86	16.57%	378,180
1970	33.5	572,491	0.4804	25.24	3.705	2,121,079	3.90	27.12	14.38%	305,022
1969	34.5	332,972	0.5338	25.44	4.046	1,347,205	3.69	27.41	13.46%	181,364
1968	35.5	250,086	0.5379	27.43	4.190	1,047,860	3.48	29.30	11.88%	124,456
1967	36.5	271,825	0.3830	26.19	4.346	1,181,351	3.27	27.44	11.92%	140,781
1966	37.5	223,594	0.4080	27.05	4.456	996,335	3.07	28.31	10.84%	108,045
1965	38.5	190,109	0.4516	28.29	4.693	892,182	2.87	29.58	9.70%	86,564
1964	39.5	273,931	0.3266	28.10	4.889	1,339,249	2.67	28.98	9.21%	123,388
1963	40.5	190,237	0.2405	27.17	4.958	943,195	2.48	27.77	8.93%	84,232
1962	41.5	153,974	0.3748	29.88	4.822	742,463	2.29	30.73	7.45%	55,328
1961	42.5	187,552	0.3063	27.13	4.889	916,942	2.11	27.77	7.60%	69,670
1960	43.5	103,029	0.1984	27.54	4.693	483,515	1.93	27.93	6.91%	33,412
1959	44.5	83,823	0.1657	26.13	4.889	409,811	1.75	26.42	6.62%	27,145
1958	45.5	54,158	0.3637	31.60	4.958	268,515	1.57	32.17	4.88%	13,104
1957	46.5	80,955	0.2946	30.71	4.958	401,375	1.40	31.12	4.50%	18,057
1956	47.5	48,173	0.0883	24.57	4.757	229,159	1.24	24.68	5.02%	11,514
1955	48.5	46,948	0.3266	30.32	5.176	243,003	1.07	30.67	3.49%	8,478
1954	49.5	35,777	0.1842	28.28	5.500	196,774	0.92	28.45	3.23%	6,363
1953	50.5	13,804	0.0315	19.98	5.587	77,123	0.77	20.00	3.85%	2,969
1952	51.5	17,879	0.1564	19.48	5.867	104,896	0.64	19.58	3.27%	3,429
1951	52.5	14,253	0.1967	24.53	6.175	88,012	0.50	24.63	2.03%	1,787
1950	53.5	3,460	0.0947	20.71	7.040	24,358	0.00	0.00	0.00%	0
1949	54.5	4,247	0.1036	26.04	7.184	30,510	0.00	0.00	0.00%	0
1948	55.5	8,168	0.1401	19.12	7.184	58,679	0.00	0.00	0.00%	0
1947	56.5	935	0.1389	23.65	7.489	7,002	0.00	0.00	0.00%	0
1946	57.5	3,489	0.1837	24.16	8.000	27,912	0.00	0.00	0.00%	0
1945	58.5	1,229	0.0542	23.39	8.000	9,832	0.00	0.00	0.00%	0
1944	59.5	1,388	0.0808	17.39	8.000	11,104	0.00	0.00	0.00%	0
1943	60.5	1,865	0.0683	16.16	8.000	14,920	0.00	0.00	0.00%	0
1942	61.5	2,651	0.0465	22.53	8.000	21,208	0.00	0.00	0.00%	0
1941	62.5	235	0.0459	23.79	8.000	1,880	0.00	0.00	0.00%	0

Average Remaining Life and Average Service Life from Qwest Response to WDA 01-001S2, Attachment A

Company: Qwest - Arizona
Account: 2426 Intrabuilding Cable - Metallic

Avg Life: 19.0
Iowa Curve: L2.0

Dunkel Workpaper

Reproduction Cost New Less Depreciation

Correct Average Remaining and Average Service Lives in Hughes Calculation

Vintage	Age	Experience to 1/1/2004 Amount Surviving	Proportion Surviving	Realized Life	Hughes Telephone Plant Translator	Reproduction Cost New (RCN)	Average Remaining Life	Average Service Life	Condition Percent	Reproduction Cost New Less Depreciation (RCNLD)
A	B	C	D	E	F	G = C*F	H	I	J = H/I	K = G*J
1940	63.5	1,187	0.0339	23.99	8.000	9,496	0.00	0.00	0.00%	0
1939	64.5	1,289	0.0087	25.16	8.000	10,312	0.00	0.00	0.00%	0
1938	65.5	1,293	0.0532	30.45	8.000	10,344	0.00	0.00	0.00%	0
1937	66.5	1,002	0.0622	25.83	8.000	8,016	0.00	0.00	0.00%	0
1936	67.5	4,315	0.0592	28.00	8.000	34,520	0.00	0.00	0.00%	0
1935	68.5	300	0.0224	23.16	8.000	2,400	0.00	0.00	0.00%	0
1934	69.5	446	0.0284	24.74	8.000	3,568	0.00	0.00	0.00%	0
1933	70.5	549	0.1374	28.41	8.000	4,392	0.00	0.00	0.00%	0
1932	71.5	576	0.0357	31.64	8.000	4,608	0.00	0.00	0.00%	0
1931	72.5	1,181	0.0402	29.19	8.000	9,448	0.00	0.00	0.00%	0
1930	73.5	2,652	0.0163	24.96	8.000	21,216	0.00	0.00	0.00%	0
1929	74.5	2,652	0.0088	27.54	8.000	21,216	0.00	0.00	0.00%	0
1928	75.5	2,005	0.0912	30.58	8.000	16,040	0.00	0.00	0.00%	0
1927	76.5	0	0.0000	0.00	8.000	0	0.00	0.00	0.00%	0
1926	77.5	179	0.1184	27.64	8.000	1,432	0.00	0.00	0.00%	0
1925	78.5	3,127,813	0.0943	24.69	8.000	25,022,504	0.00	0.00	0.00%	0

Average Remaining Life and Average Service Life from Qwest Response to WDA 01-001S2, Attachment A