

**QWEST CORPORATION**

**ACCESS SERVICE**

**2004 PRICE CAP REVISIONS**

**2004 TARIFF REVIEW PLAN LETTER FILING**

**DESCRIPTION AND JUSTIFICATION**

**SECTION**

**TITLE**

1

INTRODUCTION AND DESCRIPTION

2

PRICE CAP INDEX

3

TARIFF REVIEW PLAN

**TABLE OF CONTENTS**

<b><u>SECTION</u></b>	<b><u>PAGE</u></b>
1. INTRODUCTION AND DESCRIPTION .....	4
1.1 Overview .....	4
1.2 Exogenous Cost Changes .....	5
1.2.1 Regulatory Fees .....	5
1.2.2 Excess Deferred Taxes .....	6
1.2.3 Investment Tax Credit .....	7
1.2.4 Telecommunications Relay Services.....	8
1.3 Form 492A .....	9
1.4 Exclusions .....	9
1.5 Waivers .....	12
2. PRICE CAP INDEX.....	14
2.1 Overview .....	14
2.2 2004 Annual Access TRP Filing Methodologies and Calculations .....	14
3. 2004 PRICE CAP REVISIONS TARIFF REVIEW PLAN .....	16
3.1 Overview of Tariff Review Plan (TRP).....	16
3.2 IND-1 References .....	16

<b><u>WORKPAPERS</u></b>	<b><u>PAGES</u></b>
Workpaper 1: Regulatory Fees	1
Workpaper 2: Excess Deferred Taxes	2
Workpaper 3: Investment Tax Credit	2
Workpaper 4: Telecommunications Relay Service	2
Workpaper 5: Form 492A – 2002	1
Form 492A – 2003	1
Workpaper 6: Excluded Services Workpaper	2
Workpaper 7: New Services	1
Workpaper 8: Transport Minutes of Use Calculation	1
Workpaper 9: IND-1 References	4

## **1. INTRODUCTION AND DESCRIPTION**

### **1.1 Overview**

Qwest Corporation (Qwest) is making this letter filing in anticipation of its June 16, 2004 Price Cap Revisions Tariff Filing in accordance with the F.C.C.'s Order, DA 04-1049, In the Matter of July 1, 2004 Annual Access Charge Tariff Filings, WCB/Pricing 04-18, released April 19, 2004, and its Tariff Review Plans DA 04-1048, In the Matter of Material to be Filed in Support of 2004 Annual Access Tariff Filings, released April 19, 2004. The FCC's Order requires the filing of a Tariff Review Plan (TRP) and supporting documentation on April 30, 2004, 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 and 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, 2004.

## **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 2004 Federal Regulatory Fees. This change is based on the Form 499 Worksheet filed on April 1, 2004, and the fees proposed in the Commission's Notice of Proposed Rulemaking, MD Docket No. 04-73, In the Matter of Assessment and Collection of Regulatory Fees for Fiscal Year 2003, FCC 04-66, released March 29, 2004. The Commission's Notice proposes a factor of 0.00218 for interstate telecommunications service providers.

The regulatory fee exogenous cost change is the difference between the year 2004 fees and the regulatory fees filed in Transmittal No. 172, effective Oct. 1 2003. The allocation to baskets is based on end user "R" values in each basket based on 2003 demand. The regulatory fee exogenous adjustment is also allocated to Excluded Services. The Excluded Services category includes services that received Pricing Flexibility approval.

Workpaper 1 and the Tariff Review Plans, Charts EXG-1, Column B, display the exogenous cost change and allocation to 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 2003/2004 tariff year, and the 2004/2005 tariff year. To determine the interstate portion for 2004/2005, Qwest applied an interstate factor based on 2003 ARMIS 43-01 data for Total Plant In Service to the difference in the forecasts. The data for 2003/2004 came from Transmittal No. 172, effective Oct. 1, 2003.

The allocation to baskets is based on "R" values in each basket based on 2003 demand. The EDT adjustment is also allocated to Excluded Services (including services that received Pricing Flexibility approval).

Workpaper 2 and the Tariff Review Plans Charts 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 2003 base period to calculate the ITC exogenous costs changes. The exogenous cost change is the difference between ITC restated for the 2003/2004 and 2004/2005 tariff years. Workpaper 3 displays the 2003/2004 tariff year and the 2004/2005 tariff period ITC amounts for the company, the respective interstate amounts, and the 2004/2005 exogenous cost change by basket. Qwest bases its composite state and local tax rate on 2003 actual data. To determine the interstate portion, Qwest applied an interstate factor based on 2003 ARMIS 43-01 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. The Excluded Services category includes services that received Pricing Flexibility approval. The Tariff Review Plans, Charts 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 2004 TRS contribution to the 2003 TRS contribution included in Transmittal No. 172, effective October 1, 2003. The 2004 TRS contribution is based on the Form 499-A filed April 1, 2004, and the most recent contribution factor, 0.0022, contained in the Commission’s Public Notice, DA 04-465, “In the Matter of Telecommunications Relay Services and Speech-to-Speech Services for Individuals with Hearing and Speech Disabilities,” released February 24, 2004.

As part of this filing, Qwest is also making an adjustment to its 2003 TRS contribution based on a change in factor from 0.00149, as adopted by the Bureau’s Order, CC Docket No. 98-67, “In the Matter of Telecommunications Relay Services and Speech-to-Speech Services for Individuals with Hearing and Speech Disabilities,” DA 03-211, and the newly adopted 0.0022 factor referenced above.



The cumulative impact of the 2003 and 2004 TRS contribution calculations is this year's exogenous cost change. It is allocated to baskets based on "R" values for end user revenues. The TRS exogenous adjustment is also allocated to Excluded Services. The Excluded Services category includes services that received Pricing Flexibility approval. Workpaper 4 and TRP Charts EXG-1, Column H, display the adjustment and allocations.

### **1.3 Form 492A**

The Form 492 for calendar years 2002 and 2003 is provided in Workpaper 5. Qwest removed excluded service earnings based on the assumption that these services earned the same rate of return as total interstate services.

### **1.4 Exclusions**

The exclusions in the filing are those detailed in CC Docket 87-313, Second Report and Order, released October, 1990: Individual Case Basis (Wideband Digital and Wideband Analog), Special Construction, Packet Switching, Air to Ground, Presubscription and specific Federal Government Services. Other new services considered as exclusions include:

Introduced in 1992: Frame Relay;

Introduced in 1994: Frame Relay Modifications, On-Line Transfer, 900

	Blocking Charge, SMDS, CNM (SMDS & FRS), DIGIPAC Gateway Routing, GETS, Virtual Collocation Elements and Frame Relay Fractional ITR
Introduced in 1995:	Frame Relay CIR & NNIT, Switched and Private Line Transport Service (PLTS) Expanded Interconnection (EIC) Reconfiguration Charge, ATM Cell Relay
Introduced in 1996:	Frame Relay Enhancement, High Altitude Electro Magnetic Pulse Protection (HEMP 622), Expanded Interconnection Service for Frame Relay Service, D53 Sharp Plus, GETS Alternate Carrier Routing and Calling Party Number, and Fiber Optic Radio Frequency
Introduced in 1997:	ATM CRS Waiver NRC, ATM CRS New Speed, FRS Promotions, 45 Mbps Frame Relay, CRS Month-to-Month D53 & OC3, Megabit Service, FRS Priority PVC, Packet Switching Flat Rate Structure, International Toll Blocking for Residence, Frame Relay Service Fault Tolerant FRAL Video
Introduced in 1998:	Mega Central, 128k FRAL, Phased-In Installation, ATM, FAST PIC, ATM Unspecified Bit Rate, LAN Switching Service
Introduced in 1999:	Payphone Specific Digit Charge, LNP End User Surcharge, Add Cities & DSS to SRS, MegaBit

Subscriber Service, GETS Enhanced Services, Operational Measurements, ATM 40.7 MBPS, 155 MBPS Port, MegaBit Subscriber 256 kbps/session, MegaCentral 155 Optical Access Link/MPB, MTS IntraLATA Interstate Toll (removed from Price Cap regulation)

Introduced in 2000: FRS 45 Mbps EICT, LSS to ATM CRS Connectivity, Megabit IDSL, Modem Aggregation Service, DSi/SRS, FRS, IDSL, MAS Megacentral, FRS 44.736 NNI, Professional Megabit, Remote Access Service, Colorado Facility Reservation, ATM 0C12, and 34 Megabit Volume Plan.

Introduced in 2002: Qwest received Phase I and Phase II pricing flexibility for dedicated transport and special access services other than channel terminations to end users in 31 MSAs. For channel terminations between Qwest's end office and end user premises, Qwest received Phase and I and Phase II relief in 20 MSAs. The specific services in the special access basket are: Metallic, Telegraph, Voice Grade, WATS, Audio and Video, DDS, SVDS, DS1, DS3, MBSS, SHNS, SRS, SST, and GEOMAX. The specific services in the trunking basket, which includes entrance facilities,

fixed and variable mileage, multiplexers, and access tandem trunk ports, are: DSO, DS1, DS3, OC12, OC24, OC3, OC48, and OC196. (See DA 02-952, Memorandum Opinion and Order, "Qwest's Petition for Pricing Flexibility for Special Access and Dedicated Transport Services," released April 24, 2002.)

Workpaper 6 displays the broad categories of excluded services, where they are found in Qwest's tariff, and lists cites for services, now excluded, that were previously regulated under price caps, as requested by the F.C.C. in Tariff Review Plans, DA 04-1048, released April 19, 2004.

## **1.5           Waivers**

As required by Tariff Review Plans, In the Matter of Material to be Filed in Support of 2004 Annual Access Tariff Filings, DA 04-1048, released April 19, 2004, ¶22, Qwest is including applicable Part 69 waivers that result in rate elements different from those specified in Part 69 of the Commission's Rules as follows:

500 Access Service Waiver. This Waiver of Sections 69.4(b) and 69.106 of Part 69 of the Commissions Rules allows the establishment of a new switched access charge rate element to recover the costs associated with 500 access service.

Three subelements, two non-recurring and one recurring, comprise the rate element. These elements are included in the Local Switching service category of the Traffic Sensitive basket. The Waiver was granted to Qwest on November 30, 1994.

Line Information Database (LIDB). This Part 69 Waiver of the Commission Rules permits the establishment of a new switched access charge rate element to recover the costs associated with LIDB. Three subelements, two recurring and one non recurring, comprise the rate element. The Waiver was granted to Qwest on December 30, 1991. These elements are included in the Local Transport service category of the Traffic Sensitive Basket.

Special Access Surcharge Waiver. This Section 69.115(c) Waiver of the Commission Rules allows Qwest to set the amount of the Special Access Surcharge at \$25.00 per month per line termination charge. This surcharge was set pursuant to Memorandum Opinion and Order, CC Docket 78-72, released August 22, 1983, ¶ 91. This Waiver was extended in the 1989 Waiver Order, ¶ 5, released December 2, 1988. This charge is included in the Common Line Basket.

SS7 Signaling Waiver. This Section 69.106(g) Waiver of the Commission Rules allows Qwest to charge a separate SS7 call set up charge in addition to local switching and to charge for transient call set up and database access SS7 signaling network use. These rates were set pursuant to Order, CCB/CPD

Docket 99-37, released December 23, 1999. These charges are included in the Traffic Sensitive Basket.

## **2. PRICE CAP INDEX**

### **2.1 Overview**

The following section describes the Price Cap Indexes methodology, formulas and components relevant to the CMT, Traffic Sensitive, Trunking, Interexchange and Special Access Baskets as specified by 47 CFR §61.45 and the CALLS Order.

### **2.2 2004 Annual Access TRP Filing Methodologies and Calculations**

The PCI formula is  $PCI_t = PCI_{t-1}[1 + w(\text{GDPPI}-X) + \text{Delta } Z/R]$

PCI-1 of the Tariff Review Plan displays the adjustments used in the calculation of the PCI for the Traffic Sensitive, Trunking, Interexchange Services and Special Access Baskets. There is no PCI for the CMT (or Common Line Basket). CMT calculations are done through the TRP CAP Form. The Chain-Weighted Gross Domestic Product Price Index (GDP-PI) (Line 600) used in the Qwest filing is 1.6252. The required X Factor (Line 610) is 6.5% for all baskets except the Interexchange Basket in the Qwest TRP, for which the X Factor is 3.0%. In addition, the X Factor for the Trunking and Traffic Sensitive Baskets will equal

## 2004 TRP Letter Filing

1.6252 because Qwest achieved the \$0.0055 ATS target rate in Transmittal No. 88 filed July 27, 2001. The Delta Z values (Line 710) are obtained from the EXG-1, Page 2, Column S. Revenue “R” values (Line 720) are calculated based upon historical 2003 demand, adjusted for restructures, times rates in effect at the last PCI update for that basket. Workpaper 7 lists new services for which 2003 demand is included in the calculation of the “R” values.

Existing PCIs (Line 680) for the Traffic Sensitive, Trunking, Interexchange and Special Access Baskets were obtained from the 2003 Annual Access Tariff Filing filed on June 16, 2003.

The “w” calculation (Line 750) for each basket is calculated by adding the “R” value (Line 720) for the basket and the Delta Z (Line 710) and dividing the result by the “R” value (Line 720). Simplified, this is merely Delta  $Z/R$  (Line 740) plus 100.

The TGT forms calculate the adjustments to maximum allowed revenues used in determining whether the \$0.0055 ATS target rate is achieved. Qwest achieved the \$0.0055 ATS target rate in Transmittal No. 88 filed July 27, 2001. Workpaper 8 displays the calculation of the transport minutes of use displayed on line 430 of TGT-1. Qwest uses the same methodology as used in last year’s annual filing to make this calculation.

### **3. 2004 PRICE CAP REVISIONS TARIFF REVIEW PLAN**

#### **3.1 Overview of Tariff Review Plan (TRP)**

This section describes Qwest's compliance with the requirements stated in the F.C.C's Order, DA 04-1049, In the Matter of July 1, 2004 Annual Access Charge Tariff Filings, WCB/Pricing 04-18, released April 19, 2004, and its Tariff Review Plans, DA 04-1048, In the Matter of Material to be Filed in Support of 2004 Annual Access Tariff Filings, released April 19, 2004 and the CALLS Order. Only historical rates are used in these TRPs in partial fulfillment of the requirements established in 47 CFR §61.38 and §§61.41 through 61.49. Qwest's TRP includes only the TGT-1, TGT-2, PCI-1, and EXG-1, and EXG-2 as well as the historical indices in the IND-1 form.

All information, including the PCI calculations, is preliminary and may change in the June 16, 2004, tariff filing. This TRP reflects a total regional level, displaying the degree of geographic aggregation at which Qwest's rates are filed.

#### **3.2 IND-1 References**

Workpaper 9, IND-1 References, displays the transmittal number or letter filing date where the last changes were implemented for the price cap categories.