

**QWEST CORPORATION**

**ACCESS SERVICE**

**2010 PRICE CAP REVISIONS**

**2010 TARIFF REVIEW PLAN LETTER FILING**

**DESCRIPTION AND JUSTIFICATION**

**SECTION**

**TITLE**

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| 1. | INTRODUCTION AND DESCRIPTION                   |
| 2. | 2010 PRICE CAP REVISIONS TARIFF<br>REVIEW PLAN |

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1. INTRODUCTION AND DESCRIPTION

1.1 Overview

Qwest Corporation (Qwest) is making this letter filing in anticipation of its June 16, 2010 Price Cap Revisions Tariff Filing in accordance with the F.C.C.'s Order, DA 10-505, In the Matter of July 1, 2010 Annual Access Charge Tariff Filings, WCB/Pricing File No. 10-03, released March 31, 2010, and its Tariff Review Plans DA 10-506, In the Matter of Material to be Filed in Support of 2010 Annual Access Tariff Filings, WCB/Pricing File No. 10-04, released March 31, 2010. The FCC's Order requires the filing of a Tariff Review Plan (TRP) and supporting documentation on May 17, 2010, in order to facilitate review of exogenous adjustments and revisions to price cap indices prior to the actual tariff filing. This submittal also complies with the requirements of the F.C.C.'s Sixth Report and Order in CC Docket Nos. 96-262 and 94-1, Access Charge Reform; Price Cap Performance Review for Local Exchange Carriers, Report and Order in CC Docket No. 99-249, Low-Volume Long Distance Users, and Eleventh Report and Order in CC Docket No. 96-45, Federal-State Joint Board On Universal Service, released May 31, 2000, FCC 00-193 (CALLS Order).

This filing, subject to the provisions of the Price Cap rules as specified by 47 C.F.R. §61.43, Annual Price Cap Filings Required, reflects the adjustments to the PCI values pursuant to 47 C.F.R. §61.45 based on currently available data. All data will be subject to change as a consequence of more up to date information available closer to the actual annual access tariff filing date of June 16, 2010.

## 1.2 Exogenous Cost Changes

The respective PCI for each basket is adjusted by exogenous cost changes detailed in 47 CFR §61.45(d). The exogenous changes included in this filing are: Regulatory Fees, Excess Deferred Taxes (EDT), Investment Tax Credit (ITC) and Telecommunications Relay Services (TRS).

### 1.2.1 Regulatory Fees

Qwest includes in this filing an exogenous cost change for the 2010 Federal Regulatory Fees. This change is based on the Form 499-A Worksheet filed on March 31, 2010, and the fees proposed in the Commission's Notice of Proposed Rulemaking, MD Docket No. 10-87, In the Matter of Assessment and Collection of Regulatory Fees for Fiscal Year 2010, FCC 10-51, released April 13, 2010. The Commission's Notice proposes a factor of 0.00351 for interstate telecommunication service providers.

The allocation to baskets is based on end user "R" values in each basket based on 2009 demand. The regulatory fee exogenous adjustment is also allocated to Excluded Services. The Excluded Services category includes services that received Pricing Flexibility approval and also includes those services that were granted Title II and Computer relief.

Workpaper 1 and the Tariff Review Plan, Chart EXG-1, Column B, display the exogenous cost change and allocation to the basket.

#### 1.2.2 Excess Deferred Taxes

The Tax Reform Act of 1986 reducing the corporate tax rate from 46 percent to 34 percent and the Omnibus Budget Reconciliation Act of 1993 establishing the 35 percent corporate tax rate effective January 1, 1993, resulted in Qwest's deferred tax liability containing an "excess". This "excess" is equal to the difference between deferred taxes as currently recorded and deferred taxes restated at the enacted rate of 35 percent. This "excess" is flowed through to net income using the average rate assumption method as prescribed in the Tax Reform Act of 1986 Section 203(e).

Qwest calculated Excess Deferred Tax (EDT) exogenous amounts by determining the change in forecasted deferred tax amounts from the 2009/2010 tariff year, and the 2010/2011 tariff year. To determine the interstate portion, Qwest applied an interstate factor based on 2009 Annual Summary Report 1 data for Total Plant In Service to the difference in the forecasts.

The allocation to baskets is based on "R" values in each basket based on 2009 demand. The EDT adjustment is also allocated to Excluded Services (including services that received Pricing Flexibility, Title II and Computer Inquiry relief).

Workpaper 2 and the Tariff Review Plan Chart EXG-1, Column C, display the impact.

### 1.2.3 Investment Tax Credit

The Tax Reform Act of 1986 generally repealed the credit for property placed in service after 1985 except for certain qualified transitional property. Qwest uses the deferral method to recognize Investment Tax Credit. This means that the credit is deferred in the year it is realized and then amortized (recognized in net income) ratably over the life of the asset that gave rise to the credit. The Internal Revenue Code Section 46(f) requires the deferred method. Eventually, when the assets are fully depreciated, the Investment Tax Credit will be fully amortized, assuming Investment Tax Credit is not reenacted.

Qwest uses historical data from the 2009 base period to calculate the ITC exogenous costs changes. The exogenous cost change is the difference between ITC restated for the 2009/2010 tariff years. Workpaper 3 displays the 2009/2010 tariff year and the 2010/2011 tariff period ITC amounts for the company, the respective interstate amounts, and the 2010/2011 exogenous cost change by basket. Qwest bases its composite state and local tax rate on 2009 actual data. To determine the interstate portion, Qwest applied an interstate factor based on 2009 Annual Summary Report 1 data for Total Plant In Service to the difference in the forecasts.

Qwest apportioned the interstate ITC exogenous adjustment to the Price Cap baskets based on current “R” values. The investment tax credit exogenous adjustment is also allocated to Excluded Services (including services that received Pricing Flexibility, Title II and Computer Inquiry relief). The Excluded Services category includes services that received Pricing Flexibility approval. The Tariff Review Plan, Chart EXG-1, Column D, also reflect this adjustment.

#### 1.2.4 Telecommunications Relay Services

Qwest developed this year’s exogenous adjustment for Telecommunications Relay Service by comparing the projected 2010 TRS contribution to the 2009 TRS contribution included in the 2009 Annual Access Charge Tariff Filing (Transmittal No. 400). The 2010 TRS contribution is based on the Form 499-A filed March 31, 2010, and the most recent contribution factor, 0.01137 contained in the F.C.C. Order, DA 09-1451, In the Matter of the Telecommunications Relay Services and Speech-to-Speech Services for Individuals with hearing and Speech Disabilities, released June 26, 2009.

Any exogenous cost change is allocated to baskets based on “R” values for end user revenues. It is also allocated to Excluded Services. Workpaper 4 and TRP Chart EXG-1, Column H, display the adjustment and allocations.



## 2010 TRP Letter Filing

### 2. 2010 PRICE CAP REVISIONS TARIFF REVIEW PLAN

#### 2.1 Overview of Tariff Review Plan (TRP)

This section describes Qwest's compliance with the requirements stated in the F.C.C's Order, DA 10-505, In the Matter of July 1, 2010 Annual Access Charge Tariff Filings, WCB/Pricing File No. 10-03, released March 31, 2010, and its Tariff Review Plans, DA 10-506, In the Matter of Material to be Filed in Support of 2010 Annual Access Tariff Filings, WCB/Pricing File No. 10-04, released March 31, 2010 and the CALLS Order. Since Qwest reached its Average Traffic Sensitive rate target previously, Qwest's short form TRP filing includes only the EXG-1 form and the exogenous workpapers. The PC-1 and IND-1 will be included in the 2010 Price Cap Access TRP to be filed on June 16, 2010.

## REGULATORY FEES

<u>LINE</u>	<u>DESCRIPTION</u>	Qwest COMMON <u>LINE</u> (A)	Qwest SPECIAL <u>ACCESS</u> (B)	Qwest EXCLUDED <u>SERVICES [1]</u> (C)	<u>TOTAL</u> (D)
1	"R" Value for 2009 Filing	742,589,938	72,001,359	501,585,076	1,316,176,373
2	"R" Value Percent to Total for 2009 (Line 1A / Line 1D)	56.42%	5.47%	38.11%	100.00%
3	"R" Value for 2010 Filing	654,173,653	79,753,059	411,822,427	1,145,749,139
4	"R" Value Percent to Total for 2010 (Line 3A / Line 3D)	57.10%	6.96%	35.94%	100.00%
5	Reg Fee Exogenous Currently in Rates .00342	2,539,658	246,245	1,715,421	4,501,323
6	Total 2010 Regulatory Fee Revised .00351	2,296,150	279,933	1,445,497	4,021,579
7	2010 Exogenous Impact prior to Line (Demand) adjustment	(243,508)	33,689	(269,924)	(479,744)
8	Adjustment for Line (Demand) Loss (Line 6A-(Line 5A*(1+(Line 3A-Line 1A)/Line 1A)))-7A, etc)	302,384	(26,511)	306,988	582,861
9	Net Exogenous Impact (Line 8A Plus Line 7A)	58,876	7,178	37,064	103,117

### Sources

Line 5: Qwest Corporation 2009 Regulatory Fee Calculation based on factor from the Notice of Proposed Rulemaking, In the Matter of Assessment and Collection of Regulatory Fees for Fiscal Year 2009, FCC 09-38 Released May 14, 2009

Line 6: Qwest Corporation 2010 Regulatory Fee Calculation based on factor from the Notice of Proposed Rulemaking, In the Matter of Assessment and Collection of Regulatory Fees for Fiscal Year 2010, FCC 10-51 Released April 13, 2010

EXCESS DEFERRED TAX EXOGENOUS

<u>Line</u>	<u>Item</u>	<u>Source for 2010/2011</u>	<u>2009/2010</u>	<u>2010/2011</u>
1	2009/2010 Excess Deferred Tax	From 2009 Annual Access Filing	2,668,000	
2	2010/2011 Excess Deferred Tax	Tax Records		2,381,000
3	Total Plant in Service (TPIS)	2009 Annual Summary Report 1, Row 1690, Col b		44,188,246
4	Total Plant in Service (I/S)	2009 Annual Summary Report 1, Row 1690, Col h		12,685,136
5	I/S TPIS Factor	Line 4 / Line 3	28.90%	28.71%
6	I/S Excess Deferred Tax	1st Col = Line 1 * L 5    2nd Col = Line 2 * L 5	771,177	683,515
7	State Tax Rate	2009 Tax Workpaper	4.92%	4.82%
8	FIT Impact	Line 6 * (.35/(1-.35))	415,249	368,046
9	State Tax Impact	(Line 8 + Line 6) * (Line 7/(1-Line 7))	61,327	53,252
10	Calculated EDT	Line 6 + Line 8 + Line 9	1,247,753	1,104,813
11	Exogenous Impact		(1,247,753)	(1,104,813)

EXCESS DEFERRED TAX EXOGENOUS

<u>LINE</u>	<u>DESCRIPTION</u>	Qwest Common <u>Line</u> (A)	Qwest Special <u>Access</u> (B)	Qwest Traffic Sensitive <u>Non-ATS Related</u> (C)	Qwest <u>IXC</u> (D)	Qwest Trunking & TS <u>ATS-Related</u> (E)	Qwest <u>Excluded Services</u> (F)	Qwest <u>Total</u> (G)
1	"R" Value for 2010 Filing	695,556,279	635,960,622	62,560,815	2,285	188,819,973	2,442,511,450	4,025,411,424
2	"R" Value Percent to Total for 2010 Filing (Line 1A / Line 1G)	17.28%	15.80%	1.55%	0.00%	4.69%	60.68%	100.00%
3	Total 2009/2010 Excess Deferred Tax (Workpaper 2, P1)	(215,601)	(197,128)	(19,392)	(1)	(58,528)	(757,103)	(1,247,753)
4	Total 2010/2011 Excess Deferred Tax (Workpaper 2, P1)	(190,902)	(174,545)	(17,170)	(1)	(51,823)	(670,371)	(1,104,813)
5	Exogenous Impact (Line 4A minus Line 3A)	24,699	22,583	2,222	0	6,705	86,732	142,941
6	Exogenous Impact Respread for ATS (Line 1A/Line 1A through Line 1D)	49.89%	45.62%	4.49%	0.00%	NA	NA	NA
7	Reallocation of Exogenous for ATS Revs (Line 5E*Line 6A etc.)	3,345	3,059	301	0	0	0	0
8	Total Exogenous adjustment (Line 5A + Line 7A etc.)	28,044	25,641	2,522	0	0	86,732	142,941

Columns A through E represent Price Cap Services

Column E represents the amount to be respread to non-ATS Price Cap services

Column F represents Excluded Services and includes services that received Pricing Flexibility approval

INVESTMENT TAX CREDIT EXOGENOUS

<u>Line</u>	<u>Item</u>	<u>Source for 2010/2011</u>	<u>2009/2010</u>	<u>2010/2011</u>
1	2009/2010 Investment Tax Credit	From 2009 Annual Access Filing	9,655,000	
2	2010/2011 Investment Tax Credit	Tax Records		6,886,000
3	Total Plant in Service (TPIS)	2009 Annual Summary Report 1, Row 1690, Col b		44,188,246
4	Total Plant in Service (I/S)	2009 Annual Summary Report 1, Row 1690, Col h		12,685,136
5	I/S TPIS Factor	Line 4 / Line 3	28.90%	28.71%
6	I/S Investment Tax Credit	1st Col = Line 1 * L 5    2nd Col = Line 2 * L 5	2,790,748	1,976,767
7	State Tax Rate	2009 Tax Workpaper	4.92%	4.82%
8	FIT Impact	Line 6 * (.35/(1-.35))	1,502,710	1,064,413
9	State Tax Impact	(Line 8 + Line 6) * (Line 7/(1-Line 7))	221,931	154,008
10	Calculated ITC	Line 6 + Line 8 + Line 9	4,515,389	3,195,187
11	Exogenous Impact		(4,515,389)	(3,195,187)

INVESTMENT TAX CREDIT EXOGENOUS

<u>LINE</u>	<u>DESCRIPTION</u>	Qwest Common <u>Line</u> (A)	Qwest Special <u>Access</u> (B)	Qwest Traffic Sensitive <u>Non-ATS Related</u> (C)	Qwest <u>IXC</u> (D)	Qwest Trunking & TS <u>ATS-Related</u> (E)	Qwest <u>Excluded Services</u> (F)	Qwest <u>Total</u> (G)
1	"R" Value for 2010 Filing	695,556,279	635,960,622	62,560,815	2,285	188,819,973	2,442,511,450	4,025,411,424
2	"R" Value Percent to Total for 2010 Filing (Line 1A / Line 1G)	17.28%	15.80%	1.55%	0.00%	4.69%	60.68%	100.00%
3	Total 2009/2010 Investment Tax Credit (Workpaper 3, P 1)	(780,220)	(713,371)	(70,176)	(3)	(211,803)	(2,739,817)	(4,515,389)
4	Total 2010/2011 Investment Tax Credit (Workpaper 3, P1)	(552,101)	(504,796)	(49,658)	(2)	(149,877)	(1,938,754)	(3,195,187)
5	Exogenous Impact (Line 4A minus Line 3A)	228,119	208,574	20,518	1	61,928	801,063	1,320,203
6	Exogenous Impact Respread for ATS (Line 1A)/(Line 1A through Line 1D)	49.89%	45.62%	4.49%	0.00%	NA	NA	NA
7	Reallocation of Exogenous for ATS Revs (Line 5E*Line 6A)	30,898	28,251	2,779	0	0	0	0
8	Total Exogenous adjustment (Line 5A + Line 7A)	258,983	236,805	23,297	55	-	801,063	1,320,203

Columns A through E represent Price Cap Services

Column E represents the amount to be respread to non-ATS Price Cap services

Column F represents Excluded Services and includes services that received Pricing Flexibility approval

Telecommunications Relay Service  
Net Exogenous

<u>LINE</u>	<u>DESCRIPTION</u>	Qwest COMMON <u>LINE</u> (A)	Qwest SPECIAL <u>ACCESS</u> (B)	Qwest EXCLUDED <u>SERVICES</u> (C)	<u>TOTAL</u> (D)
1	"R" Value for 2009 Filing	742,589,938	72,001,359	501,585,076	1,316,176,373
2	"R" Value Percent to Total for 2009	56.42%	5.47%	38.11%	100.00%
3	"R" Value for 2010 Filing	654,173,653	79,753,059	411,822,427	1,145,749,139
4	"R" Value Percent to Total for 2010 (Line 3A / Line 3D, etc.)	57.10%	6.96%	35.94%	100.00%
5	Total 2009 TRS Contribution Based on .01137 Currently in Rates	8,443,248	818,655	5,703,022	14,964,925
6	Total 2010 TRS Contribution Based on .01137 Rate	7,437,954	906,792	4,682,421	13,027,168
7	2010 Annual Exogenous Impact (Line 6A - Line 5A, etc) prior to demand loss	(1,005,293)	88,137	(1,020,601)	(1,937,758)
8	Adjustment for Line (Demand) Loss (Line 6A-(Line 5A*(1+(Line 3A-Line 1A)/Line 1A)))-7A, etc)	1,005,293	(88,137)	1,020,601	1,937,758
9	2010 Annual Exogenous Impact (Line 8A + Line 7A, etc)	0	0	(0)	(0)

Sources

Line 5: Revenues from FCC Form 499-A, Telecommunications Reporting Worksheet, filed April 1, 2009, Line 420d x TRS Factor of .01137, FCC CG Docket No. 03-123

Line 6: Revenues from FCC Form 499-A, Telecommunications Reporting Worksheet, filed April 1, 2010, Line 420d x TRS Factor of .01137, FCC CG Docket No. 03-123