

**QWEST CORPORATION**

**ACCESS SERVICE**

**2011 PRICE CAP REVISIONS**

**2011 TARIFF REVIEW PLAN LETTER FILING**

**DESCRIPTION AND JUSTIFICATION**

**SECTION**

**TITLE**

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| 1. | INTRODUCTION AND DESCRIPTION                   |
| 2. | 2011 PRICE CAP REVISIONS TARIFF REVIEW<br>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, 2011 Price Cap Revisions Tariff Filing in accordance with the F.C.C's Orders, DA 11-569, In the Matter of July 1, 2011 Annual Access Charge Tariff Filings, WCB/Pricing File No. 11-04, released March 29, 2011, and DA 11-570, In the Matter of Material to be Filed in Support of 2011 Annual Access Tariff Filings, WCB/Pricing File No. 11-05, released March 29, 2011. The FCC's Order requires the filing of a Tariff Review Plan (TRP) and supporting documentation on May 17, 2011, 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, 2011.

## 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 2011 Federal Regulatory Fees. This change is based on the Form 499-A Worksheet filed on March 31, 2011, and the fees proposed in the Commission's Notice of Proposed Rulemaking, MD Docket No. 11-76, In the Matter of Assessment and Collection of Regulatory Fees for Fiscal Year 2011, FCC 11-68, released May 3, 2011. The Commission's Notice proposes a factor of 0.00361 for interstate telecommunication service providers. Qwest developed this year's exogenous adjustment for Regulatory Fees by comparing the projected 2011 Regulatory Fee contribution to the 2010 contribution included in the September 16, 2010 TRS and Regulatory Fee Adjustment Filing (Transmittal No. 427). The 2011 Regulatory Fee contribution is based on the Form 499-A filed March 31, 2011 and the proposed contribution factor of .00361 referenced above.

The regulatory fee exogenous cost change also reflects the true-up for the factor change in FCC 10-123 released July 9, 2010. Qwest filed to reduce the factor

from .00351 filed in the 2010 Annual Access Charge Tariff Filing Transmittal No.421 to a factor of .00349 in the TRS and Regulatory Fee Adjustment Filing in Transmittal No. 427 effective October 1, 2010. The allocation to baskets is based on end user “R” values in each basket based on 2010 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 reduced 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 2010/2011 tariff year, and the 2011/2012 tariff year. To determine the interstate portion, Qwest applied an interstate factor based on company financial 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 2010 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 2010 base period to calculate the ITC

exogenous costs changes. The exogenous cost change is the difference between ITC restated for the 2010/2011 tariff years. Workpaper 3 displays the 2010/2011 tariff year and the 2011/2012 tariff period ITC amounts for the company, the respective interstate amounts, and the 2011/2012 exogenous cost change by basket. Qwest bases its composite state and local tax rate on 2010 actual data. To determine the interstate portion, Qwest applied an interstate factor based on company financial 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 2011 TRS contribution to the 2010 TRS contribution included in the 2010 TRS and Regulatory Fee Adjustment Filing (Transmittal No. 427). The 2011 TRS contribution is based on the Form 499-A filed March 31, 2011, and the proposed contribution factor, 0.01056 contained in FCC Public Notice DA 11-826, released May 4, 2011.



The TRS exogenous cost change also reflects the true-up for the factor change in FCC 10-115 released June 28, 2010. Qwest filed to reduce the factor from .01137 filed in the Annual Access Charge Tariff Filing Transmittal No. 421 to a factor of .00585 in the TRS and Regulatory Fee Adjustment Filing in Transmittal No. 427 effective October 1, 2010. 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.

## 2. 2011 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 Orders, DA 11-569, In the Matter of July 1, 2011 Annual Access Charge Tariff Filings, WCB/Pricing File No. 11-04, released March 29, 2011, and DA 11-570, In the Matter of Material to be Filed in Support of 2011 Annual Access Tariff Filings, WCB/Pricing File No. 11-05, released March 29, 2011 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 2011 Price Cap Access TRP to be filed on June 16, 2011.

## 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 2010 Filing	654,173,653	79,753,059	411,822,427	1,145,749,139
2	"R" Value Percent to Total for 2010 (Line 1A / Line 1D)	57.10%	6.96%	35.94%	100.00%
3	"R" Value for 2011 Filing	567,495,225	70,779,940	425,028,865	1,063,304,030
4	"R" Value Percent to Total for 2011 (Line 3A / Line 3D)	53.37%	6.66%	39.97%	100.00%
5	Reg Fee Exogenous Currently in Rates .00349	2,283,066	278,338	1,437,260	3,998,664
6	Total 2011 Regulatory Fee .00361 Rate	2,048,658	255,516	1,534,354	3,838,528
7	2011 Exogenous Impact prior to Line (Demand) adjustment and Trueup	(234,408)	(22,823)	97,094	(160,137)
8	True Up for 2010 Regulatory Fees Adjustment Filing 9-16-10 Line 5(A)-Line 6(A) etc from WP 1 Transmittal 427 Adjusted for Demand Loss	3,783	472	2,833	7,088
9	Exogenous Impact Prior to Demand Adjustment (Line 7 Plus Line 8)	(230,625)	(22,351)	99,927	(153,049)
10	Adjustment for Line (Demand) Loss (Line 6A-(Line 5A*(1+(Line 3A-Line 1A)/Line 1A)))-7A, etc)	302,508	31,316	(46,090)	287,733
11	Net Exogenous Impact (Line 10A Plus Line 9A)	71,883	8,965	53,837	134,685

### Sources

Line 5: Qwest Corporation 2010 Regulatory Fee Calculation based on factor from the Report and Order, In the Matter of Assessment and Collection of Regulatory Fees for Fiscal Year 2010, FCC 10-123 Released July 9, 2010

Line 6: Qwest Corporation 2011 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 2011, FCC 11-68 Released May 3, 2011

EXCESS DEFERRED TAX EXOGENOUS

<u>Line</u>	<u>Item</u>	<u>Source for 2011/2012</u>	<u>2010/2011</u>	<u>2011/2012</u>
1	2010/2011 Excess Deferred Tax	From 2010 Annual Access Filing	2,381,000	
2	2011/2012 Excess Deferred Tax	Tax Records		2,183,000
3	Total Plant in Service (TPIS)	2010 Annual Summary Report 1, Row 1690, Col b		44,694,251
4	Total Plant in Service (I/S)	2010 Annual Summary Report 1, Row 1690, Col h		12,776,377
5	I/S TPIS Factor	Line 4 / Line 3	28.71%	28.59%
6	I/S Excess Deferred Tax	1st Col = Line 1 * L 5    2nd Col = Line 2 * L 5	683,515	624,036
7	State Tax Rate	2010 Tax Workpaper	4.82%	6.04%
8	FIT Impact	Line 6 * (.35/(1-.35))	368,046	336,019
9	State Tax Impact	(Line 8 + Line 6) * (Line 7/(1-Line 7))	53,252	61,715
10	Calculated EDT	Line 6 + Line 8 + Line 9	1,104,813	1,021,771
11	Exogenous Impact		(1,104,813)	(1,021,771)

EXCESS DEFERRED TAX EXOGENOUS

LINE	DESCRIPTION	Qwest Common Line (A)	Qwest Special Access (B)	Qwest Traffic Sensitive Non-ATS Related (C)	Qwest IXC (D)	Qwest Trunking & TS ATS-Related (E)	Qwest Excluded Services (F)	Qwest Total (G)
1	"R" Value for 2011 Filing	607,856,392	684,595,618	46,750,310	1,604	159,627,966	2,425,073,476	3,923,905,367
2	"R" Value Percent to Total for 2011 Filing (Line 1A / Line 1G)	15.49%	17.45%	1.19%	0.00%	4.07%	61.80%	100.00%
3	Total 2010/2011 Excess Deferred Tax (Workpaper 2, P1)	(171,148)	(192,754)	(13,163)	(0)	(44,945)	(682,802)	(1,104,813)
4	Total 2011/2012 Excess Deferred Tax (Workpaper 2, P1)	(158,284)	(178,266)	(12,174)	(0)	(41,567)	(631,480)	(1,021,771)
5	Exogenous Impact (Line 4A minus Line 3A)	12,864	14,488	989	0	3,378	51,322	83,042
6	Exogenous Impact Respread for ATS (Line 1A/Line 1A through Line 1D)	45.39%	51.12%	3.49%	0.00%	NA	NA	NA
7	Reallocation of Exogenous for ATS Revs (Line 5E*Line 6A etc.)	1,533	1,727	118	0	0	0	0
8	Total Exogenous adjustment (Line 5A + Line 7A etc.)	14,398	16,215	1,107	0	0	51,322	83,042

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 2011/2012</u>	<u>2010/2011</u>	<u>2011/2012</u>
1	2010/2011 Investment Tax Credit	From 2010 Annual Access Filing	6,886,000	
2	2011/2012 Investment Tax Credit	Tax Records		3,882,000
3	Total Plant in Service (TPIS)	2010 Annual Summary Report 1, Row 1690, Col b		44,694,251
4	Total Plant in Service (I/S)	2010 Annual Summary Report 1, Row 1690, Col h		12,776,377
5	I/S TPIS Factor	Line 4 / Line 3	28.71%	28.59%
6	I/S Investment Tax Credit	1st Col = Line 1 * L 5    2nd Col = Line 2 * L 5	1,976,767	1,109,715
7	State Tax Rate	2010 Tax Workpaper	4.82%	6.04%
8	FIT Impact	Line 6 * (.35/(1-.35))	1,064,413	597,539
9	State Tax Impact	(Line 8 + Line 6) * (Line 7/(1-Line 7))	154,008	109,747
10	Calculated ITC	Line 6 + Line 8 + Line 9	3,195,187	1,817,001
11	Exogenous Impact		(3,195,187)	(1,817,001)

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 2011 Filing	607,856,392	684,595,618	46,750,310	1,604	159,627,966	2,425,073,476	3,923,905,367
2	"R" Value Percent to Total for 2011 Filing (Line 1A / Line 1G)	15.49%	17.45%	1.19%	0.00%	4.07%	61.80%	100.00%
3	Total 2010/2011 Investment Tax Credit (Workpaper 3, P 1)	(494,970)	(557,458)	(38,068)	(1)	(129,983)	(1,974,707)	(3,195,187)
4	Total 2011/2012 Investment Tax Credit (Workpaper 3, P1)	(281,474)	(317,008)	(21,648)	(1)	(73,917)	(1,122,953)	(1,817,001)
5	Exogenous Impact (Line 4A minus Line 3A)	213,496	240,449	16,420	1	56,067	851,754	1,378,187
6	Exogenous Impact Respread for ATS (Line 1A)/(Line 1A through Line 1D)	45.39%	51.12%	3.49%	0.00%	NA	NA	NA
7	Reallocation of Exogenous for ATS Revs (Line 5E*Line 6A)	25,448	28,661	1,957	0	0	0	0
8	Total Exogenous adjustment (Line 5A + Line 7A)	238,945	269,110	18,351	27	0	851,754	1,378,187

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 2010 Filing	654,173,653	79,753,059	411,822,427	1,145,749,139
2	"R" Value Percent to Total for 2010 (Line 1A / Line 1D)	57.10%	6.96%	35.94%	100.00%
3	"R" Value for 2011 Filing	567,495,225	70,779,940	425,028,865	1,063,304,030
4	"R" Value Percent to Total for 2011 (Line 3A / Line 3D, etc.)	53.37%	6.66%	39.97%	100.00%
5	Total 2010 TRS Contribution Based on .00585 Currently in Rates	3,826,916	466,555	2,409,161	6,702,632
6	Total 2011 TRS Contribution Based on .01056 Proposed Rate	5,992,750	747,436	4,488,305	11,228,491
7	2011 Annual Exogenous Impact (Line 6A - Line 5A, etc) prior to Demand and Trueup	2,165,834	280,881	2,079,144	4,525,858
8	True Up for 2010 TRS Adjustment Filing 9-16-10 Line 5(A)-Line 6(A) etc from WP 2 Transmittal 427 Adjusted for Demand Loss	1,044,192	130,235	782,053	1,956,480
9	Exogenous Impact Prior to Demand Adjustment (Line 7 Plus Line 8)	3,210,025	411,116	2,861,197	6,482,338
10	Adjustment for Line (Demand) Loss (Line 6A-(Line 5A*(1+(Line 3A-Line 1A)/Line 1A)))-7A, etc)	507,069	52,493	(77,258)	482,304
11	Net Exogenous Impact (Line 10A Plus Line 9A)	3,717,094	463,609	2,783,939	6,964,642

Sources

Line 5: Revenues from FCC Form 499-A, Telecommunications Reporting Worksheet, filed April 1, 2010, Line 420d x TRS Factor of .00585, CG Docket No. 03-123, FCC 10-115

Line 6: Revenues from FCC Form 499-A, Telecommunications Reporting Worksheet, filed April 1, 2011, Line 420d x TRS Factor of .01056, FCC Public Notice DA 11-826 Released May 4, 2011