Transmittal No. 325

QWEST CORPORATION

ACCESS SERVICE

TARIFF F.C.C. NO. 1

2007 ANNUAL ACCESS CHARGE TARIFF FILING

DESCRIPTION AND JUSTIFICATION

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1. INTRODUCTION AND DESCRIPTION

1.1 Overview

Qwest Corporation (Qwest) is making this 2007 Annual Access Charge Tariff filing in accordance with the F.C.C's Order, DA 07-1483, In the Matter of July 2007 Annual Access Charge Tariff Filings, WCB/Pricing File No. 07-10, released March 29, 2007, and its Tariff Review Plans DA 07-1484, In the Matter of Material to be Filed in Support of 2007 Annual Access Tariff Filings, WCB/Pricing File No. 07-11, released March 29, 2007. 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, In the Matter of 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.

As part of this filing Qwest is also removing the charge for Customized Branding under Section 9, Directory Assistance Service, Optional features. There has never been any demand for this service and as such a TRP adjustment to reflect the removal of the charge for this nonrecurring option is not required. Customized Branding will still be offered but at no charge to the customer.

2. 2007 ANNUAL ACCESS CHARGE FILING

2.1 Background and Overview

Qwest's services, subject to the provisions of the Price Cap rules as specified by 47 C.F.R. § 61.43, Annual Price Cap Filings Required, reflect the adjustments to their Price Cap Index (PCI), Actual Price Index (API), Service Band Index (SBI) Values, and Average Traffic Sensitive (ATS) average pursuant to 47 C.F.R. §§ 61.45 through 61.47 and the CALLS Order. The filing incorporates the rates of new services into the indices. Qwest's indices are adjusted for the following items: for the 2007 Annual Access Charge Tariff Filing the chain-weighted GDPPI is 2.5439; having reached the $0.0055 ATS target, the X Factor equals GDPPI for the Traffic Sensitive and Trunking baskets; for the Special Access Basket X will equal GDPPI; and for the Interexchange basket the X Factor is 3.0. Other adjustments are made for exogenous changes as detailed in section 2.2 below. Qwest's current ATS for price cap products is $0.00553858.

2.2 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), Telecommunications Relay Services (TRS), Sale of Access Lines to Sacred Wind and Payphone Settlements.

2.2.1 Regulatory Fees

Qwest includes in this filing an exogenous cost change for the 2007 Federal Regulatory Fees. This change is based on the Form 499 Worksheet filed on March 30, 2007, and the fees proposed in the Commission's Notice of Proposed Rulemaking, MD Docket No. 07-81, In the Matter of Assessment and Collection of Regulatory Fees for Fiscal Year 2007, FCC 07-55, released April 18, 2007. The Commission's Notice proposes a factor of 0.00266 for interstate telecommunications service providers.

The regulatory fee exogenous cost change is the difference between the year 2007 fees and the regulatory fees filed for 2006. The allocation to baskets is based on end user "R" Values in each basket based on 2006 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.

2.2.2 Excess Deferred Taxes (EDT)

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 Taxes (EDT) exogenous amounts by determining the change in forecasted deferred tax amounts from the 2006/2007 tariff year, and the 2007/2008 tariff year. To determine the interstate portion, Qwest applied an interstate factor based on 2006 ARMIS 43-01 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 2006 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.

2.2.3 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 2006 base period to calculate the ITC exogenous costs changes. The exogenous cost change is the difference between ITC restated for the 2006/2007 tariff years. Workpaper 3 displays the 2006/2007 tariff year and the 2006/2007 tariff period ITC amounts for the company, the respective interstate amounts, and the 2007/2008 exogenous cost change by basket. Qwest bases its composite state and local tax rate on 2006 actual data. To determine the interstate portion, Qwest applied an interstate factor based on 2006 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.

2.2.4 Telecommunications Relay Services

Qwest developed this year's exogenous adjustment for Telecommunications Relay Service by comparing the projected 2007 TRS contribution to the 2006 TRS contribution included in the September 15, 2006 TRS Adjustment filing (Transmittal 293). The 2007 TRS contribution is based on the Form 499-A filed March 30, 2007, and the most recent contribution factor, 0.00535, contained in FCC 06-1345, released June 29, 2006. The difference between the 2006 and 2007 TRS contribution calculations is this year's exogenous cost change. As part of this filing, Qwest is also removing the adjustment made in Transmittal No. 293, filed 9-15-2006, to adjust the three months underrecovery of the TRS rate resulting from the change in the TRS factor last year. 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. Qwest will reflect the additional exogenous cost change to its TRS obligation caused by a new TRS Factor, if any, when the FCC issues it.

2.2.5 Sale of Access Lines to Sacred Wind

Qwest includes an exogenous cost change to reflect changes resulting from the sale of lines to Sacred Wind Communications Inc. as ordered in CC Docket No. 96-45, In the Matter of Sacred Wind Communications, Inc. and Qwest Corporation Joint Petition for Waiver of the Definition of "Study Area" Contained in Part 36, Appendix-Glossary of the Commission's Rules Sacred Wind Communications, Inc. Related Waivers of Parts 36, 54 and 69 of the Communication's Rules, DA 06-1645, released August 15, 2006. The methodology used to arrive at the cost change is described below and displayed in Workpaper 10.

1. The interstate revenues for the sold lines are based on estimated 2006 revenues allocated to the interstate based relationship of Total New Mexico Interstate Operating Revenues by basket to Total Interstate New Mexico Operating Revenues.
2. The rate base for the lines sold is the total plant in service less depreciation reserve and deferred Federal Income Tax. Total plant in service and deferred Federal Income Tax was allocated to baskets by allocating an estimated Interstate Net Plant less Deferred Tax for lines sold in proportion to Total New Mexico Interstate Average Net Investment by basket to Total New Mexico Interstate Average Net Investment.

3. Depreciation expense was allocated to baskets by allocating an estimated Interstate Depreciation Expense for lines sold in proportion to Total New Mexico Interstate Plant In Service by Basket to Total New Mexico Interstate Plant In Service.
4. The operating expenses less depreciation was allocated to baskets by allocating an estimated Interstate Operating Expense less depreciation amount for the lines sold in proportion to Total New Mexico Interstate Plant In Service by Basket to Total New Mexico Interstate Plant In Service.
5. The return was determined by applying the 11.25% authorized rate of return, to the estimated Interstate Rate Base by basket.
6. Federal Income Tax was allocated to baskets by allocating an estimated Interstate Federal Income Tax Expense for lines sold in proportion to Total New Mexico Interstate Operating Revenues by Basket to Total New Mexico Interstate Operating Revenues.
7. State Income Tax was allocated to baskets by allocating an estimated Interstate State Income Tax Expense for lines sold in proportion to Total New Mexico Interstate Operating Revenues by Basket to Total New Mexico Interstate Operating Revenues.
8. The Interstate Revenue Requirement by basket is the sum of expenses plus return and taxes.
9. The cost change equals revenues from the access lines (1) less the revenue requirement of the sold access lines (8).

10. Because the CALLS rules prohibit exogenous adjustments to ATS rate elements, the sale of access lines exogenous adjustment attributable to the Traffic Sensitive and Trunking Baskets is apportioned to the Common Line, Special Access, Traffic Sensitive Non-ATS, Interexchange, and Excluded Services baskets based on “R” Values.

Workpaper 10 and the Tariff Review Plans, Charts EXG-1, Column A display the exogenous cost change and the allocation to the baskets.

2.2.6 Payphone Exogenous Cost Recovery

Qwest includes in this filing an exogenous cost change pursuant to and consistent with Memorandum Opinion and Order, FCC 06-175, In the Matter of Petition for Waiver of Section 61.45(d), or in the Alternative, a Declaratory Ruling released December 1, 2006, WC Docket No. 05-175, allows Qwest to treat as exogenous costs those settlement payments that were made to resolve complaints for refunds of EUCL charges improperly assessed on independent payphone service providers (IPSPs) for the period from October 15, 1993, to April 15, 1997. Qwest, through this filing, plans to make a one time cost adjustment that will be recovered via the EUCL charge over the period of this annual filing, June 30, 2007 through June 30, 2008.

All payphone settlement amounts were based upon negotiations that took place between the complainants and Qwest. The complainants (individually or via counsel) submitted a settlement proposal to Qwest. Qwest then evaluated the claim and negotiated a mutually agreed upon settlement amount. Once an agreement was reached, the parties executed a settlement agreement that included a confidentiality agreement.

During settlement negotiations, Qwest calculated individual valid claim amounts by first determining the amount of improperly assessed EUCL charges for the two-year period prior to the filing of each complaint extending through April 15, 1997. Interest on the valid claim amount was then calculated using the appropriate IRS Corporate Overpayment Rates. The IRS Large Corporate Overpayment rate was used for the portion of a claim that exceeded $10,000. The IRS interest rates are listed in Workpaper 11. Interest was calculated from the date EUCL payments were originally made to Qwest through the date of settlement. The valid claim amount and the interest amount, based on the appropriate IRS rate, were then added together to determine the new total claim payable. The exogenous adjustment was calculated by taking the lesser of the total claim payable and the actual settlement payment.

Workpaper 12 details the settlement amounts. The total exogenous cost will be $4,187,956. Qwest will reverse these exogenous costs from common line rates in next year's annual filing. Workpaper 13 shows EUCL rates prior to the payphone exogenous impact and the impact on EUCL rates as a result of the payphone exogenous adjustment. The Tariff Review Plan, charts EXG-1, Column L, category (3) display the exogenous cost change applied only to the Common Line basket.

2.3 Form 492A

The Form 492A for calendar years 2005 and 2006 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.

2.3.1 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, DS3 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 DS3 & 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 PlC, 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 Mpbs, 155 mbps Port, MegaBit Subscriber 256 kbps/session, MegaCentral 155 Optical Access Link/MPB, MTS lntraLATA Interstate Toll (removed from Price Cap regulation)
Introduced in 2000:	FRS 45 Mbps EICT, LSS to ATM CRS Connectivity, Megabit IDSL, Modem Aggregation Service, DS1/SRS, FRS, IDSL, MAS Megacentral, FRS 44.736 NNI, Professional Megabit, Remote Access Service, Colorado Facility Reservation, ATM OC12, 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 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: DS0, 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 07-1484, In the Matter of Material To be Filed in Support of 2007 Annual Access Tariff Filings, released March 29, 2007.

3. DEMAND

3.1 Common Line

The historical 2006 base year subscriber line demand for the End User Common Line (EUCL) and Presubscribed Interexchange Carrier Charge (PICC) is comprised of information obtained from the Customer Records Information Systems (CRIS) data base. CRIS tracks access lines by primary and non-primary residence, single and multiline business, centrex/centron, and Primary and Basic Rate ISDN. The Special Access Surcharge lines are obtained from an Integrated Access Billing System (IABS) summary. The line counts utilized in the base period are the averages of the counts of lines in service at the end of 2005 and 2006 in each category.

3.2 Traffic Sensitive

The historical 2006 demand base for Traffic Sensitive total MOU and nonrecurring quantities is extracted from the IABS System and some manual billing records. IABS tracks access MOU billed to Interexchange Carriers. Access minutes of use for interstate intraLATA traffic are derived by applying factors for non-conversation time per message to the base period conversation demand.

3.3 Trunking

The historical 2006 demand base for recurring and nonrecurring Trunking Basket rate elements was extracted from the IABS and the CRIS Systems. The demand reflected for Trunking Services is the total yearly demand for each rate element. Demand for Pricing Flexibility products has been removed from base period demand.

3.4 Interexchange Services

The historical 2006 demand base for Interexchange basket rate elements was extracted from the IABS system. The demand reflected for Interexchange Services is the total yearly demand for each rate element.

3.5 Special Access Services

The historical 2006 demand base for recurring and nonrecurring Special Access Basket rate elements was extracted from the IABS and CRIS Systems. The demand reflected for Special Access Services is the total yearly demand for each rate element. Demand for Pricing Flexibility products has been removed from base period demand.

3.6 New Services

In accordance with 47 C.F.R. § 61.43, Qwest is including in this filing a list of new products and services introduced in 2006. The new products and services and their demand are included in the new baskets and bands as displayed in Workpaper 7.

3.7 Interstate Access Universal Service Support Per Line

The CALLS Order established an explicit interstate universal service support mechanism that replaces the support provided by the $650M of annual implicit support that was previously collected through interstate access charges. The interstate access support mechanism would provide support for a portion of the difference between the average CMT revenue per line in any geographically deaveraged UNE zone and a cap of $7.00 for residential and single-line business lines and a cap of $9.20 per line for multiline business lines. Because access support cannot exceed $650M per year, it is targeted to areas with the greatest differential between permitted common line revenue and the benchmarks.

The Universal Service Fund (USF) Administrator calculates access support based on the requirements of the CALLS Order at ¶ 207 and 47 C.F.R. §§ 54.804, 54.805, 54.806, and 54.807.

The results of the Fund Administrator's calculations of Interstate Access Universal Service Support Per Line are attached in Workpaper 14.

Qwest requests confidential treatment for Workpaper 14—CONFIDENTIAL—, which is included with this tariff transmittal. Workpaper 14 has been marked “Confidential – Not for Public Disclosure” because it contains competitively sensitive information. Workpaper 14 qualifies for protection and non-disclosure under Subsection (d) of § 0.457 (“Trade secrets and commercial and financial information…not routinely available for public inspection”). Qwest is also providing a redacted version of Workpaper 14 with this tariff transmittal.

The Interstate Access USF Support per Line per type of line per zone is multiplied by the number of lines in the zone category to determine the amount of USF support for each category. The sum of the support amounts for Qwest is $46,305,818. The explicit line subsidy of $0.3288 is calculated by dividing $46,305,818 by total Qwest access lines.

4. WAIVERS

As required by Tariff Review Plans, <u>In the Matter of Material to be Filed in Support of 2007 Annual Access Tariff Filings</u>, DA 07-1484, released March 29, 2007, 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 Database Access Services 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.

5. PRICE CAP INDICES

5.1 Overview

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

5.2 CALLS Annual Access TRP Filing Methodologies and Calculations

5.2.1 Price Cap Index Calculations

PCI-1 of the Tariff Review Plan displays the adjustments used in the calculation of the PCI for the Traffic Sensitive, Trunking, lnterexchange 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-Pl) (Line 600) used in the Qwest filing is 2.5439. As required by 47 CFR, Section 61.45, the X Factor (Line 610) is equal to the GDP-PI for all baskets except the lnterexchange Basket, for which the X Factor is 3.0%. The X Factor for the Trunking and Traffic Sensitive Baskets will equal 2.5439 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 2006 demand, adjusted for restructures, times rates in effect at the last PCI update for that basket. Workpaper 7 lists new services for which 2006 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 2006 Annual Access Tariff Filing filed on June 16, 2006 and the 2006 TRS Adjustment Filing filed on September 15, 2006.

Qwest obtains its Delta Z Values (Line 710) from the TRP Chart EXG-1, Page 2, Column (S).

Qwest calculated each basket’s Revenue “R” Value (Line 720) based upon historical 2006 demand times the rates placed into effect at the last PCI change in that basket. Qwest based the Traffic Sensitive, Trunking, Interexchange, and Special Access Baskets’ Revenue “R” Value on the revised rates included in Transmittal No. 283, the 2006 Annual Access Charge Tariff Filing and Transmittal No. 293 the 2006 TRS Adjustment Filing.

Qwest calculates the Delta Z/R (Line 740) by dividing the Delta Z (Line 710) by the "R" Value (Line 720) for each basket.

The “w” calculation (Line 750) for each basket is calculated by adding the “R” value (Line720) for the basket and the Delta Z (Line 710) and dividing the result by the “R” value (Line 720). Simplified, this is merely Delta *ZIR* (Line 740) plus 100.

The w*(GDP-PI – X) calculation (Line 760) is equal to zero if TGT-1, row 1100, is not equal to zero for the Traffic Sensitive, and Trunking Basket. The calculation equals "w" (Line 750) times (GDP-PI – X) (Line 620) for the Interexchange and Special Access Baskets**.**

The Targeted Revenue Differential (Line 950) for the Traffic Sensitive and Trunking Baskets comes from TRP Chart TGT-1, line 1100.

The Proposed PCI calculated for non-exogenous for SBI Upper Limit calculations only (Line 970) is the existing PCI (Line 680) for the Traffic Sensitive and Trunking Baskets. This calculation is not made for the Interexchange Basket which has no SBIs. For the Special Access Basket, the number is equal to the existing PCI (Line 680) times (1 plus GDP-PI – X (Line 620) divided by 100).

The proposed PCI (Line 980) for the Traffic Sensitive and Trunking Baskets was obtained by adjusting the existing PCI (Line 680) by the Delta Z/R (Line 740) and the Targeted Revenue Differential (Line 950 in relation to R(t-1) (Line 720)). The proposed PCI (Line 980) for the Interexchange and Special Access Baskets was obtained by adjusting the existing PCI (Line 680) to account for inflation (GDP-PI), the X-factor, and changes in exogenous costs.

5.2.1.1 Common Line

The PCI has been eliminated for the Common Line Basket. All Common Line calculations are made via the TRP CAP 1 - 5 forms.

5.2.1.2 PCI Formula for Traffic Sensitive, Trunking, Interexchange, and Special Access

The PCI formula and individual components for all four baskets are:

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

PCI-1 of the Tariff Review Plan displays the calculations.

5.2.1.3 Targeting of GDP-PI – X to ATS Rate Elements

47 C.F.R. § 61.45 requires the downward adjustment attributable to GDP-PI – X applied to CMT, Traffic Sensitive, and Trunking revenues to be targeted to Average Traffic Sensitive (ATS) rates until the target ATS per MOU rate is reached. Qwest achieved the target ATS average rate in Transmittal No. 88 filed July 27, 2001. Therefore, the X

factor is equal to GDPPI and GDPPI – X equals zero. Consequently, no change in ATS rates occurs.

The TRP TGT-1 form provides the input information for the targeting. Lines 100 through 380 of the TGT-1 form detail the ATS revenues at last PCI update. Lines 400 through 480 detail Total, Traffic Sensitive (TS) and Switched Transport (ST) revenues and MOUs; calculates the TS, ST, and total ATS per MOU figures; and calculates the difference between the target ATS per MOU figure and the current ATS per MOU figure. Workpaper 8 details the calculation of the Switched Transport Minutes of Use used on line 430. Line 475 indicates the target was either met, and the Transmittal Number that resulted in meeting the target, or that the target was not met. Line 485 provides direction to the next applicable TGT form. The TGT-2 form is used for companies that did not meet their ATS target in the last annual filing. TGT-3 is applicable for all companies.

Lines 500 through 560 of the TGT-2 form detail the revenues attributable to GDPPI – X in Common Line, Traffic Sensitive and Trunking Baskets available for targeting to the ATS rate elements.

The TGT-3 form, lines 800 through 1100, details by category and sub-category the total ATS reductions reflected on the RTE-1 pages. These numbers, all zero, are the exogenous amounts entered on the TRP EXG-2 form.

5.2.1.4 Common Line Calculations

The CAP-1 form calculates EUCL Limits, PICC and CCL Rates. Lines 100 through 350 depict demand by type for EUCL, PICCs and MOUs. Lines 400 through 430 depict the SLC/PICC caps imposed by the CALLS Order. The Primary Residential, Lifeline and Single Line Business End User SLC cap is $6.50. The Non-Primary Residential and BRI-ISDN cap is $7.00. The MLB, PRI-ISDN and Centrex cap is $9.20. The Residential, Single Line Business and BRI-ISDN PICCs have been eliminated by the CALLS Order. The Multiline Business PICC cap is $4.31. Lines 440 through 460 calculate the proposed maximum Common Line Revenue per line by adjusting the current maximum Common Line Revenue per line for exogenous costs to determine the proposed maximum Common Line Revenue Per Line. Lines 470 and 480 show the June 30, 2000 rates for Common Line placed in effect in Transmittal No. 1060, effective April 1, 2000. Lines 500 through 520 calculate the maximum allowable End User Common Line rates based on 47 C.F.R. § 69.152. Lines 600 through 670 calculate the maximum allowable EUCL revenue; subtract that number from maximum allowable Common Line revenue; and subtract from that the total USAC receipts (Workpaper 14). The remaining amount, in the case of Qwest, is recoverable in PICC rates. No calculations for Minute of Use (MOU) charges are necessary because all allowable revenues are recovered in EUCL and PICC rates.

The TRP RTE and CAP forms display the calculations necessary to arrive at jurisdictional SLC rates. The CAP 1-5 forms in the main TRP provide the calculation to arrive at a company-wide PICC rate.

6. RATE DEVELOPMENT

6.1 Overview

This section describes the development of the rates for the five Price Cap Baskets. A Price Cap model was used to ensure compliance with basket and band requirements as specified in the Commission rules 47 CFR § 61.46, 61.47 and the CALLS Order. The model encompasses the total basket, service band and subindex rate changes for the baskets.

6.1.1 Common Line Basket

EUCL and PICC charges are calculated on a company-wide average basis via the TRP CAP forms that utilize the requirements of 47 C.F.R. §§ 69.152 and 69.153. All EUCL rates will be state specific as depicted on RTE-1J. PICC rates will be the same across the company and recover allowed revenues not recovered in EUCL rates. All of the allowable CMT revenues are recovered in EUCL and PICC rates. Consequently, Qwest's TRP does not calculate a MOU rate.

6.1.2 Traffic Sensitive Basket

The Traffic Sensitive Basket consists of six service bands: 1) Local Switching, 2) Information, 3) Database Service, 4) Billing Name and Address (BNA), 5) Local Switching Trunk Ports, and 6) STP Port Terminations. In addition, within the Database Service band, there is a subindex for 800 Database Vertical Features.

The existing PCI for the Traffic Sensitive Basket for Qwest exchanges is 36.1335. The proposed PCI is 36.1361.

6.1.2.1 Description of Traffic Sensitive Workpaper Calculations

Calculation of New API and SBI - Traffic Sensitive

The TRP Chart IND-1 lists the API for the Traffic Sensitive Basket and SBI for each service band and subindex. The proposed PCI was developed as described in Section 5.2.1.2 preceding. The percentage change in the PCI is the difference between the existing PCI prior to adjustment and the proposed PCI divided by the existing PCI prior to adjustment. The existing PCI prior to adjustment, current basket API index, and the current SBI indexes are inputs from various filings effective on or before June 29, 2007.

Workpaper TS-1 displays the calculations in support of the API and SBI for the Traffic Sensitive Basket. The first three columns contain rate element numbers, descriptions and Universal Service Order Codes (USOC). The rate elements for the Traffic Sensitive Basket have been arranged according to the service bands and subindex.

Column (A) displays the base period quantities for each rate element. The base period quantity for the instant filing is the annual demand for each recurring and nonrecurring rate element based upon historical demand for service between January 1 and December 31, 2006.

Column (B) contains rates that support the PCI change made in either Transmittal No. 283, The Annual Access Charge Tariff Filing, effective July 1, 2006 or Transmittal No. 293, The TRS and DA Adjustment Filing, effective October 1, 2006.

Column (C) displays the current rates that were also filed in either Transmittal No. 283, Annual Access Charge Tariff Filing, effective July 1, 2006 or Transmittal No. 293, The TRS and DA Adjustment Filing, effective October 1, 2006..

Column (D) displays the proposed rates which reflect the application of the PCI adjustment, SBI adjustment and requirements of the CALLS Order, to the current rates and nonrecurring charges.

Column (E) displays the base period revenue amount used to determine the base period revenue for the PCI calculation. The base period revenue was calculated by multiplying the historical demand for the January to December 2006 base period times the revised rate established in either Transmittal No. 283, Annual Access Charge Tariff Filing, effective July 1, 2006 or Transmittal No. 293, The TRS and DA Adjustment Filing, effective October 1, 2006 for each rate element (Column A * Column C).

Column (F) displays the current period revenue amount for each rate element. The current period revenue was calculated by multiplying the adjusted history demand from the January to December 2006 base period times the rate established in either Transmittal No. 283, Annual Access Charge Tariff Filing, effective July 1, 2006 or Transmittal No. 293, The TRS and DA Adjustment Filing, effective October 1, 2006 for each rate element (Column A * Column C).

Column (G) displays the proposed revenue amount for each rate element. The proposed revenue was calculated by multiplying the historical demand for January to December 2006 times the proposed rate for each rate element (Column A * Column D).

<u>Workpapers TS-2</u> displays the current and proposed weightings to be used in the API and SBI calculations.

Column (A) displays the current period revenue for the band as a percentage of the total current revenue for the entire basket. The weighting is calculated by dividing the current revenues for each band by the total current revenues for the basket.

Column (B) displays the total basket new weightings. The new weightings are calculated by dividing the average proposed price of the band by the average current price of the band and multiplying the results by the current band weighting in Column (A).

Columns (C) and (D) display the current and proposed service weightings for the SBI. The new weightings in Column (D) are calculated by dividing the average proposed price of the service band by the average current price of the service band and multiplying the results by the current weighting of the service band in Column (C). Columns (E) and (F) display the current and proposed weightings for the subindex. Column (G) displays the proposed to current revenue ratio. The ratio is calculated by dividing the average proposed rate of the band by the average current rate of the band.

The upper band limits, as displayed on TRP Chart IND-1, determine the percentage increase of the new SBI index. The SBI for each service band is the respective SBI_{t-1} multiplied by the respective band weighting in Column D and F on Workpaper TS-2. The new API is the API_{t-1} multiplied by Column B on Workpaper TS-2. The upper limits were calculated by multiplying the SBI_{t-1} base by the quantity one, plus the change in PCI times 1.05.

Workpaper TS-3 displays the revenues and minutes of exchange service utilized for the calculation of Message Unit Credit rates.

6.1.3 Trunking Basket

The Trunking Basket consists of five service bands: 1) Interconnection, 2) Tandem Switched Transport, 3) Voice Grade Switched, 4) High Cap & Other Switched, and 5) Signaling Interconnection. In addition, within the High Capacity & Other, there are two subindices DS1 and DS3 Service. Density Zones have been introduced for DS1 and DS3 Service but not for any other services in the Trunking Basket.

With the exception of the Tandem Switched Transport and Signaling Interconnection service bands with a limit of plus two percent and Density Zones with a limit of plus fifteen percent, price movement is limited to a plus five percent after adjusting for the change in the PCI.

6.1.3.1 Overview

The existing PCI for the Trunking Basket is 29.9035. The proposed PCI is 29.9035.

6.1.3.2 Description of Trunking Workpaper Calculations

Calculation of New API and SBI - Trunking

The TRP Chart IND-1 lists the API for the Trunking Basket and SBI for each service band and subindex. The percentage change in the PCI is the difference between the existing PCI prior to adjustment and the proposed PCI divided by the existing PCI prior to adjustment. The existing PCI prior to adjustment, current basket API index, and the current SBI indices are inputs from various filings effective on or before June 29, 2007.

Workpaper TK-1 displays the calculation of the API and SBI for the Trunking Basket. The first three columns contain rate element numbers, descriptions and Universal Service Order Code (USOC). The rate elements for the Trunking Basket have been arranged according to the service bands and subindices.

Column (A) displays the base period quantities for each rate element. The base period quantity for the instant filing is the annual demand for each recurring and nonrecurring rate element based upon historical demand for service between January 1 and December 31, 2006.

Column (B) and (C) contain the rates proposed as detailed in Transmittal No. 88, Qwest/Citizens Adjustment Filing, effective August 3, 2001.

Column (D) displays the proposed rates which reflect the application of the PCI adjustment, SBI adjustment and any individual rate element adjustments, if applicable, to the current rates and nonrecurring charges.

Column (E) displays the base period revenue amount used to determine the base period revenue for the PCI calculation. The base period revenue was calculated by multiplying the historical demand for the January to December 2006 base period times the rates established in Transmittal No. 88 for each rate element (Column A * Column B). Totals are provided by subindex, service band and basket.

Column (F) displays the current period revenue amount for each rate element. The current period revenue was calculated by multiplying the historical demand from the January to December 2006 base period times the proposed rate from Transmittal No. 283 for each rate element (Column A * Column C). Totals are provided by subindex, service band and basket.

Column (G) displays the proposed revenue amount for each rate element. The proposed revenue was calculated by multiplying the historical demand for January to December 2006 times the proposed rate for each rate element (Column A * Column D). Totals are provided by subindex, service band and basket.

Workpaper TK-2 displays the current and proposed weightings to be used in the API and SBI calculations.

Column (A) displays the current period revenue for the band as a percentage of the total current revenue for the entire basket. The weighting is calculated by dividing the current revenues for each band by the total current revenues for the basket.

Column (B) displays the total basket new weightings. The new weightings are calculated by dividing the average proposed price of the band by the average current price of the band and multiplying the results by the current band weighting in Column (A).

Columns (C) and (D) display the current and proposed service weightings for the SBI. The new weightings in Column (D) are calculated by dividing the average proposed price of the service band by the average current price of the service band and multiplying the results by the current weighting of the service band in Column (C).

Columns (E) and (F) display the current and proposed weightings for the subindex. Columns (G) and (H) display the current and proposed weightings for the subindex for density zones. Column (I) displays the proposed to current revenue ratio. The ratio is calculated by dividing the average proposed rate of the band by the average current rate of the band.

The upper band limits, as displayed on TRP Chart IND-1, determine the percentage increase of the new SBI index. The SBI for each service band is the respective SBI_{t-1} multiplied by the respective band weighting in Column D, F, and H on Workpaper TK-2. The new API is the API_{t-1} multiplied by Column B on Workpaper TK-2. The upper limits for Voice Grade, High Cap & Other, DS1 and DS3 were calculated by multiplying the SBI_{t-1} base by the quantity one, plus the change in PCI times 1.05. The upper limits for the Density Zones were calculated by multiplying the SBI_{t-1} base by the quantity one, plus the change in PCI times 1.15. The upper limit for Tandem Switched Transport service is calculated by multiplying the SBI_{t-1} base by the quantity one, plus the change in PCI times 1.02. There are no longer any lower limits for categories or subcategories.

6.1.4 Interexchange Services Basket

The Interexchange Services Basket consists of two rate elements. No rate changes are being made.

6.1.4.1 Overview

The existing PCI for the Interexchange Services Basket is 76.7046. The proposed PCI is 76.5865.

6.1.4.2 Description of Interexchange Services Workpaper Calculations

Calculation of New API - Interexchange Services

TRP Chart IND-1 lists the API for the Interexchange Basket. The percentage change in the PCI is the difference between the existing PCI prior to adjustment (PCI-1, Line 680) and the proposed PCI (PCI-2, Line 980) divided by the existing PCI prior to adjustment.

Workpaper IS-1 displays the calculation of the API for the Interexchange Basket. The first two columns contain rate element numbers and descriptions.

Column (A) displays the base period quantities for each rate element. The base period quantity for the instant filing is the annual demand for each recurring and nonrecurring rate element based upon historical demand for service between January 1 and December 31, 2006.

Column (B) contains rates established in Transmittal No. 283, 2006 Annual Access Charge Tariff filing, in effect as of July 1, 2006.

Column (C) displays the current rates and is used to determine the rate element weightings.

Column (D) displays the proposed rates which reflect the application of the PCI adjustment, SBI adjustment and any individual rate element adjustments, if applicable, to the current rates and nonrecurring charges.

Column (E) displays the base period revenue amount used to determine the base period revenue for the PCI calculation. The base period revenue was calculated by multiplying the historical demand for the January to December 2006 base period times the rates in Transmittal No. 283 for each rate element (Column A * Column B). Totals are provided for the basket.

Column (F) displays the current period revenue amount for each rate element. The current period revenue was calculated by multiplying the historical demand from the January to December 2006 base period times the rate established in Transmittal No. 283, in effect as of July 1, 2006, for each rate element (Column A * Column C). Totals are provided for the basket.

Column (G) displays the proposed revenue amount for each rate element. The proposed revenue was calculated by multiplying the historical demand for January to December 2006 times the proposed rate for each rate element (Column A * Column D). Totals are provided for the basket.

6.1.5 Special Access Basket

The Special Access Basket consists of four service bands: 1) Voice Grade/WATS/ Metallic/Telegraph, 2) Audio/Video, 3) High Capacity/Digital Data Service (DDS), and 4) Wideband. In addition, within the High Capacity/DDS band, there are two subindices DS1 and DS3 Service. Density Zones have been introduced for DS1 and DS3 Service but have not been introduced for Voice Grade/WATS/Metallic/Telegraph.

The price movement for all service bands and subindices is limited to a plus five percent after adjusting for the change in the PCI. Price movement in Density Zones is limited to a plus fifteen percent after adjusting for the change in PCI.

6.1.5.1 Overview

The existing PCI for the Special Access Basket is 41.8798. The proposed PCI is 41.8837.

6.1.5.2 Description of Special Access Workpaper Calculations

Calculation of New API and SBI – Special Access

The TRP Chart IND-1 lists the API for the Special Access Basket and SBI for each service band and subindex. The percentage change in the PCI is the difference between the existing PCI prior to adjustment and the proposed PCI divided by the existing PCI prior to adjustment. The existing PCI prior to adjustment, current basket API index, and the current SBI indexes are inputs from filings effective on or before June 29, 2007.

Workpaper SP-1 displays the calculation of the API and SBI for the Special Access Basket. The first three columns contain rate element numbers, descriptions and Universal Service Order Codes (USOC). The rate elements for the Special Access Basket have been arranged according to the service bands and subindices.

Column (A) displays the base period quantities for each rate element. The base period quantity for the instant filing is the annual demand for each recurring and nonrecurring rate element based upon historical demand for service between January 1 and December 31, 2006.

Column (B) and (C) contain the rates established in Transmittal No. 283, 2006 Annual Access Charge Tariff Filing, in effect as of July 1, 2006.

Column (D) displays the proposed rates which reflect the application of the PCI adjustment, SBI adjustment and any individual rate element adjustments, if applicable, to the current rates and nonrecurring charges.

Column (E) displays the base period revenue amount used to determine the base period revenue for the PCI calculation. The base period revenue was calculated by multiplying the historical demand for the January to December 2006 base period times the rate established in Transmittal No. 283, in effect as of July 1, 2006, for each rate element (Column A * Column B). Totals are provided by subindex, service band and basket.

Column (F) displays the current period revenue amount for each rate element. The current period revenue was calculated by multiplying the historical demand from the January to December 2006 base period times the rate currently in effect for each rate element (Column A * Column C). Totals are provided by subindex, service band and basket.

Column (G) displays the proposed revenue amount for each rate element. The proposed revenue was calculated by multiplying the historical demand for January to December 2006 times the proposed rate for each rate element (Column A * Column D). Totals are provided by subindex, service band and basket.

Workpaper SP-2 displays the current and proposed weightings to be used in the API and SBI calculations.

Column (A) displays the current period revenue for the band as a percentage of the total current revenue for the entire basket. The weighting is calculated by dividing the current revenues for each band by the total current revenues for the basket.

Column (B) displays the total basket new weightings. The new weightings are calculated by dividing the average proposed price of the band by the average current price of the band and multiplying the results by the current band weighting in Column (A).

Columns (C) and (D) display the current and proposed service weightings for the SBI. The new weightings in Column (D) are calculated by dividing the average proposed price of the service band by the average current price of the service band and multiplying the results by the current weighting of the service band in Column (C).

Columns (E) and (F) display the current and proposed weightings for the subindex. Columns (G) and (H) display the current and proposed weightings for the subindex for density zones. Column (I) displays the proposed to current revenue ratio. The ratio is calculated by dividing the average proposed rate of the band by the average current rate of the band.

The upper band limits, as displayed on TRP Chart IND-1, determine the percentage increase of the new SBI index. The SBI for each service band is the respective SBI_{t-1} multiplied by the respective band weighting in Column D, F, and H on Workpaper SP-2.

The new API is the API_{t-1} multiplied by Column B on Workpaper SP-2. The upper limits for Voice Grade, Audio/Video, High Capacity/DDS, DS1 and DS3 were calculated by multiplying the SBI_{t-1} base by the quantity one, plus the change in PCI times 1.05. The upper limits for the Density Zones were calculated by multiplying the SBI_{t-1} base by the quantity one, plus the change in PCI times 1.15.

7. 2007 ANNUAL ACCESS TARIFF REVIEW PLAN DESCRIPTION

7.1 Overview of the Tariff Review Plan (TRP)

This section describes Qwest's compliance with the requirement to file TRPs in the CALLS Order and the Annual Filing Order. The rates filed in these TRPs fulfill the requirements established in 47 CFR 61.38 and 61.41 through 61.49. In support of these rates Qwest has submitted workpapers representing historical 2006 demand and rates currently in effect. These TRPs reflect a total regional level, displaying the degree of geographic aggregation at which Qwest's rates are filed.

7.2 IND-1 References

Workpaper 9 displays the transmittal number or letter filing date where the last changes were implemented for the price cap indices prior to this transmittal.

7.3 Supplement to RTE-1

The Rate Detail File is provided in addition to the RTE-1. The column headings display rate element detail, demand, and current and proposed rates.

8. SUMMARY OF RATE CHANGES

Appendix A lists rates being changed in this transmittal compared to the currently effective rate. The currently effective rates were set in various filings prior to July 1, 2007.