

QWEST CORPORATION d/b/a CENTURYLINK QC

ACCESS SERVICE

2012 PRICE CAP REVISIONS

2012 TARIFF REVIEW PLAN LETTER FILING

DESCRIPTION AND JUSTIFICATION

SECTION

TITLE

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| 1. | INTRODUCTION AND DESCRIPTION |
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1. INTRODUCTION AND DESCRIPTION

1.1 Overview

Qwest Corporation d/b/a CenturyLink QC (Qwest) is making this letter filing in anticipation of its June 18, 2012 Price Cap Revisions Tariff Filing in accordance with the F.C.C.'s Orders, DA 12-482, In the Matter of July 3, 2012 Annual Access Charge Tariff Filings, WCB/Pricing File No. 12-07, released March 28, 2012, and DA 12-575, In the Matter of Material to be Filed in Support of 2012 Annual Access Tariff Filings, WCB/Pricing File No. 12-08, released April 19, 2012. The FCC's Order requires the filing of a Tariff Review Plan (TRP) and supporting documentation on May 17, 2012, 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, the 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) and the Report and Order and Further Notice of Proposed Rulemaking in the Matter of Connect America Fund et al., WC Docket 10-90 et al., (USF/ICC Transformation 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 18, 2012.

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 2012 Federal Regulatory Fees. This change is based on the Form 499-A Worksheet filed on March 31, 2012, and the fees proposed in the Commission's Report and Order, MD Docket No. 11-76, In the Matter of Assessment and Collection of Regulatory Fees for Fiscal Year 2011, FCC 11-114, released July 22, 2011. The Commission's Order proposed a factor of 0.00375 for interstate telecommunication service providers. Qwest developed this year's exogenous adjustment for Regulatory Fees by comparing the projected 2012 Regulatory Fee contribution to the 2011 contribution included in the June 16, Annual Access Charge Tariff Filing (Transmittal No. 445). The 2012 Regulatory Fee contribution is based on the Form 499-A filed March 31, 2012 and the proposed contribution factor of .00375 referenced above.

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The Regulatory Fee exogenous cost change also reflects the true-up for the factor change mentioned above. Qwest opted not to file to recover the small increase from .00361 filed in the 2011 Annual Access Charge Tariff Filing Transmittal No. 445 to the current factor of .00375 until the 2012 Annual Access Charge Tariff Filing. The allocation to baskets is based on end user “R” values in each basket based on 2011 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).

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Qwest calculated Excess Deferred Tax (EDT) exogenous amounts by determining the change in forecasted deferred tax amounts from the 2011/2012 tariff year, and the 2012/2013 tariff year. To determine the interstate portion, an interstate factor is applied 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 2011 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.

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Qwest uses historical data from the 2011 base period to calculate the ITC exogenous costs changes. The exogenous cost change is the difference between ITC restated for the 2011/2012 tariff years. Workpaper 3 displays the 2011/2012 tariff year and the 2012/2013 tariff period ITC amounts for the company, the respective interstate amounts, and the 2012/2013 exogenous cost change by basket. Qwest bases its composite state and local tax rate on 2011 actual data. To determine the interstate portion, an interstate factor is applied 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 TRS contribution to the 2011 contribution included in the June 16, 2011 Annual Access Charge Tariff Filing (transmittal No. 445). The 2012 TRS contribution is based on the Form 499-A

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filed March 31, 2012, and the proposed contribution factor, 0.01058 contained in FCC Order 11-104 released June 30, 2011.

The TRS exogenous cost change also reflects the true-up for the factor change mentioned above. Qwest opted not to file to recover the small increase from .01056 filed in the 2011 Annual Access Charge Tariff Filing Transmittal No. 445 to the current factor of .01058 until the 2012 Annual Access Charge Tariff. Any exogenous cost change is allocated to baskets based on “R” values for end user revenues. It is also allocated to Excluded Services. Workpaper 1 and TRP Chart EXG-1, Column H, display the adjustment and allocations.

2. 2012 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 12-482, In the Matter of July 3, 2012 Annual Access Charge Tariff Filings, WCB/Pricing File No. 12-07, released March 28, 2012, and DA 12-575, In the Matter of Material to be Filed in Support of 2012 Annual Access Tariff Filings, WCB/Pricing File No. 12-08, released April 19, 2012 and the USF/ICC Transformation Order. Per this order, 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 2012 Price Cap Access TRP to be filed on June 18, 2012.

Exogenous Cost Changes Detail TRS and Reg Fees

	2011 Annual			
	Total	Interstate	FCC 11-68	DA 11-826
	End User Revenues		5/3/2011	5/4/2011
	(499A)	(499A)	Reg Fee	TRS
2010 499A	(A)	(B)	(C)=B * 0.00361	(D) = B * 0.01056
Exogenous Amount	\$ 3,877,221,944	\$ 1,063,304,030	\$ 3,838,528	\$ 11,228,491
Excluded Revenue	\$ 425,028,865	\$ 425,028,865		
Price Cap Revenue Percentage	89.04%	60.03%		

2011 Mid-Year Rate Changes	2011 Annual			
	Total	Interstate	FCC 11-114	FCC 11-104
	End User Revenues		7/22/2011	6/30/2011
	(499A)	(499A)	Reg Fee	TRS
2010 499A	(A)	(B)	(C) = B' * 0.00375	(C') = B' * 0.01058
Exogenous Amount	\$ 3,877,221,944	\$ 1,063,304,030	\$ 3,987,390	\$ 11,249,757
Excluded Revenue	\$ 425,028,865	\$ 425,028,865		
Price Cap Revenue Percentage	89.04%	60.03%		

	2012 Annual			
	Total	Interstate	FCC 11-114	FCC 11-104
	End User Revenues		7/22/2011	6/30/2011
	(499A)	(499A)	Reg Fee	TRS
2011 499A	(A)	(B)	(C) = B' * 0.00375	(D) = B' * 0.01058
Exogenous Amount	\$ 3,534,372,657	\$ 961,400,901	\$ 3,605,253	\$ 10,171,622
Excluded Revenue	\$ 395,863,195	\$ 395,863,195		
Price Cap Revenue Percentage	88.80%	58.82%		

	7/11 - 6/12	7/12 - 6/13	
Telecom Relay Support			
DA 11-826 - (D) = B * 0.01056	11,228,491		
FCC 11-104 = D * 0.01058		\$ 21,266	
FCC 11-104 - (D') = B' * 0.01058		10,171,622	
	\$ 11,228,491	\$ 10,192,888	\$ (1,035,603)
% Price Cap Allocation	60.03%	58.82%	
Price Cap Only	\$ 6,740,186	\$ 5,995,899	\$ (744,287)
FCC 2010 Price Cap Interstate End User Revenue	638,275,165		
FCC 2011 Price Cap Interstate End User Revenue	565,537,706		
Revenue Change (R)	-11.39594%		
Price Cap Only with R Adj	\$ 5,972,078	\$ 5,995,899	\$ 23,820

	7/11 - 6/12	7/12 - 6/13	
Regulatory Fee Support:			
FCC 11-68 - (C)=B * 0.00361	3,838,528		
FCC 11-114 - (C) = B * .00375		\$ 148,863	
FCC 11-114 - (C') = B' * 0.00375		3,605,253	
	3,838,528	3,754,116	\$ (84,412)
% Price Cap Allocation	60.03%	58.82%	
Price Cap Only	\$ 2,304,173	\$ 2,208,334	\$ (95,840)
FCC 2010 Price Cap Interstate End User Revenue	638,275,165		
FCC 2011 Price Cap Interstate End User Revenue	565,537,706		
Revenue Change (R)	-11.39594%		
Price Cap Only with R Adj	\$ 2,041,591	\$ 2,208,334	\$ 166,743

	Common Line	Special	Price Cap Revenue
499A 2011 Annual Interstate End User Revenues	\$ 501,138,947	\$ 64,398,759	\$ 565,537,706
Allocation Basis	88.61%	11.39%	
Telecom. Relay Support	\$ 21,108	\$ 2,712	\$ 23,820
Regulatory Fee Support:	\$ 147,755	\$ 18,987	\$ 166,743
	\$ 168,863	\$ 21,700	\$ 190,563

EXCESS DEFERRED TAX EXOGENOUS

<u>Line</u>	<u>Item</u>	<u>Source for 2012/2013</u>	<u>2011/2012</u>	<u>2012/2013</u>
1	2011/2012 Excess Deferred Tax	From 2011 Annual Access Filing	2,183,000	
2	2012/2013 Excess Deferred Tax	Tax Records		2,019,000
3	Total Plant in Service (TPIS)	2011 Summary Calculations		44,981,883
4	Total Plant in Service (I/S)	2011 Summary Calculations		12,911,648
5	I/S TPIS Factor	Line 4 / Line 3	28.59%	28.70%
6	I/S Excess Deferred Tax	1st Col = Line 1 * L 5 2nd Col = Line 2 * L 5	624,036	579,536
7	State Tax Rate	2011 Tax Workpaper	6.04%	5.37%
8	FIT Impact	Line 6 * (.35/(1-.35))	336,019	312,058
9	State Tax Impact	(Line 8 + Line 6) * (Line 7/(1-Line 7))	61,715	50,596
10	Calculated EDT	Line 6 + Line 8 + Line 9	1,021,771	942,189
11	Exogenous Impact		(1,021,771)	(942,189)

EXCESS DEFERRED TAX EXOGENOUS

<u>LINE</u>	<u>DESCRIPTION</u>	Qwest Common <u>Line</u> (A)	Qwest Special Access <u>Access</u> (B)	Qwest <u>IXC</u> (C)	Qwest <u>Excluded Services</u> (D)	Qwest <u>Total</u> (E)
1	"R" Value for 2012 Filing	\$541,134,798	757,733,459	1,803	2,695,404,073	3,994,274,134
2	"R" Value Percent to Total for 2012 Filing (Line 1A / Line 1G)	13.55%	18.97%	0.00%	67.48%	100.00%
3	Total 2011/2012 Excess Deferred Tax (Workpaper 2, P1)	(138,427)	(193,835)	(0)	(689,508)	(1,021,771)
4	Total 2012/2013 Excess Deferred Tax (Workpaper 2, P1)	(127,646)	(178,738)	(0)	(635,805)	(942,189)
5	Exogenous Impact (Line 4A minus Line 3A)	10,781	15,097	-	53,703	79,581

Columns A through C represent Price Cap Services
 Column D represents Excluded Services and includes services that received Pricing Flexibility approval

INVESTMENT TAX CREDIT EXOGENOUS

<u>Line</u>	<u>Item</u>	<u>Source for 2012/2013</u>	<u>2011/2012</u>	<u>2012/2013</u>
1	2011/2012 Investment Tax Credit	From 2011 Annual Access Filing	3,882,000	
2	2012/2013 Investment Tax Credit	Tax Records		1,218,000
3	Total Plant in Service (TPIS)	2011 Summary Calculations		44,981,883
4	Total Plant in Service (I/S)	2011 Summary Calculations		12,911,648
5	I/S TPIS Factor	Line 4 / Line 3	28.59%	28.70%
6	I/S Investment Tax Credit	1st Col = Line 1 * L 5 2nd Col = Line 2 * L 5	1,109,715	349,616
7	State Tax Rate	2011 Tax Workpaper	6.04%	5.37%
8	FIT Impact	Line 6 * (.35/(1-.35))	597,539	188,255
9	State Tax Impact	(Line 8 + Line 6) * (Line 7/(1-Line 7))	109,747	30,523
10	Calculated ITC	Line 6 + Line 8 + Line 9	1,817,001	568,394
11	Exogenous Impact		(1,817,001)	(568,394)

INVESTMENT TAX CREDIT EXOGENOUS

<u>LINE</u>	<u>DESCRIPTION</u>	Qwest Common <u>Line</u> (A)	Qwest Special Access (B)	Qwest <u>IXC</u> (C)	Qwest <u>Excluded Services</u> (D)	Qwest <u>Total</u> (E)
1	"R" Value for 2012 Filing	\$541,134,798	757,733,459	1,803	2,695,404,073	3,994,274,134
2	"R" Value Percent to Total for 2012 Filing (Line 1A / Line 1G)	13.55%	18.97%	0.00%	67.48%	100.00%
3	Total 2011/2012 Investment Tax Credit (Workpaper 3, P 1)	(246,163)	(344,694)	(1)	(1,226,143)	(1,817,001)
4	Total 2012/2013 Investment Tax Credit (Workpaper 3, P1)	(77,005)	(107,827)	(0)	(383,562)	(568,394)
5	Exogenous Impact (Line 4A minus Line 3A)	169,158	236,852	16	842,582	1,248,608

Columns A through C represent Price Cap Services
 Column D represents Excluded Services and includes services that received Pricing Flexibility approval