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BEFORE THE ARIZONA CORPORATION COMMISSION

MARC SPITZER
Chairman
WILLIAM MUNDELL
Commissioner
JEFF HATCH-MILLER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN MAYES
Commissioner

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AZ CORP COMMISSION
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IN THE MATTER OF QWEST
CORPORATION'S FILING AMENDED
RENEWED PRICE REGULATION PLAN

DOCKET NO. T-01051B-03-0454
NOTICE OF FILING AFFIDAVIT OF
PHILIP E. GRATE AND
SUPPORTING SCHEDULES

Qwest Corporation ("Qwest") hereby files the attached Original Affidavit of Philip E. Grate, and Supporting Schedules in the above referenced matter.

RESPECTFULLY SUBMITTED this 27 day of January, 2004.

FENNEMORE CRAIG

By: Timothy Berg
Timothy Berg
Theresa Dwyer
3003 North Central Ave., Suite 2600
Phoenix, Arizona 85012-2913
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ORIGINAL and 13 copies hand-delivered for
filing this 27 day of January, 2004 to:

Docket Control
ARIZONA CORPORATION COMMISSION
1200 W. Washington St.
Phoenix, AZ 85007

Arizona Corporation Commission

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1 COPY of the foregoing delivered
2 this 27 day of January, 2004 to:

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7 Phoenix, AZ 85007

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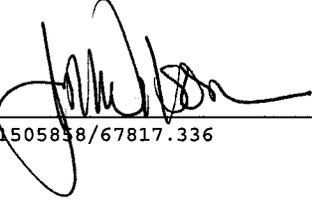
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completed. I expect separated results of operations for Arizona for 2003 to be available in March, 2004.

Qwest's Arizona Intrastate Net Operating Income

5. Net operating income (NOI) is the income generated by the entity's operations including the effect of applicable income taxes on that income. NOI differs from net income because it does not include non-operating (also known as "below-the-line") income, non-operating income tax, interest expense, or extraordinary items. Qwest's NOI for 2000, 2001 and 2002 appears on line 3 of Schedule A-2 and line 26 of Schedule E-2. Following is Qwest's actual regulated intrastate NOI for four years:

<u>Year</u>	<u>NOI</u>
1999	\$149 million
2000	\$42 million
2001	\$55 million
2002	-\$12 million

Qwest's Arizona Plant and Rate Base

6. As the data on Schedule A-4 shows, in the four year period from the end of 1999 through the end of 2003, Qwest's gross capital expenditures in Arizona totaled \$1.98 billion. The timing of the expenditures was as follows:

<u>Year</u>	<u>Expenditure</u>
2000	\$765 million
2001	\$649 million
2002	\$291 million
2003	\$278 million

7. Of the total \$1.98 billion expenditure, 51% was for central office equipment, 33% was for outside plant, 5% was for software, 4% was for buildings, 2% was for vehicles and work equipment, another 2% was for capital leases, and the remaining 3% was spread across several categories of investment.

8. This total state investment activity yielded considerable growth in the balance of Qwest's Arizona intrastate gross plant in service. The gross plant in service balance reflects additions and retirements of plant on an intrastate basis. During the three year period from the end of 1999 to the end of 2002, Qwest's Arizona intrastate gross plant in service grew approximately \$1.07 billion.

9. The increase in gross plant balances fueled an increase in Arizona rate base. In Qwest's last Arizona rate case, the unadjusted rate base was \$1,542 million at December 31, 1999. In the three years that followed, Qwest's unadjusted rate base grew \$344 million so that at the end of 2002, it was \$1,886 million, as shown on Schedule B-2, column a, line 10.

Qwest's Arizona Revenue Deficiency

10. All other thing being equal, rate base increases cause a regulated entity's revenue requirement to increase. Using a 9.5% rate of return and a 1.693 income-to-revenue multiplier, each \$100 million of rate base requires approximately \$16.1 million of revenues to provide a return on the investment that supports that increment of rate base. Using these factors, a \$344 million incremental rate base increase causes an incremental increase in revenue requirement of approximately \$55 million.

11. In addition, when plant is added, a return of the capital used to acquire it must be provided through depreciation. I estimate the depreciation on the \$1.07 billion increase in Arizona intrastate telephone plant in service between 1999 and 2002 generated a revenue requirement increase of approximately \$179 million.

12. Decreases in NOI also cause increases in revenue requirement. Between 1999 and 2002, Qwest's NOI decreased approximately \$161 million. An estimated \$106 million of additional depreciation expense on the incremental increase in plant in service described in the preceding paragraph drove much of that NOI decrease. The remaining approximately \$55 million decrease in NOI between 1999 and 2002 caused an incremental increase in Qwest's revenue requirement of approximately \$94 million.

13. Line 8 of Schedule A-1 shows an Arizona gross revenue requirement of \$211 million. This revenue requirement calculation reflects 2002 Arizona results of operations with certain adjustments. As set forth in Schedule B-2, the adjustments exclude short term plant under construction from rate base and reduce rate base for an allowance for cash working capital and customer deposits. As set forth in Schedule C-2, the adjustments also reduce NOI to reflect removal of U S WEST and Qwest merger costs, an interest synchronization adjustment and, in accordance with Decision No. 66230, an imputation of \$72 million for directory operations. The revenue requirement calculation assumes a 9.5% cost of capital, which is Qwest's single point estimate of its current cost of capital. In Qwest's last Arizona rate case, the ACC found in Decision No. 63487 that a reasonable rate of return on Qwest's rate base is 9.61%. The revenue requirement calculation also reflects a current calculation of the income-to-revenue multiplier.

14. With the exception of the \$72 million directory imputation and the removal of merger costs and the use of an end-of-period rate base instead of an average-of-period rate base, this revenue requirement figure is intended to reflect the actual revenue deficiency Qwest experienced during 2002. It is not adjusted to reflect a test year for purposes of establishing future rates.

Qwest's Arizona Return on Investment

15. A benchmark measure of a regulated entity's financial performance is its return on average net investment (ROI), which is calculated by dividing its NOI (discussed above) by the average of its net investment over the twelve-month period that the NOI reflects. Average net investment includes investment in plant in service, plant under construction, property held for future use, materials and supplies, accumulated depreciation, accumulated amortization, and accumulated deferred taxes. Qwest routinely calculates ROI for all intrastate jurisdictions in its reports of separated results of operations.

16. Attachment D to Qwest's July 1, 2003 Renewed Price Regulation Plan filing in Docket No. T-01051B-03-0454 is Qwest's standard report of separated results of operations for the year ended December 31, 2002. As originally filed, Attachment D was subject to the restatement of Qwest's 2000 and 2001 financial statements. On January 9, 2004, Qwest filed a revised Attachment D that incorporates the effects of restatement. A copy of the revised Attachment D is attached to this affidavit.

17. Line 34 of Attachment D shows Qwest's Arizona intrastate ROI. As originally filed subject to restatement, it was negative 0.43%. In the January 9th filing, the ROI declined to negative 0.88%. A negative ROI reflects Qwest's Arizona intrastate negative NOI in 2002. Following is a table of Qwest's Arizona intrastate ROI for the years 1999 to 2002.

<u>Year</u>	<u>ROI</u>
1999	9.18%
2000	1.91%
2001	1.88%
2002	-0.88%

Qwest's Expected Results for 2003

18. Column B of Schedule F-1 provides a projection of Arizona separated results of operations for 2003. The projected intrastate NOI for 2003 shown on line 26 is negative \$128 million. Said differently, the projection anticipates Qwest's intrastate Arizona operations generating a substantially larger operating loss in 2003 than they did in 2002.

Qwest's Financial Prospects for 2004

19. Qwest's Arizona intrastate ROI has been steadily declining since 1999 and was negative in 2002. Qwest's Arizona intrastate operations generated a negative NOI in 2002. Preliminary data suggest 2003's NOI will be a larger negative number than was 2002's and portend further deterioration of Qwest's ROI.

20. A significant cause of Qwest's initial ROI decline in 2000 and 2001 was unusually high levels of investment Qwest made in Arizona operations in those two years.

21. In March 2001 a new and unprecedented financial factor began to manifest itself—Qwest's Arizona access lines count began to fall. During the 33 month period of March 2001 through December 2003, Qwest experienced a net loss of approximately 398,000 total (wholesale and retail) access lines which was 13% of the February 2001 total. During that same period, Qwest's retail access line count fell 588,000 or 20% of the February 2001 total.

22. Line 5 of Schedule E-2 shows Qwest's Arizona intrastate revenues for 2000, 2001 and 2002. It shows total operating revenues increased approximately \$39 million between 2000 and 2001 then decreased \$135 million between 2001 and 2002. As shown on Schedule F-1, line 5, preliminary 2003 data suggest Arizona intrastate revenues declined a further \$86 million in

2003. I have no indication that the erosion of Qwest's Arizona access line count and intrastate revenues will abate in 2004.

23. Line 22 of Schedule E-2 shows Qwest's Arizona intrastate total operating expenses for 2000, 2001 and 2002. Operating expenses increased approximately \$27 million between 2000 and 2001 and decreased approximately \$50 million between 2001 and 2002. As shown on Schedule F-1, line 22, preliminary 2003 data suggest intrastate operating expenses increased \$3 million compared to 2002. I am aware of no reason why Qwest's expenses would increase or decrease significantly in 2004.

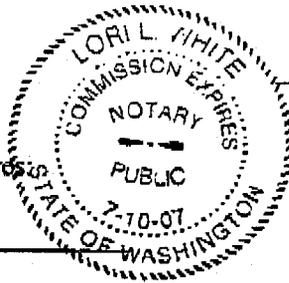
24. Consequently, I do not believe it is reasonable to anticipate any significant improvement in Qwest's Arizona intrastate financial results of operations in 2004. Absent sufficient increases in intrastate rates, I expect Qwest's 2004 Arizona intrastate NOI and ROI to be negative. Said differently, without any changes in rates, I believe it is reasonable to expect Qwest's Arizona intrastate operations to generate a financial loss in 2004, as they did in 2002 and as preliminary data suggests they did in 2003. Forced rate reductions in 2004 would serve to worsen Qwest's NOI and ROI performance. For each \$10 million reduction in annual revenues, Qwest's intrastate Arizona ROI would decrease approximately 0.32%.

Affiant has read the foregoing Affidavit, knows the contents thereof, and states that the foregoing is true according to his best knowledge, information and belief.

DATED this 27th day of January, 2004


Philip E. Grate

SUBSCRIBED AND SWORN before me this 27th day of January, 2004



Loril L. White
Notary Public

My Commission Expires

7/10/07

QWEST CORPORATION
ARIZONA INTRASTATE OPERATIONS
Test Year Ending December 31, 2002
Filing Checklist

Schedules to be Filed	Schedule Title
<u>A1</u>	<u>Computation of Increase in Gross Revenue Requirements</u>
<u>A2P1</u>	<u>Summary Results of Operations Schedule A-2, Page 1 of 2</u>
<u>A2P2</u>	<u>Summary Results of Operations Schedule A-2, Page 2 of 2</u>
<u>A3</u>	<u>Summary of Capital Structure</u>
<u>A4</u>	<u>Construction Expenditures and Utility Plant in Service</u>
<u>A5</u>	<u>Summary Statement of Cash Flows</u>
<u>B1</u>	<u>Summary of Original Cost and Fair Value Rate Base Elements</u>
<u>B2P1</u>	<u>Original Cost Rate Base As Adjusted</u>
<u>B2P2</u>	<u>Commission Adjustments</u>
<u>B2P4</u>	<u>Accounting Adjustments</u>
<u>C1</u>	<u>Adjusted Test Year Income Statement</u>
<u>C2P1A</u>	<u>Summary of Accounting Adjustments</u>
<u>C2P2</u>	<u>Summary of Commission Adjustments</u>
<u>C3</u>	<u>Computation of Gross Revenue Conversion Factor</u>
<u>D1</u>	<u>Summary of Cost of Capital</u>
<u>D2</u>	<u>Cost of Long-Term and Short-Term Debt</u>
<u>D3</u>	<u>Cost of Preferred Stock</u>
<u>D4</u>	<u>Cost of Common Equity</u>
<u>E1</u>	<u>Comparative Balance Sheets</u>
<u>E2A</u>	<u>Comparative Income Statements</u>
<u>E3</u>	
<u>E4</u>	<u>Statement of Change in Stockholders' Equity</u>
<u>E5</u>	<u>Detail of Utility Plant</u>
<u>E6</u>	<u>Comparative Departmental Operating Income Statements</u>
<u>E7</u>	<u>Operating Statistics</u>
<u>E8</u>	<u>Comparative Taxes Charged to Operations</u>
<u>E9</u>	<u>Notes to Financial Statements</u>
<u>F1</u>	<u>Projected Income Statements</u>
<u>F2</u>	<u>Projected Statements</u>
<u>F3</u>	<u>Projected Construction Requirements</u>
<u>F4</u>	<u>Assumptions Used in Developing Projections</u>

QWEST CORPORATION
 ARIZONA INTRASTATE OPERATIONS
 Test Year Ending December 31, 2002
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Arizona Corporation Commission
 Arizona Regulation R14-2-103

Schedule A-1, Page 1 of 1
 Title: Computation of Increase in Gross Revenue Requirements
 Date: January 26, 2004

	A	B
	Test Year Ending December 31, 2002	
	<u>Original Cost</u>	<u>Fair Value</u>
1 Adjusted Rate Base (a)	1,874,289	
2 Adjusted Net Operating Income (b)	53,584	
3 Current Rate of Return (L.2/L.1)	2.86%	
4 Required Operating Income (L.1*L5)	178,057	
5 Required Rate of Return (c)	9.50%	
6 Operating Income Deficiency (L.4-L.2)	124,473	
7 Gross Revenue Conversion Factor (d)	<u>1.6930</u>	
8 Increase in Gross Revenue Requirements (L.6*L7)	<u>\$210,732</u>	
9 Surcharge		
10 Total Increase in Revenue Requirement (L8+L9)	<u>\$ 210,731</u>	
	<u>Projected Revenue Increase due to Rates</u>	
<u>Customer Classification</u>		
9 Exchange and Network Services		(e)
10 Competitive Services		
11 Services Catalog/USAC/Other Svcs.		
12 Private Line Transport Services		
13 Access Services		
14 Contribution Maintenance Service		
15 Advanced Communications Services		
16 Special Assembly		
17 Total Gross Revenues (Lines 1-8)	0	

Supporting Schedules:
 (a) B-1
 (b) C-1
 (c) D-1
 (d) C-3
 (e) H-1

Recap Schedules:
 None

QWEST CORPORATION
 ARIZONA INTRASTATE OPERATIONS
 Test Year Ending December 31, 2002
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Arizona Corporation Commission
 Arizona Regulation R14-2-103

Schedule A-2, Page 1 of 2
 Title: Summary Results of Operations
 Date: January 26, 2004

Description	Prior Years				Pro Forma Adjusted (b)
	A 2000 (a)	B 2001 (a)	C 2002 (a)	D Test Year Ending December 31, 2002	
1 Gross Revenues	1,306,180	1,344,861	1,209,592	1,281,592	1,281,592
2 Uncollectible Revenue, Operating Expenses and Taxes	1,263,965	1,289,561	1,221,377	1,228,009	1,228,009
3 Operating Income (L.1-2)	42,215	55,300	(11,785)	53,583	53,583
4 Other Income and Deductions	39,209	34,901	125,115	125,115	125,115
5 Interest Expense	54,233	58,551	65,675	89,444	89,444
6 Net Income (L.3+4-5)	(\$51,227)	(\$38,153)	(\$202,574)	(\$160,975)	(\$160,975)
7 Earned per Average Common Share	N/A	N/A	N/A	N/A	N/A
8 Dividends per Common Share	N/A	N/A	N/A	N/A	N/A
9 Payout ratio	100.00%				
10 Return on Average Invested Capital	0.21%	1.33%	-10.20%	-5.66%	-5.66%
11 Return on Year End Capital	0.15%	0.97%	-7.13%	-3.73%	-3.73%
12 Return on Average Common Equity	-7.40%	-4.88%	-41.18%	-37.83%	-37.83%
13 Return on Year End Common Equity	-5.27%	-3.86%	-26.25%	-20.86%	-20.86%
14 Times Bond Interest Earned (Before Federal Income Taxes)	(0.07)	0.33	(2.33)	(0.98)	(0.98)
15 Times Total Interest Earned (After Income Taxes)	0.06	0.35	(2.08)	(0.80)	(0.80)

Note: (N/A) Not Available

Supporting Schedules:

- (a) E-2
- (b) C-1
- (c) F-1

Date: January 26, 2004

Description	Test Year Ending December 31, 2002				Pro Forma Adjusted (b)
	Prior Years		2002		
	A 2000 (a)	B 2001 (a)	C 2002 (a)	D	
1 Net Income	(51,227)	(38,153)	(202,574)	(160,974)	
2 Income for JDIC (Job Development Investment Credit)	(15)	88	(1,070)	(599)	
3 Income for Equity (L.1-2)	(\$51,212)	(\$38,241)	(\$201,504)	(\$160,375)	
4 Regulatory Return on End of Period Equity Base	-5.27%	-3.87%	-26.11%	-20.78%	
5 Return on Fair Value of Property Rate Base	N/A	N/A	8.42%	4.08%	

Supporting Schedules:

Note: (N/A) Not Available

QWEST CORPORATION
 ARIZONA TOTAL STATE OPERATIONS
 Test Year Ending December 31, 2002
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Arizona Corporation Commission

Schedule A-3, Page 1 of 1
 Title: Summary of Capital Structure

Date: January 26, 2004

<u>Description</u>	A	B	C	D
	Prior Years At Dec. 31, 2000 (a)	At Dec. 31, 2001 (a)	Test Year At Dec. 31, 2002 (a)	Projected Year Dec. 31, 2003
1 Short Term Debt	133,863	236,845	195,266	195,266
2 Long Term Debt	897,372	887,448	952,548	952,548
3 Total Debt (L.1+2)	\$1,031,236	\$1,124,293	\$1,147,814	\$1,147,814
4 Common Equity	972,465	989,186	771,756	771,756
5 Unamortized Job Development Investment Tax Credits	15,529	13,213	13,058	11,219
6 Total Capital (L.3 thru 5)	\$2,019,229	\$2,126,692	\$1,932,628	\$1,930,789
<u>Capitalization Ratios</u>				
7 Short Term Debt	6.63%	11.14%	10.10%	10.11%
8 Long Term Debt	44.44%	41.73%	49.29%	49.33%
9 Total Debt (L.7+L.8)	51.07%	52.87%	59.39%	59.45%
10 Common Equity	48.16%	46.51%	39.93%	39.97%
11 Unamortized Job Development Investment Tax Credits	0.77%	0.62%	0.68%	0.58%
12 Weighted Cost of Short Term Debt *	7.00%	4.11%	7.68%	7.68%
13 Weighted Cost of Long Term Debt *	7.67%	7.72%	8.16%	8.16%
14 Cost of Equity			11.60%	11.60%

* Based upon total state capital allocation.

Note: Projected 2003 values are solely based on year-end 2002. No projections are available.

Supporting Schedules:

D-1

QWEST CORPORATION
 ARIZONA INTRASTATE OPERATIONS
 Test Year Ending December 31, 2002
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Arizona Corporation Commission

Schedule A-4, Page 1 of 1
 Title: Construction Expenditures and Utility Plant in Service

Date: January 26, 2004

<u>Year</u>	A	B	C
	Total State Construction Expenditures (a)	Intrastate Net Plant Placed in Service	Gross Utility Plant in Service (b)
1 2000	764,789	2,299,092	4,055,277
2 2001	649,147	2,319,610	4,507,926
3 Test Year Ending December 31, 2002	291,369	2,529,992	4,700,836
4 Projected Year 2003	278,121	2,490,415	4,765,424

Supporting Schedules:

- (a) F-3
- (b) E-1 & E-5

Recap Schedules:

None

QWEST CORPORATION
 ARIZONA INTRASTATE OPERATIONS
 Test Year Ending December 31, 2002
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Arizona Corporation Commission

Schedule A-5, Page 1 of 1
 Title: Summary Statement of
 Cash Flows

Date: January 26, 2004

	A	B	C
	End of Year At	End of Year At	End of Test Year At
	Dec. 31, 2000	Dec. 31, 2001	Dec. 31, 2002
OPERATING ACTIVITIES			
1. Net Operating Revenues	114,267	215,691	187,781
Adjustments to Net Operating Income:			
2. Depreciation & Amortization	490,316	559,631	463,048
3. Current Income Taxes	(28,684)	(61,896)	(35,322)
4. Cash provided by Operating Activities	575,899	713,425	615,507
INVESTING ACTIVITIES			
5. Net Construction Expenditures	(782,776)	(683,898)	(284,476)
6. Cash(used for) investing activities (L4	(782,776)	(683,898)	(284,476)
FINANCING ACTIVITIES			
7. Dividends Paid	(119)	(135)	(80)
8. Net Outside Financing	174,383	(252,388)	(444,824)
9. Interest	(75,914)	87,529	92,009
10. Net Cash Flow (L4+L6+L7+L8+L9)	(108,526)	(135,467)	(21,863)

Supporting Schedules:

- (a) E-3
- (b) F-2

QWEST CORPORATION
 ARIZONA INTRASTATE OPERATIONS
 Test Year Ending December 31, 2002
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Arizona Corporation Commission

Schedule B-1, Page 1 of 1
 Title: Summary of Original Cost and Fair Value
 Rate Base Elements

Date: January 26, 2004

	A	B
	As of December 31, 2002	
	Original Cost Rate Base* (a)	Fair Value Rate Base* (b)
1 Plant in Service	4,788,212	
2 Less - Depreciation Reserve	<u>2,667,057</u>	
3 Net Plant in Service	<u>2,121,155</u>	
4 Short Term Plant Under Construction	0	
5 Materials and Supplies	20,047	
6 Allowance for Cash Working Capital	(10,261)	
7 Deferred Income Taxes	248,431	
8 Customer Deposits	5,735	
9 Land Development Agreement Deposits	2,485	
10 Other Assets and Liabilities	<u>0</u>	
11 Total Rate Base (L.3 thru 6 less 7 thru 9)	<u><u>1,874,289</u></u>	

* Including Commission, Accounting, and Pro Forma Adjustments

Supporting Schedules:

(a) B-2

(b) B-3

Recap Schedule:

A-1

QWEST CORPORATION

Arizona Corporation Commission

ARIZONA INTRASTATE OPERATIONS
 Test Year Ending December 31, 2002
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Schedule B-2, Page 1 of 4
 Title: Original Cost Rate Base
 As Adjusted

Date: January 26, 2004

	[a] Intrastate End of Period Rate Base	[b] Accounting Adjustments	[c] Commission Adjustments	[d] Proforma Adjustments	[e]=sum(a,d) Intrastate Adjusted End of Period Rate Base
1 Telephone Plant in Service	4,788,212	0	0	0	4,788,212
2 Short-Term Plant Under Construction	0	0	0	0	0
3 Materials and Supplies	20,047	0	0	0	20,047
4 Allowance for Cash Working Capital	0	0	(10,261)	0	(10,261)
5 Accumulated Depr & Amort Reserve	2,667,057	0	0	0	2,667,057
6 Accumulated Deferred Income Tax	248,431	0	0	0	248,431
7 Customer Deposits	4,180	0	1,555	0	5,735
8 Land Development Agreement Deposits	2,485	0	0	0	2,485
9 Other Assets & Liabilities	0	0	0	0	0
10 End-of-Period Rate Base	1,886,105	0	(11,816)	0	1,874,289

	[a]	[b]	[c]=a+b
	Customer Deposits Adjustment	Cash Working Capital	Total Commission Adjustments
1 Telephone Plant In Service	0	0	0
2 Short-Term Plant Under Construction	0	0	0
3 Materials and Supplies	0	0	0
4 Allowance for Cash Working Capital	0	(10,261)	(10,261)
5 Accumulated Depr & Amort Reserve	0	0	0
6 Accumulated Deferred Income Tax	0	0	0
7 Customer Deposits	1,555	0	1,555
8 Land Development Agreement Deposits	0	0	0
9 Other Assets & Liabilities	0	0	0
10 End-of-Period Rate Base (L1+L2+L3+L4-L5-L6-L7-L8+L9)	(1,555)	(10,261)	(11,816)

QWEST CORPORATION
 ARIZONA INTRASTATE OPERATIONS
 Test Year Ending December 31, 2002
 \$(000)

Arizona Corporation Commission

Schedule B-2, Page 4 of 4
 Title: Original Cost Rate Base
 Accounting Adjustments

Date: January 26, 2004

	Tax Adjustment	Total Accounting Adjustments
1 Telephone Plant In Service	0	0
2 Short-Term Plant Under Construction	0	0
3 Materials and Supplies	0	0
4 Allowance for Cash Working Capital	0	0
5 Accumulated Depr & Amort Reserve	0	0
6 Accumulated Deferred Income Tax	0	0
7 Customer Deposits	0	0
8 Land Development Agreement Deposits	0	0
9 Other Assets & Liabilities	0	0
10 End-of-Period Rate Base (L1+L2+L3+L4+L5-L6-L7-L8+L9)	0	0

QWEST CORPORATION
ARIZONA INTRASTATE OPERATIONS
Test Year Ending December 31, 2002
\$(000)

Arizona Corporation Commission

Schedule B-5, Page 1 of 1
Title: Computation of Allowance
For Cash Working Capital
Date: January 26, 2004

Computed in accordance with prior Commission orders.

Supporting Schedule:
Results of Lead Lag Study

Recap Schedule:
B-1

Date: January 26, 2004

	[a]	[b]	[c]	[d]	[e]=sum(a.d)
	Regulated Intrastate	Accounting Adjustment Summary Total	Commission Adjustment Summary Total	Proforma Adjustment Summary Total	Intrastate As Adjusted
Revenues					
1 Local Service Revenues	947,532	0	72,000	0	1,019,532
2 Network Access Service Revenues	97,631	0	0	0	97,631
3 Long Distance Network Service Rev.	14,444	0	0	0	14,444
4 Miscellaneous	149,986	0	0	0	149,986
5 Total Oper. Rev. (L1 thru L4)	1,209,592	0	72,000	0	1,281,592
Expenses					
6 Maintenance	242,258	0	0	0	242,258
7 Engineering Expense	12,611	0	0	0	12,611
8 Network Operations	58,681	0	0	0	58,681
9 Network Administration	1,567	0	0	0	1,567
10 Access Expense	6,311	0	0	0	6,311
11 Other	167	0	0	0	167
12 Total Cost of Svcs & Products(L6 thru L11	321,596	0	0	0	321,596
13 Customer Operations	206,012	0	0	0	206,012
14 Corporate Operations	165,962	0	0	0	165,962
15 Property & Other Taxes	63,122	0	68	0	63,190
16 Uncollectibles	28,407	0	1,945	0	30,352
17 Tot Selling, Gen. & Admin.(L13 thru L16)	463,503	0	2,013	0	465,516
18 Other Operating Income & Expense	47	0	344	0	391
19 Depreciation Expense	461,544	0	(14)	0	461,530
20 Universal Service Fund	(1,043)	0	0	0	(1,043)
21 Link Up America	(5)	0	0	0	(5)
22 Total Operating Expense(L12+L17 thru L2	1,245,642	0	2,343	0	1,247,985
23 Income From Operations (L5-L22)	(36,049)	0	69,657	0	33,608
Taxes					
24 Federal Income Tax	(16,425)	(15,132)	15,015	0	(16,542)
25 State & Local Income Tax	(7,840)	1,416	2,990	0	(3,434)
26 Net Operating Income (L23-L24-L25)	(11,784)	13,716	51,652	0	53,584
Other					
27 Nonoperating Income & Expense	122,282	0	0	0	122,282
28 Nonoperating Income Tax	2,832	0	0	0	2,832
29 Net Operating Earnings (L26-L27-L28)	(136,899)	13,716	51,652	0	(71,531)
30 Interest Expense	65,675	0	23,769	0	89,444
31 Juris Diff & Nonreg Net Income	0	0	0	0	0
32 Extraordinary Items	0	0	0	0	0
33 Net Income (L29-L30-L31-L32)	(202,573)	13,716	27,883	0	(160,974)

Supporting Schedules:

E-2

C-2

QWEST CORPORATION
 ARIZONA INTRASTATE OPERATIONS
 Test Year Ending December 31, 2002
 \$(000)

Arizona Corporation Commission
 Schedule C-2 Page 1 of 3
 Adjusted Test Year Income Statement
 Summary of Accounting Adjustments
 Date: January 26, 2004

	[a] Tax Adjustment Attachment # 1	[b]=a Total Accounting Adjustments
Revenues		
1 Local Service Revenues	0	0
2 Network Access Service Revenues	0	0
3 Long Distance Network Service Rev.	0	0
4 Miscellaneous	0	0
5 Total Oper. Rev. (L1 thru L4)	0	0
Expenses		
6 Maintenance	0	0
7 Engineering Expense	0	0
8 Network Operations	0	0
9 Network Administration	0	0
10 Access Expense	0	0
11 Other	0	0
12 Total Cost of Svcs & Products(L6 thru L11)	0	0
13 Customer Operations	0	0
14 Corporate Operations	0	0
15 Property & Other Taxes	0	0
16 Uncollectibles	0	0
17 Tot Selling, Gen. & Admin.(L13 thru L16)	0	0
18 Other Operating Income & Expense	0	0
19 Depreciation Expense	0	0
20 Universal Service Fund	0	0
21 Link Up America	0	0
22 Total Operating Expense(L12+L17 thru L21)	0	0
23 Income From Operations (L5-L22)	0	0
Taxes		
24 Federal Income Tax	(15,132)	(15,132)
25 State & Local Income Tax	1,416	1,416
26 Net Operating Income (L23-L24-L25)	13,716	13,716
Other		
27 Nonoperating Income & Expense	0	0
28 Nonoperating Income Tax	0	0
29 Net Operating Earnings (L26-L27-L28)	13,716	13,716
30 Interest Expense	0	0
31 Juris Diff & Nonreg Net Income	0	0
32 Extraordinary Items	0	0
33 Net Income (L29-L30-L31-L32)	13,716	13,716

	Removal of 1991 Merger Costs	Customer Deposits Adjustment	Directory Imputation	Cash Working Capital	Interest Synchronization	Total Commission Adjustments
Revenues						
1 Local Service Revenues	0	0	72,000	0	0	72,000
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	0	0	0	0	0
5 Total Oper. Rev. (L1 thru L4)	0	0	72,000	0	0	72,000
Expenses						
6 Maintenance	0	0	0	0	0	0
7 Engineering Expense	0	0	0	0	0	0
8 Network Operations	0	0	0	0	0	0
9 Network Administration	0	0	0	0	0	0
10 Access Expense	0	0	0	0	0	0
11 Other	0	0	0	0	0	0
12 Total Cost of Svcs & Products(L6 thru L11)	0	0	0	0	0	0
13 Customer Operations	0	0	0	0	0	0
14 Corporate Operations	0	0	0	0	0	0
15 Property & Other Taxes	0	0	68	0	0	68
16 Uncollectibles	0	0	1,945	0	0	1,945
17 Tot Selling, Gen. & Admin.(L13 thru L16)	0	0	2,013	0	0	2,013
18 Other Operating Income & Expense	0	344	0	0	0	344
19 Depreciation Expense	(14)	0	0	0	0	(14)
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)	(14)	344	2,013	0	0	2,343
23 Income From Operations (L5-L22)	14	(344)	69,987	0	0	69,657
Taxes						
24 Federal Income Tax	10	(32)	22,900	0	(7,863)	15,015
25 State & Local Income Tax	2	(6)	4,559	0	(1,565)	2,990
26 Net Operating Income (L23-L24-L25)	2	(306)	42,528	0	9,428	51,652
Other						
27 Nonoperating Income & Expense	0	0	0	0	0	0
28 Nonoperating Income Tax	0	0	0	0	0	0
29 Net Operating Earnings (L26-L27-L28)	2	(306)	42,528	0	9,428	51,652
30 Interest Expense	(16)	(247)	0	0	24,032	23,769
31 Juris Diff & Nonreg Net Income	0	0	0	0	0	0
32 Extraordinary Items	0	0	0	0	0	0
33 Net Income (L29-L30-L31-L32)	18	(59)	42,528	0	(14,604)	27,883

Supporting Schedule:
 C-2 Attachments

Recap Schedule:
 C-1

QWEST CORPORATION
ARIZONA INTRASTATE OPERATIONS
Test Year Ending December 31, 2002
\$(000)

Arizona Corporation Commission

Schedule C-3, Page 1 of 1
Title: Computation of Gross Revenue
Conversion Factor

Date: January 26, 2004

INCOME TO REVENUE MULTIPLIER

1 GROSS INTRASTATE REVENUE	100.00%
2 LESS: UNCOLLECTIBLE REVENUE	<u>2.701%</u>
3 TOTAL REVENUE (L1-L2)	97.2987%
4 LESS: TAXES ON LOCAL REVENUE SERVICE	<u>0.0941%</u>
5 TAXABLE INCOME (L3-L4)	97.2046%
6 LESS: EFFECTIVE STATE INCOME TAX (L5 x 7.41%)	6.3320%
7 LESS: EFFECTIVE FEDERAL INCOME TAX (L5 x 32.41%)	<u>31.8054%</u>
8 NET OPERATING EARNINGS (L5-L6-L7)	59.0672%
9 INCOME TO REVENUE MULTIPLIER (L1 / L8)	<u><u>1.6930</u></u>

Notes:

- a. Based on Test Year results.
- b. Includes Franchise and License taxes and Sales Taxes assumed.

QWEST CORPORATION
 ARIZONA INTRASTATE OPERATIONS
 Test Year Ending December 31, 2002
 \$(000)

Arizona Corporation Commission

Schedule D-1, Page 1 of 1
 Title: Summary of Cost of Capital

Date: January 26, 2004

Arizona Invested Capital	Arizona Total State			
	A	B	C	D = B * C
	Amount (a)	Percent	Cost Rate (b)	Composite Cost
	Test Year Ending December 31, 2002			
1 Common Equity	771,756	40.20%	11.60%	4.663%
2 Long Term Debt	952,548	49.62%	8.16%	4.051%
3 Short Term Debt	195,266	10.17%	7.68%	0.781%
4 Total Debt (L.1+L.2)	1,147,814	59.79%	8.08%	4.832%
5 Total Capital (L.1+L.4)	1,919,570	99.99%		9.500%
6 Debt Ratio (L.4/L.5)	59.80%			
	End of Projected Year			
7 Common Equity	771,756	40.20%	11.60%	4.66%
8 Long Term Debt	952,548	49.62%	8.16%	4.05%
9 Short Term Debt	195,266	10.17%	7.68%	0.78%
10 Total Debt (L.8+L.9)	1,147,814	59.80%	8.08%	4.83%
11 Total Capital (L.7+L.10)	1,919,570	100.00%		9.50%
16 Debt Ratio (L.10/L.11)	59.80%			

Supporting Schedules:
 (a) D-2
 (b) D-3

Recap Schedule:
 A-1

QWEST CORPORATION
 ARIZONA INTRASTATE OPERATIONS
 Test Year Ending December 31, 2002
 \$(000)

Arizona Regulation R-14 Filing

Schedule D-2, Page 1 of 1
 Title: Cost of Long-Term
 and Short-Term Debt

Date: January 26, 2004

Arizona Total State

Description of Debt	End of Test Year December 31, 2002		End of Projected Year	
	A Outstanding	B Annual Interest *	C Outstanding	D Annual Interest *
Long-Term Debt:				
Funded & other L-T Debt	949,647	77,542	949,647	77,542
Capital Leases	2,901	226	2,901	226
Total L-T Debt	952,548	77,769	952,548	77,769
Cost Rate		8.16%		
Short-Term Debt:				
Notes Payable	0	0	0	0
Current Maturities	195,266	15,002	195,266	15,002
Total S-T Debt	195,266	15,002	195,266	15,002
Cost Rate		7.68%		
Total Debt	1,147,814	92,770	1,147,814	92,770
Cost Rate		8.08%		8.08%

* Including amortization of discount, premium expense

Recap Schedule:
 D-1

QWEST CORPORATION
ARIZONA INTRASTATE OPERATIONS
Test Year Ending December 31, 2002
\$(000)

Arizona Corporation Commission

Schedule D-3, Page 1 of 1
Title: Cost of Preferred Stock

Date: January 26, 2004

Qwest Corporation has no preferred stock outstanding on December 31, 2002.

Recap Schedule:
D-1

QWEST CORPORATION
ARIZONA INTRASTATE OPERATIONS
Test Year Ending December 31, 2002
\$(000)

Arizona Corporation Commission

Schedule D-4, Page 1 of 1
Title: Cost of Common Equity

Date: January 26, 2004

<u>Groups of Companies</u>	<u>Discounted Cash Flow Estimates</u>	<u>CAPM Estimates</u>
RBOC Telephone Cos	9.0%	11.7%
Small Telephone Cos	11.9%	12.4%
Comparable Risk Cos	13.8%	10.7%

The range for the cost of common equity is 9.0% to 13.8%
The point estimate for the cost of common equity is 11.6%.

Recap Schedule:
D-1

QWEST CORPORATION
 ARIZONA INTRASTATE OPERATIONS
 Test Year Ending December 31, 2002
 \$(000)

Arizona Corporation Commission
 Schedule E-1, Page 1 of 1
 Title: Comparative Balance Sheets

Date: January 26, 2004

	A End of Test Year At Dec. 31, 2002	B End of Year At Dec. 31, 2001	C End of Year At Dec. 31, 2000
<u>Assets</u>			
1 Plant in Service	4,700,836	4,507,926	4,055,277
2 Less: Depreciation Reserve	2,183,210	2,255,294	1,917,552
3 Plant Under Construction	10,449	51,679	149,273
4 Plant Held for Future Use	0	0	0
5 Plant Acquisition Adjustment	1,917	15,299	12,094
6 Net Plant (L.1 thru 5)	<u>2,529,992</u>	<u>2,319,610</u>	<u>2,299,092</u>
7 Material & Supplies	20,512	23,347	15,988
8 Current Assets & Other Investments	88,683	233,576	260,172
9 Prepaid Expenses & Deferred Charges	147,787	(250,369)	122,748
10 Total Assets (L.6 thru 9)	<u>2,786,973</u>	<u>2,326,164</u>	<u>2,698,000</u>
<u>Liabilities & Capital</u>			
11 Funded Debt	654,443	377,311	600,289
12 Commercial Paper	0	59,362	59,019
13 Bank Loans	0	0	0
14 Short-term notes	0	0	0
15 Advances and Notes from Affiliates	3,644	3,837	6,804
16 Interim Debt	0	0	0
17 Other Debt	10,885	5,076	16,510
18 Total Debt (L.11 thru 17)	<u>668,973</u>	<u>445,587</u>	<u>682,621</u>
19 Common Stock	910,525	555,023	795,680
20 Premium on Common Stock	0	0	0
21 Retained Earnings	(379,349)	(128,348)	(66,660)
22 Dividends Accrued but not Paid	0	0	0
23 Investment Tax Credit ESOP	0	0	0
24 Total Equity Base (L.19 thru 23)	<u>531,176</u>	<u>426,675</u>	<u>729,020</u>
25 Unamortized Investment Tax Credit - Job Development (Accts 4320)	13,058	13,213	15,529
26 Unamortized Investment Tax Credit - Other (Acct 4330)	0	0	0
27 Land Development Agreement Deposits	2,485	7,244	25,066
28 Accumulated Deferred Income Taxes	440,611	285,581	288,190
29 Customer Deposits	4,117	5,823	5,779
30 Other Current & Accrued Liabilities	1,126,553	1,142,042	951,794
31 Total Liabilities & Capital (L.18+24+25 thru 30)	<u>2,786,973</u>	<u>2,326,164</u>	<u>2,698,000</u>

Supporting Schedule:
 (a) E-5

Recap Schedule:
 A-3

QWEST CORPORATION
 ARIZONA INTRASTATE OPERATIONS
 Test Year Ending December 31, 2002
 \$(000)

Arizona Corporation Commission
 Schedule E-2, Page 1 of 1
 Title: Comparative Income Statements

Date: January 26, 2004

Description	A	D	E
	Test Year Ending December 31, 2002 Actual	2001	2000
1 Local Service Revenues	947,532	1,018,732	990,910
2 Network Access Service Revenues	97,631	115,572	122,953
3 Long Distance Network Service Rev.	14,444	19,845	23,429
4 Miscellaneous	149,986	190,712	168,888
5 Total Oper. Rev. (L.1 thru L.4)	1,209,592	1,344,861	1,306,180
6 Maintenance	242,258	298,514	313,625
7 Engineering Expense	12,611	8,736	5,023
8 Network Operations	58,681	48,703	48,195
9 Network Administration	1,567	(1,827)	(170)
10 Access Expense	6,311	20,652	35,602
11 Other	167	350	443
12 Total Cost of Services & Product (L.6 thru L.11)	321,596	375,130	402,718
13 Customer Operations	206,012	198,235	194,495
14 Corporate Operations	165,962	210,503	231,133
15 Property & Other Taxes	63,122	53,510	55,315
16 Uncollectibles	28,407	29,550	33,909
17 Total Selling, General & Admin. (L.13 thru L.16)	463,503	491,798	514,852
18 Other Oper. Inc. & Expense	47	5	0
19 Depreciation Expense	461,544	428,673	350,887
20 Universal Service Fund	(1,043)	42	192
21 Link Up America	(5)	(13)	(86)
22 Total Operating Expense (L.12+L.17+L.18+L.19+L.20+L.21)	1,245,642	1,295,636	1,268,563
23 Income From Operations (L.5-22)	(36,049)	49,225	37,617
24 Federal Income Tax (c)	(16,425)	(888)	(6,880)
25 State and Local	(7,840)	(5,186)	2,282
26 Net Operating Income (L.23-24-25)	(11,785)	55,300	42,215
27 Nonoperating Income & Expense	122,282	35,054	39,615
28 Nonoperating Income Tax	2,832	(153)	(405)
29 Net Operating Earnings (L.26-27-28)	(136,899)	20,398	3,006
30 Interest Expense	65,675	58,551	54,233
31 Juris Diff & Nonreg Net Income	0	0	0
32 Extraordinary Items	0	0	0
33 Net Income (L.29-L.30-L.31-L.32)	(202,574)	(38,153)	(51,227)
34 Income for JDIC	(1,070)	88	(15)
35 Income for Equity	(201,504)	(38,241)	(51,212)
36 % Regulatory Return on End of Period Equity (L35 / Common Equity)	-26.11%	-3.87%	-5.27%

Supporting Schedules:

- (a) E-6
- (c) E-8

Recap Schedules:

- A-2
- C-1

Date: January 26, 2004

	A	B	C
	End of Test Year At 12/31/00	End of Year At 12/31/01	End of Year At 12/31/02
OPERATING ACTIVITIES			
1. Net Operating Revenues	187,781	215,691	114,267
Adjustments to Net Operating Income:			
2. Depreciation & Amortization	463,048	559,631	490,316
3. Current Income Taxes	(35,322)	(61,896)	(28,684)
4. Cash provided by Operating Activities (L1.L3)	615,507	713,425	575,899
INVESTING ACTIVITIES			
5. Net Construction Expenditures	(782,776)	(683,898)	(284,476)
6. Cash(used for) investing activities (L4)	(615,507)	(713,425)	(575,899)
FINANCING ACTIVITIES			
7. Dividends Paid	(119)	(135)	(80)
8. Net Outside Financing	174,383	(252,388)	(444,824)
9. Interest	(75,914)	87,529	92,009
10. Net Cash Flow (L4+L6+L7+L8+L9)	98,350	(164,994)	(352,894)

Recap Schedules:
 (a) A-5

QWEST CORPORATION
TOTAL COMPANY OPERATIONS
Test Year Ending December 31, 2002
\$(000)

Arizona Corporation Commission

Schedule E-4, Page 1 of 1
Title: Statement of Change in
Stockholders' Equity

Date: January 26, 2004

	A Common Stock Shares	B Common Stock Amount	C Premium on Common Stock	D Retained Earnings	E=B+C+D Common Stockholders Equity
<u>TOTAL COMPANY</u>					
1 Balance, December 31, 1999	1	8,067,038		(912,982)	7,154,056
<u>12 Months Ended December 31, 2000</u>					
2 Net Asset Transfers True-up					0
3 Net Income				600,815	600,815
4 Dividends Declared				(1,104,862)	(1,104,862)
5 Common Stock Issued (a)					0
6 Miscellaneous Debits & Credits (2)		262,943		(142,771)	120,172
7 Balance December 31, 2000	1	8,329,981	0	(1,559,800)	6,770,181
<u>12 Months Ended December 31, 2001</u>					
8 Net Asset Transfers True-up					0
9 Net Income (Loss)				1,067,781	1,067,781
10 Dividends Declared				(1,428,680)	(1,428,680)
11 Common Stock Issued (1)					0
12 Miscellaneous Debits & Credits (3)		(8,823)		(789)	(9,612)
13 Balance December 31, 2001	1	8,321,158	0	(1,921,488)	6,399,670
<u>12 Months Ended December 31, 2002</u>					
14 Net Asset Transfers True-up					0
15 Net Income				(94,808)	(94,808)
16 Dividends Declared				(818,175)	(818,175)
17 Common Stock Issued (1)					0
18 Miscellaneous Debits & Credits		34,455		(606,382)	(571,927)
19 Balance December 31, 2002	1	8,355,613	0	(3,440,853)	4,914,760
<u>Arizona Intrastate Common Stockholders' Equity</u> (Based on allocated balance sheet amounts)					
20 Balance, December 31, 2000					729,020
21 Balance, December 31, 2001					426,675
22 Balance, December 31, 2002					531,176

Note: Amounts available only in millions. Expressed in thousands on this schedule for integration with other schedules.

- (1) Equity infusions from U S WEST, Inc.
- (2) During 1996, the Company absorbed an affiliated company
- (3) During 1997, the Company transferred employees and the related assets & liabilities to an unregulated affiliated company.

Supporting Schedules:
None

Recap Schedules:
None

QWEST CORPORATION
 ARIZONA INTRASTATE OPERATIONS
 Test Year Ending December 31, 2002
 \$(000)

Arizona Corporation Commission

Schedule E-5, Page 1 of 1
 Title: Detail of Utility Plant

Date: January 26, 2004

Description	A End of Test Year At Dec. 31, 2002	B 2001 Net Additions & Transfers	C = A - B End of Prior Year Dec. 31, 2001
TOTAL STATE			
1 2111 Land	13,081	1,128	11,953
2 2112 Motor Vehicles	73,034	(5,053)	78,087
3 2113 Aircraft	26	0	26
4 Garage Work Equipment	1,490	(150)	1,640
5 2116 other work equipment	34,277	(392)	34,669
6 2121 Buildings	220,353	23,260	197,093
7 2122 Furniture	1,835	(183)	2,018
8 2123 Office Equipment	8,021	(3,327)	11,348
9 2124 General Purpose Comp Central Office Equipment	96,604	(1,561)	98,165
2211 Analog Electronic	0	0	0
2212 Digital Electronic	1,179,037	31,144	1,147,893
2220 Operator Systems	4,117	(369)	4,486
2231 Radio Systems	33,035	(733)	33,768
2232 Circuit Equipment	6,190	(1,641,080)	1,647,270
10 Total COE	2,937,634	104,216	2,833,417
11 2311 Station Apparatus	32,897	0	32,897
12 2321 Customer Premise Wire	0	0	0
13 2341 Large PBX	0	0	0
14 2351 Public Tele Term. Equip	17,477	(367)	17,843
15 2362 Other Terminal Equip	60,327	(4,696)	65,023
16 2411 Poles	51,310	1,453	49,858
17 2421 Aerial Cable	199,668	7,699	191,969
18 2422 Underground Cable	566,670	27,573	539,097
19 2423 Buried Cable	1,605,163	112,712	1,492,451
20 2424 Submarine Cable	3	0	3
21 2426 Intrabldg Network Cable	46,027	1,356	44,671
22 2431 Aerial Wire	10,552	594	9,958
23 2441 Conduit Systems	436,977	28,339	408,638
24 2681 Capital Leases	25,780	(33,251)	59,032
25 2682 Leasehold Improvement	928	(30,920)	31,848
26 2690 Intangibles	0	(75,477)	75,477
27 2001 Total Plant in Service [(L.1 thru 27)-L.10]	6,440,132	152,953	6,287,179
INTRASTATE			
28 2001 Plant in Service	4,700,836	192,910	4,507,926
29 Depreciation Reserve	2,183,210	(72,084)	2,255,294
30 Net Plant in Service	2,517,626	264,994	2,252,632
31 2002 Plant Held for Future Use	0	0	0
32 2003 & 2004 Plant Under Const.	10,449	(41,230)	51,679
33 2005 Plant Acquisition	1,917	(13,382)	15,299
34 Total Net Plant (L.30 thru 33)	2,529,992	210,381	2,319,610

Supporting Schedules:
 None

Recap Schedules:
 E-1
 A-4
 B-4

QWEST CORPORATION
 ARIZONA INTRASTATE OPERATIONS
 Test Year Ending December 31, 2002
 \$(000)

Arizona Corporation Commission

Schedule E-6, Page 1 of 1
 Title: Comparative Departmental Operating
 Income Statements

Date: January 26, 2004

Description	A	B	C
	End of Test	End of	End of
	Year At	Year At	Year At
	Dec 31 2002	Dec 31 2001	Dec 31 2000
BASIC LOCAL SERVICES REVENUE			
1 5001 Basic Area Revenue	624,331	688,680	675,833
2 5002 Optional Extended Area	0	(2)	(0)
3 5003 Cellular Mobile Services	0	0	0
4 5004 Other Mobile Services	1	1	0
5 5010 Public Telephone	0	0	0
6 5040 Local Private Line	1	1	(10)
7 5050 Customer Premises	95	119	0
8 5060 Other Local Exchange	267,506	271,112	253,169
9 5069 Settlements	0	0	0
10 TOTAL BASIC LOCAL SERVICES	891,933	959,912	928,992
NETWORK ACCESS SERVICE REVENUE			
11 5081 End User *	0	0	0
12 5082 Switched Access *	0	0	0
13 5083 Special Access *	0	0	0
14 5084 State Access	97,631	115,572	122,953
15 TOTAL NETWORK ACCESS SERVICE REVENUE	97,631	115,572	122,953
LONG DISTANCE NETWORK			
16 5100 Long Distance Message	12,974	17,678	20,130
17 5110 Unidirectional Lng Distance	1,466	2,162	3,295
18 5120 Long Distance Pvt Network	4	5	5
19 5160 Other Long Distance	0	0	0
20 TOTAL LONG DISTANCE NETWORK	14,444	19,845	23,429
MISCELLANEOUS REVENUE			
21 5230 Directory	16,601	17,399	18,266
22 5240 Rent	(1,825)	12,605	(8,843)
23 5250 Corporate Operations	9,887	(3,839)	3,717
24 5260 Miscellaneous	24,856	34,911	34,575
25 5280 Other Nonregulated	94,165	120,940	96,122
26 5270 Carrier Billing & Collection	6,301	8,696	25,051
27 TOTAL MISCELLANEOUS REVENUE	149,986	190,712	168,888
28 TOTAL REVENUE	1,153,994	1,286,041	1,244,263
29 TOTAL OPERATING EXPENSES & TAXES	1,221,377	1,289,561	1,263,965
30 NET OPERATING INCOME (L.28-L.29)	(67,383)	(3,521)	(19,702)

Supporting Schedules:
 None

Recap Schedules:
 E-2
 * Interstate Accounts

QWEST CORPORATION
 ARIZONA INTRASTATE OPERATIONS
 Test Year Ending December 31, 2002
 \$(000)

Arizona Corporation Commission

Schedule E-7, Page 1 of 1
 Title: Operating Statistics

Date: January 26, 2004

	A End of Test Year At Dec. 31, 2002	B End of Year At Dec. 31, 2001	C End of Year At Dec. 31, 2000
Access Lines	2,827,838	2,970,338	3,017,421
Revenue per Access Line (per month)	\$ 29.41	\$ 27.72	\$ 29.10
Intrastate Intralata Toll Messages (000)	17,339	21,648	25,475
Net Plant in Service per Access Line	\$ 894.67	\$ 780.92	\$ 761.94

QWEST CORPORATION
 ARIZONA INTRASTATE OPERATIONS
 Test Year Ending December 31, 2002
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Arizona Corporation Commission

Schedule E-8, Page 1 of 1
 Title: Comparative Taxes Charged to Operations

Date: January 26, 2004

<u>Description</u>	End of Test Year at Dec. 31, 2002	Year End at Dec. 31, 2001	Year End at Dec. 31, 2000
1 7210.1 Investment Credits Realized	0	0	0
2 7210.2 Amortization of Investment Credits	0	0	0
3 7220 FIT Current	3,391	(4,292)	23,273
4 7250.1 Federal Originating Timing Differences	(17,859)	5,883	(27,754)
5 7250.2 Federal Reversing Timing Differences	(8,923)	(7,577)	(6,202)
6 7250.71 FIT Allocation Adjustment	0	0	0
7 Total Federal Income Tax (-L1-L2+L3+L4+5+6)	(23,390)	(5,986)	(10,682)
8 7230 SIT & LIT	1,083	2,390	8,483
9 7250.3 &.5 St & Loc Originating Timing Diff	0	0	0
10 7250.4 St & Loc Reversing Timing Diff	0	0	0
11 7250.72 SIT Allocation Adjustment	0	0	0
12 Total State & Local Taxes (L8 thru 11)	1,083	2,390	8,483
13 7240.7 Federal Superfund Taxes	0	0	0
14 Total Operating Taxes (L7+L12+L13)	(22,307)	(3,595)	(2,199)

Supporting Schedule:
None

Recap Sechedule:
E-2

Date: January 26, 2004

Cash and Cash Equivalents - Cash and cash equivalents include highly liquid investments with original maturities of three months or less that are readily convertible into cash and are not subject to significant risk from fluctuations in interest rates.

Inventories and Supplies - New and reusable materials of the Company are carried at average cost, except for significant individual items that are valued based on specific costs. Nonreusable material is carried at its estimated salvage value.

Property, Plant and Equipment - The investment in property, plant and equipment is carried at cost less accumulated depreciation. Additions, replacements and substantial betterments are capitalized.

Costs for normal repair and maintenance of property, plant and equipment are expensed as incurred.

The Company provides for depreciation of property, plant and equipment using various straight-line group methods and remaining useful (economic) lives authorized by regulatory commissions. When the depreciable property, plant and equipment of the Company is retired or sold, the original cost less the net salvage value is generally charged to accumulated depreciation.

Revenue Recognition - Local telephone service revenues are generally billed monthly in advance. These revenues are recognized when services are provided, generally the following month. Nonrecurring and usage sensitive revenues derived from installation, exchange access, and long-distance network services are billed and recognized monthly as services are provided.

Income Taxes - The provision for income taxes consists of an amount for taxes currently payable and an amount for tax consequences deferred to future periods. For financial statement purposes, investment tax credits are being amortized over the economic lives of the related property, plant and equipment in accordance with the deferred method of accounting for such credits.

Employee Benefits

Pension Plan - The company participates in a defined benefit pension plan sponsored by U S WEST which covers substantially all management and occupational employees. Management benefits are based on a final pay formula while occupational benefits are based on a flat benefit formula. The projected unit credit method is used for the determination of pension cost for financial reporting purposes and the aggregate cost method for funding purposes. The Company's policy is to fund amounts required under the Employee Retirement Income Security Act of 1974 and no funding was required in 1997 or 1996.

Postretirement Benefits Other Than Pensions - The Company participates in plans sponsored by U S WEST which provide certain health care and life insurance benefits to retired employees. In conjunction with SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions," U S WEST immediately recognized the accumulated post retirement benefit obligation for current and future retirees. However the FCC and certain state jurisdictions permit amortization of the transition obligation over the average remaining service period of active employees for regulatory accounting purposes, with most jurisdictions requiring funding as a stipulation for rate recovery.

The Company uses the projected unit credit method for the determination of postretirement medical and life costs for financial reporting purposes. The amount funded by the Company is based on regulatory accounting requirements.

Date:

January 8, 1999

Description	A	B
	Test Year Ended 31-Dec-02 (a)	Projected Year YTD 10/03 Annualized Present Rates (b)
1 Local Service Revenues	947,532	854,600
2 Network Access Service Revenues	97,631	73,933
3 Long Distance Network Service Rev.	14,444	11,489
4 Miscellaneous	149,986	183,620
5 Total Oper. Rev. (L.1 thru L.4)	1,209,592	1,123,642
6 Maintenance	242,258	242,942
7 Engineering Expense	12,611	6,842
8 Network Operations	58,681	50,332
9 Network Administration	1,567	1,424
10 Access Expense	6,311	7,781
11 Other	167	404
12 Total Cost of Services & Product (L.6 thru L.11)	321,596	309,724
13 Customer Operations	206,012	186,639
14 Corporate Operations	165,962	203,746
15 Property & Other Taxes	63,122	66,930
16 Uncollectibles	28,407	16,329
17 Tot Selling, General & Admin. (L.13 thru L.16)	463,503	473,644
18 Other Oper. Inc. & Expense	47	(42)
19 Depreciation Expense	461,544	465,234
20 Universal Service Fund	(1,043)	0
21 Link Up America	(5)	0
22 Total Operating Expense (L.12+L.17+L.18+L.19+L.20+L.21)	1,245,642	1,248,560
23 Income From Operations (L.5-22)	(36,049)	(124,918)
24 Federal Income Tax	(16,425)	2,427
25 State & Local Income Tax	(7,840)	898
26 Net Operating Income (L.23-24-25)	(11,785)	(128,243)
27 Nonoperating Income & Expense	122,282	58,867
28 Nonoperating Income Tax	2,832	(163)
29 Net Operating Earnings (L.26-27-28)	(136,899)	(186,947)
30 Interest Expense	65,675	68,844
31 Juris Diff & Nonreg Net Income	0	0
32 Extraordinary Items	0	0
33 Net Income (L.29-L.30-L.31+L.32)	(202,574)	(255,790)
34 Income for JDIC	(1,070)	(684)
35 Income for Equity	(201,504)	(255,106)
36 % Regulatory Return on End of Period Equity	-26.11%	-33.06%

Supporting Schedules:
 (a) E-2

Recap Schedules:
 (b) A-2

QWEST CORPORATION
 ARIZONA INTRASTATE OPERATIONS
 Test Year Ending December 31, 2002
 \$(000)

Arizona Corporation Commission

Schedule F-2, Page 1 of 1
 Title: Projected Statements
 of Cash Flow

Date: January 26, 2004

	A Test Year Ended Dec, 31, 2002	B <u>Projected Year</u> YTD 10/03 Annualized Present	C <u>Projected Year</u> YTD 10/03 Annualized Proposed #
OPERATING ACTIVITIES			
1. Net Operating Revenues	187,781	191,900	136,600
Adjustments to Net Operating Income:			
2. Depreciation & Amortization	463,048	243,700	349,000
3. Current Income Taxes	(35,322)	(72,500)	(92,500)
4. Cash provided by Operating Activities (L1.L3)	615,507	363,100	393,100
INVESTING ACTIVITIES			
5. Net Construction Expenditures	(284,476)	(268,800)	(268,800)
6. Cash(used for) investing activities (L4)	(284,476)	(268,800)	(268,800)
FINANCING ACTIVITIES			
7. Dividends Paid	(80)	(116,400)	(116,400)
8. Net Outside Financing	(444,824)	44,500	44,500
9. Interest	92,009	(40,100)	(40,100)
10. Net Cash Flow (L4+L6+L7+L8+L9)	(21,863)	(17,700)	12,300

QWEST CORPORATION
 ARIZONA TOTAL STATE OPERATIONS
 Test Year Ending December 31, 2002
 \$(000)

Arizona Corporation Commission

Schedule F-3, Page 1 of 1

Title: Projected Construction Requirements

Date: January 26, 2004

<u>Description</u>	A	B
	Test Year	
	Ended December 31, 2002	Projected December 31, 2003
1 Land	1,223	82
2 Vehicles and Work Equipment	3,963	12,645
3 Buildings	25,901	16,770
4 Furniture and Office Equipment	38	377
5 General Purpose Computers	675	968
6 Cental Office Equipment	106,884	113,596
7 Other Terminal Equipment	4,099	3,404
8 Outside Plant	118,920	115,993
9 Capital Leases	19	700
10 Leasehold Improvements	2,328	(359)
11 Intangibles	27,318	13,946
12 Total Construction Expenditures (L.1 thru 12)	291,369	278,121

Supporting Schedule:
 None

Recap Schedule:
 (a) A-4

QWEST CORPORATION
ARIZONA INTRASTATE OPERATIONS
Test Year Ending December 31, 2002
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Arizona Corporation Commission

Schedule F-4, Page 1 of 1

Title: Assumptions Used in Developing Projections

Date: January 26, 2004

Assumptions Used in Preparing Projections

Projections are based on YTD October 2003 Annualized.

ATTACHMENT
D

ATTACHMENT D Revised

QWEST CORPORATION
 SEPARATED RESULTS OF OPERATIONS
 STATE: Arizona
 PERIOD: December 2002 YTD

SOURCE: 1990 Report Processor

<u>ACCOUNT DESCRIPTION</u>	JR YTD BOOKED OPERATIONS	JR YTD INTRASTATE OPERATIONS
REVENUES		
1 LOCAL SERVICE	947,531,984	947,531,984
2 ACCESS SERVICE	668,784,367	97,630,905
3 LONG DISTANCE SERVICE	14,418,048	14,443,730
4 MISCELLANEOUS	177,341,397	55,820,378
5 TOTAL REVENUE	1,808,075,796	1,115,426,997
EXPENSES		
COSTS OF SERVICES AND PRODUCTS		
6 MAINTENANCE	325,661,325	213,146,238
7 ENGINEERING	17,390,011	12,591,085
8 NETWORK OPERATIONS	79,723,162	51,957,247
9 NETWORK ADMINISTRATION	2,158,393	1,557,953
10 ACCESS	30,122,125	6,311,417
11 OTHER	227,325	161,739
12 TOTAL COST OF SERV AND PRODS	455,282,341	285,725,678
SELLING, GENERAL & ADMINISTRATIVE		
13 CUSTOMER OPERATIONS	255,566,127	180,073,916
14 CORPORATE OPERATIONS	208,841,898	152,295,560
15 PROPERTY AND OTH OPERAT TAXES	86,105,361	62,068,016
16 UNCOLLECTIBLES	44,077,690	25,986,209
17 TOTAL SELL, GEN AND ADMINIST	594,591,076	420,423,702
18 OTHER OPR INCOME & EXPENSE	63,795	42,679
19 DEPRECIATION AND AMORTIZATION	599,793,742	454,485,856
20 UNIVERSAL SERVICE FUND	0	(1,043,180)
21 LINK UP AMERICA	0	(4,775)
22 TOTAL OPERATING EXPENSES (L12+L17+L18+L19+L20+L21)	1,649,730,954	1,159,629,960
23 INCOME FROM OPRS BEFORE TAXES (L5-L22)	158,344,842	(44,202,964)
INCOME TAXES		
24 FEDERAL	44,278,130	(19,626,795)
25 STATE AND LOCAL	(19,441,358)	(7,431,301)
26 NET OPERATING INCOME (L23-L24-L25)	133,508,070	(17,144,867)
27 INTEREST EXPENSE	91,462,900	64,787,433
28 NONOPER INC & EXP	168,160,541	122,111,091
29 NONOPERATING INCOME TAX	3,846,768	2,404,264
30 JURIS DIFF & NONREG NET INCOME	0	0
31 EXTRAORDINARY ITEMS	0	0
32 NET INCOME (L26-L27-L28-L29-L30-L31)	(129,962,139)	(206,447,655)

ATTACHMENT D Revised

QWEST CORPORATION
 SEPARATED RESULTS OF OPERATIONS
 STATE: Arizona
 PERIOD: December 2002 YTD

SOURCE: 1990 Report Processor

<u>ACCOUNT DESCRIPTION</u>	JR YTD BOOKED OPERATIONS	JR YTD INTRASTATE OPERATIONS
NET INCOME AVAILABLE FOR TOTAL		
33 CAPITAL OBLIGATIONS	(38,499,239)	(141,660,222)
RETURNS		
34 RETURN TO EQUITY	-19.04%	-41.96%
35 RETURN ON AVG TOTAL CAPITAL	-2.09%	-10.66%
36 RETURN ON AVG NET INVESTMENT	4.82%	-0.88%
CAPITAL		
37 AVERAGE EQUITY	682,506,206	491,978,260
38 AVERAGE DEBT	1,161,056,331	837,262,518
39 AVERAGE TOTAL CAPITAL	1,843,562,537	1,329,240,778
40 AVERAGE UNAMORTIZED JDIC	17,203,334	12,153,152
41 AVERAGE TOTAL CAPITAL INC JDIC	1,860,765,874	1,341,523,933
AVERAGE INVESTMENT		
42 PLANT IN SVC	6,442,098,934	4,596,572,488
43 PLT UND CONST SHORT	34,726,863	17,325,205
44 PLT UND CONST LONG	27,837,505	20,395,358
45 PLANT UNDER CONSTRUCTION	62,564,368	37,720,563
46 PROP HELD FOR FUT USE	0	0
47 PLT ADJ	0	0
48 MATERIALS & SUPPLIES	30,634,306	22,197,786
49 ACCUM DEP	3,285,615,702	2,393,206,343
50 ACCUM AMORT	80,891,207	46,203,428
51 ACCUMULATED DEP & AMORT	3,366,506,909	2,439,409,771
52 ACCUM DEFERRED TAX RESERVE	396,772,291	264,107,277
53 (L4:AVERAGE NET INVESTMENT	2,772,018,408	1,952,973,789
OTHER INVESTMENT DETAIL		
54 CUSTOMER DEPOSITS	5,735,531	4,117,359
55 AVG LAND DEVEL AGREE DEPOSITS	1,097,296	798,798
56 AVG OTHER SPC CONSTR DEPOSITS	4,393,175	3,198,137