BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In Re Application of U S WEST, Inc.	**)**	
And QWEST COMMUNICATIONS	**)**	
INTERNATIONAL, INC.	**)**	
	)	**Docket No. UT-991358**
For an Order Disclaiming Jurisdiction, or	**)**	
In the Alternative, Approving the U S	**)**	
WEST, INC. -- QWEST	**)**	
COMMUNICATIONS INTERNATIONAL	**)**	
INC. Merger	**)**	

REBUTTAL TESTIMONY OF

PETER CUMMINGS

Director – Finance & Economic Analysis

U S WEST COMMUNICATIONS, INC.

February 22, 2000

TESTIMONY OF PETER C. CUMMINGS
INDEX OF TESTIMONY AND EXHIBITS

IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

My name is Peter C. Cummings and my business address is 1600 Bell Plaza, Room 3005, Seattle, Washington 98191. I am employed by U S WEST Communications, Inc. (U S WEST) as Director - Finance and Economic Analysis.

Q. PLEASE STATE YOUR POSITION AND RESPONSIBILITIES WITH U S WEST.

A. As Director – Finance and Economic Analysis, my job responsibilities include financial analysis of capital costs and capital structure of U S WEST. I develop cost of capital estimates for company cost studies, capital budgeting, and economic analysis. I also testify in state rate cases on rate of return, capital structure, and other financial issues.

Q. PLEASE DESCRIBE YOUR EDUCATIONAL AND PROFESSIONAL EXPERIENCE.

A. I received my B.A. degree from Bemidji State College in Minnesota. I have a Master of Public Administration Degree from the University of Oklahoma and a Master of Business Administration Degree from Creighton University in Omaha, Nebraska. I am a Chartered Financial Analyst (CFA) and a member of the Association for Investment Management and Research (AIMR), the Financial Management Association (FMA) and the Seattle Society of Financial Analysts.

I began my career at Northwestern Bell in 1969 and have held positions in the Operator Services, Marketing and Finance departments. For the last fifteen years, my job responsibilities have been focused on cost of capital and rate of return.

Q. HAVE YOU EVER APPEARED BEFORE THIS COMMISSION AS A WITNESS IN REGULATORY PROCEEDINGS?

A. Yes. I have testified in dockets U-89-3524-AT and UT-950200.

Q. HAVE YOU TESTIFIED BEFORE OTHER STATE REGULATORY COMMISSIONS?

A. Yes. I have filed testimony in a number of jurisdictions and dockets as shown in Exhibit PCC-I.

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my testimony is to comment on the direct testimony of Michael L. Brosch filed on behalf of the Washington Attorney General, Public Counsel Section, and on the direct testimony of Washington Utilities and Transportation Commission (WUTC) staff witness Kathleen M. Folsom.

COMMENT ON TESTIMONY OF MICHAEL L. BROSCH

Merger Proposal

Q. MR. BROSCH DESCRIBES THE MERGER PROPOSAL AND ACCOUNTING PROCEDURES FOR GOODWILL AMORTIZATION BY THE COMBINED COMPANY. SHOULD THE COMMISSION BE CONCERNED ABOUT

GOODWILL?

A. No. Goodwill amortization is an accounting procedure associated with business combinations that use the purchase method of accounting. Had this merger qualified for pooling of interests accounting, there would be no goodwill created. Goodwill amortization does, as Mr. Brosch points out, affect reported earnings, but it is a non-cash accounting item. Goodwill amortization by the merged company will not affect its cash flows or its market valuation. None of the accounting for goodwill amortization will be on the books of U S WEST Communications, Inc. or allocated to the Washington jurisdiction. In my view, the WUTC should not be at all concerned with the accounting goodwill amortization at the merged parent company

Q. DO YOU AGREE WITH MR. BROSCH THAT, "THE CHALLENGES OF INTEGRATING OPERATIONS OVER THE FIRST FEW YEARS AFTER MERGING WILL INEVITABLY COMPETE WITH THE RESPONSIBILITIES OF USWC MANAGEMENT AND THE CAPITAL RESOURCES REQUIRED TO CONTINUE AND IMPROVE TRADITIONAL REGULATED TELEPHONE OPERATIONS WITHIN THE 14 STATE REGION AND IN WASHINGTON SPECIFICALLY?"

A. No. It has been my experience in the nearly 16 years since the Bell System divestiture created U S WEST, Inc. that, through a number of business combinations and divestitures, U S WEST Communications, Inc. management and resources have been steadily focused on the core business. Since 1984, U S WEST, Inc. has spun off its New Vector cellular operations (and bought it back), merged the three telephone companies, entered the cable TV business via joint ventures with Time Warner and Telewest, purchased Continental Cable, created tracking stocks, and split off MediaOne. Most of these changes affected only the holding company, U S WEST, Inc. Throughout all these changes over nearly 16 years, U S WEST Communications, Inc. management and resources have remained focused on the core business of providing local telecommunications services. The proposed merger is a merger of the holding company or parent company, U S WEST, Inc. with Qwest Communications International Inc. I don't see anything in the proposed merger that would be more challenging for U S WEST, Inc. and U S WEST Communications, Inc. than the changes we've been through in the past.

U S WEST Communications, Inc. Financial Impacts

Q. MR. BROSCH EXPRESSES CONCERN THAT U S WEST COMMUNICATIONS, INC. WILL HAVE TO COMPETE WITH ALTERNATIVE QWEST INVESTMENT OPPORTUNITIES FOR AVAILABLE CAPITAL

RESOURCES. IS THIS A NEW SITUATION OR ENVIRONMENT?

A. No. U S WEST Communications, Inc. has always had to compete with alternative investment opportunities for capital resources – both internally with other U S WEST, Inc. opportunities, and, more importantly, externally with other investment opportunities available to investors.

Q. DOES IT "FOLLOW" AS MR. BROSCH SUGGESTS, THAT SINCE NO CAPITAL COST SAVINGS ARE EXPECTED TO RESULT FROM THE MERGER AND U S WEST COMMUNICATIONS, INC. DEBT HAS BEEN PLACED ON CREDIT WATCH, "THAT THE FINANCIAL RESULTS OF THE MERGER ARE CONTRARY TO RATEPAYER INTERESTS?"

A. No, it doesn't follow. Mr. Brosch seems to be assuming that U S WEST Communications, Inc. debt will be downgraded and more importantly implicitly assuming that ratepayer interests would be better served status quo without the merger. I believe industry changes and competition will affect ratepayer interests irrespective of the proposed merger. The industry trend in telecommunications is business combinations to provide the scale and scope necessary to compete in an intensifying competitive landscape. There are currently four company combinations that have achieved or are close to achieving the scale and scope to be the major telecommunications providers: AT&T/TCI/MediaOne, MCI Worldcom/Sprint, Bell Atlantic/GTE and SBC. Absent the merger with Qwest, U S WEST would be a small competitor in the telecommunications market and ratepayer interests might not be well served in this status quo scenario.

Overall Conclusions

Q. MR. BROSCH'S TESTIMONY AT PAGES 5-7 PRESENTS A NUMBER OF CONCLUSIONS WHICH RESULT IN HIS OVERALL CONCLUSION THAT THE PLANNED MERGER OF U S WEST AND QWEST IS NOT IN THE PUBLIC INTEREST AND SHOULD NOT BE APPROVED BY THE WASHINGTON COMMISSION. PLEASE COMMENT.

A. Mr. Brosch's "conclusions" do not support his recommendation that the merger be disapproved. His conclusions relative to interLATA markets, capital costs, and complexity of regulation are speculative in nature, and his conclusions relative to goodwill amortization and service quality have no clear nexus showing how the proposed merger affects Washington customers.

Q. DO YOU AGREE WITH MR. BROSCH'S OVERALL CONCLUSION THAT, "UNLESS ADEQUATE AND ENFORCEABLE FINANCIAL, REGULATORY AND SERVICE QUALITY COMMITMENTS ARE RECEIVED FROM THE JOINT APPLICANTS OR ARE IMPOSED BY THE COMMISSION, THE PROPOSED MERGER SHOULD NOT BE APPROVED?"

A. No. The proposed merger is between the holding company, U S WEST, Inc. and Qwest Communications International Inc. As Mr. Inouye's direct testimony

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explains, U S WEST Communications, Inc., the local telecommunications company serving Washington customers, will become a subsidiary of the new holding company, Qwest Inc. The holding companies' merger will not change the rates, tariffs or conditions for providing telecommunications services to Washington customers. The Washington Commission will have the same authority and powers over provision of local telecommunications services by U S WEST Communications, Inc. after the merger as it does now. Stated another way, the Commission has financial, regulatory, and service quality oversight authority and responsibility today and will continue to have that same authority and responsibility after the merger.

Recommended Conditions

Q. IF THE MERGER IS TO BE APPROVED BY THE WASHINGTON COMMISSION, MR. BROSCH RECOMMENDS IMPOSITION OF EIGHT CERTAIN CONDITIONS. DO YOU AGREE THAT THESE CONDITIONS ARE NECESSARY?

A. No. The conditions proposed by Mr. Brosch are not necessary for Commission approval of the proposed merger. The Commission has and will continue to have its full ability to regulate local telecommunications services in Washington without the need for the conditions proposed by Mr. Brosch.

Q. SHOULD THE COMMISSION IMPOSE A MINIMUM U S WEST COMMUNICATIONS, INC. COMMON EQUITY LEVEL OF 40 PERCENT WITH LIMITATIONS ON DIVIDEND PAYOUTS TO THE PARENT COMPANY TO PREVENT U S WEST COMMUNICATIONS, INC. COMMON EQUITY FROM FALLING BELOW THAT LEVEL?

A. No. Such a condition would be unwise from both a financial and a policy perspective. Financially, the condition would specify what seems to be a precise accounting book value capital ratio limitation in response to a general concern that the "credit profile of USWC is preserved and not harmed by the additional business risks introduced by the merger with Qwest." (Brosch p. 37) There is no direct linkage between a company's book value capital ratios and its credit profile. There is also no evidence (only speculation by Mr. Brosch) that additional business risks will be introduced by the merger or that such risks would harm U S WEST Communications, Inc.'s ability to raise capital on reasonable terms for the provision of telephone service in Washington.

Telephone industry implementation of Statement of Financial Accounting Standards (SFAS) 106, "Accounting for Post Employment Benefits" and discontinuance of accounting under SFAS 71, "Accounting for the Effects of Certain Types of Regulation", has significantly reduced equity book values for the telephone companies even though these non-cash charges had no effect on market values of debt and equity and no effect on credit quality. While these accounting changes have primarily affected the company's external financial reporting (FR) to the SEC, regulatory accounting (MR) equity book values have also been diminished. Balance sheet capital ratios are no longer given weight by bond rating agencies. The rating agencies are concerned with the amount of debt and cash flow measures of credit quality. Mr. Brosch has provided no evidence to demonstrate that a 40 percent common equity ratio limitation would preserve or otherwise impact the credit profile of U S WEST Communications, Inc.

In terms of policy, this condition would seek to go beyond the regulatory authority of the Washington Commission. The Commission has broad authority in regard to determining cost of service and a fair return on investment in establishing just and reasonable consumer rates. However, once just and reasonable rates are established, any earnings of the regulated entity properly belong to the shareholders. Shareholders are free to reinvest their earnings in the company or to receive distribution (dividends) of their earnings as they see fit.

Q. IS IT NECESSARY TO REQUIRE PRO-FORMA RESTATEMENT OF CAPITAL STRUCTURE AND COST RATES IN FUTURE REGULATORY PROCEEDINGS?

A. No. In my experience in Washington regulatory cost of capital proceedings, capital structure and cost rates have always been litigated issues. In these proceedings, the Commission has reviewed the evidence presented and sometimes adopted the actual capital structure and cost rates recommended by the company, but more often imposed a hypothetical capital structure and cost rates. Mr. Inouye's direct testimony notes that the bond rating agencies have placed the debt of U S WEST Communications, Inc. under review with a negative outlook and that there is unlikely to be more information available before the merger is complete. If there is a credit rating decline and if that decline is directly as a result of the merger and not related to the increasing risk of the telephone industry, then a cost differential analysis as Mr. Brosch suggests, "could be readily performed using average "spreads" associated with differences in credit ratings." (Brosch, pp. 35-36). As Mr. Brosch notes, this cost differential would affect only future debt issuances. There is no need to make pro-forma restatement a condition of the merger – If there is a credit rating decline and if there are future debt issues, the Commission, Public Counsel, and the company have the resources to address capital structure and cost rate issues in future regulatory proceedings involving cost of capital.

Q. MR. BROSCH RECOMMENDS THAT THE COMMISSION IMPOSE A PROHIBITION AGAINST USWC AFFILIATES INCURRING DEBT OR OTHER OBLIGATIONS WITH RECOURSE AGAINST THE ASSETS OF USWC. SHOULD THIS BE A CONCERN OF THE COMMISSION?

A. In my opinion, the Commission need not be concerned about the creation of obligations with recourse against the assets of U S WEST Communications, Inc. because of the structure and covenants of U S WEST Communications, Inc.'s existing financing. All senior debt issued by the company is in the form of unsecured debentures and U S WEST Communications, Inc.'s overall credit rating determines the degree of credit quality, not the amount, type, and quality of assets pledged as collateral. If the company were to pledge assets to issue debt or allow affiliated companies to issue debt with recourse to U S WEST Communications, Inc. assets, the company would have to modify all existing bond indentures (with current bondholders' approval) to provide the same asset specific recourse to all bondholders. The company would also have to audit, catalog, and determine market value for all of its telephone plant assets and obtain state and federal regulatory approvals and incur ongoing property appraisal, recording, and filing fees. Thus, pledging of U S WEST Communications, Inc. assets for financing by U S WEST Communications, Inc. or its parent company, U S WEST, Inc. or any affiliate is not an attractive or practical option.

However, the Applicants, Qwest Communications International Inc. and U S WEST, Inc. have made formal commitments on this issue in a settlement agreement with the Iowa Office of Consumer Advocate. The Iowa settlement agreement, included as Exhibit PCC-2, has been filed with the Iowa Utilities Board. The settlement agreement addresses Mr. Brosch's concerns about affiliates incurring debt or other obligations with recourse against the assets of U S WEST Communications, Inc. Applicants are willing to make similar commitments to the Washington Utilities and Transportation Commission.

Q. IS IT NECESSARY TO IMPOSE CONDITIONS ON THE MERGED COMPANY TO PROVIDE ACCESS TO BOOKS AND RECORDS, TO COMPLY WITH WUTC AFFILIATE RULES, OR TO COMPLY WITH WASHINTON REGULATED ACCOUNTING RULES?

A. No, no conditions are necessary. The company is currently subject to Commission affiliate and accounting rules and is required to provide access to books and records. Nothing in the merger will change U S WEST Communications, Inc.'s obligations or the Commission's authority.

Q. DOES THE COMMISSION NEED TO IMPOSE CONDITIONS ADDRESSING MERGER COST ACCOUNTING?

A. No. Mr. Inouye's direct testimony states that USWC's portion of the transaction expenses of the merger will be charged to non-operating ("below-the-line") accounts that are ordinarily excluded from cost of service ratemaking. Goodwill amortization will not be charged against the earnings of U S WEST Communications or Washington operations, nor will goodwill appear in the financial results of operations for the USWC Washington regulated operations.

COMMENT ON TESTIMONY OF KATHLEEN M.FOLSOM

Q. WHAT IS MS. FOLSOM'S RECOMMENDATION REGARDING ANY INCREASE IN DEBT COSTS ARISING AS A RESULT OF THE MERGER?

A. Ms. Folsom recommends that if the debt rating of U S WEST Communications, Inc. is downgraded specifically as a result of the merger, an adjustment should be made in the cost of debt for ratemaking purposes to remove the effect of the downgrade.

Q. HOW SHOULD THE COMMISSION DEAL WITH DEBT COSTS?

A. As in my reply to a similar recommendation by Mr. Brosch, I believe the best course of action is to address debt cost issues in the context of future regulatory proceedings involving the cost of capital. As the applicants committed to in the Iowa settlement agreement, "Any declines in U S WEST Communications, Inc. credit ratings caused by the merger shall be quantified by applicants in any future earnings analysis or rate base/rate of return case and adjusted as if such declines did not occur."

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

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PREVIOUS TESTIMONY OF PETER C. CUMMINGS

Jurisdiction	**Docket**	**Jurisdiction**	**Docket**
Minnesota	GR-83-600	Iowa	RPU-96-9
South Dakota	F-3520	Colorado	96S-331T
FCC	84-800	Minnesota	P-421-C1-96-1540
Oregon	UT-43	Wyoming	70000-TR-96-223
Oregon	UT-65	Utah	97-049-08
Oregon	UT-85	Colorado	97K-237T
Oregon	UM-280	Wyoming	70000-TS-96-319
Washington	U-89-3524-AT	Wyoming	72000-TS-96-95
Utah	90-049-06	New Mexico	96-310-TC
Arizona	E-1051-91-004	New Mexico	97-334-TC
Montana	90.12.86	Minnesota	P-999/M-97-909
Iowa	RPU-91-4	Wyoming	General Order 81
Utah	92-049-05	North Dakota	PU-314-97-12
New Mexico	92-227-TC	Oregon	UM 731
Arizona	E-1051-93-183	Montana	D97.9.167
Iowa	RPU-93-9	Wyoming	70000-TT-97-378

Washington	UT-950200	Nebraska	C-1415
Utah	95-049-05	Montana	D98.8.192
Oregon	UT-125	FCC	98-166
Idaho	USW-S-96-5	Arizona	T-1051B-99-
105			
Minnesota	P-442,421/M-96-855	New Mexico	3007
Minnesota	P-466,421/M-96-1097	Colorado	99A-407T
Nebraska	C-1385	Iowa	SPU-99-27
Utah	96-087-03		
Arizona	U-3021-96-448		
New Mexico	96-4121-TC		
Utah	94-999-01		
Nebraska	C-1473		

STATE OF IOWA
DEPARTMENT OF COMMERCE
BEFORE THE IOWA UTILITIES BOARD

IN RE: QWEST COMMUNICATIONS INTERNATIONAL, INC., AND U S WEST, INC.	DOCKET NO. SPU-99-27

SETTLEMENT AGREEMENT
AND
JOINT MOTION FOR APPROVAL THEREOF

On the 28th day of January, 2000, Qwest Communications International Inc. and U S West, Inc., and their subsidiaries ("Applicants" or, collectively post-merger, "Company"), and the Office of Consumer Advocate ("OCA"), a division of the Iowa Department of Justice, hereby agree to the terms and conditions of this Settlement Agreement ("Agreement").

ARTICLE I

Introduction

On September 20, 1999, Applicants filed with the Iowa Utilities Board ("Board") a Proposal for Reorganization ("Proposal") docketed by the Board in IUB No. SPU-99-27.

ARTICLE II

Purpose

This Agreement has been prepared and executed by the Parties to it for the sole purposes of resolving specific issues between them in Docket No. SPU-99-27 and is applicable in this proceeding only, except to the extent necessary to implement this Settlement Agreement in relevant future proceedings in accordance with its terms. The Parties hereto understand and agree that the proposals, positions and adjustments made or obtained in this Agreement, whether express or implied, are made or obtained only through the spirit of compromise. In consideration of the mutual agreement hereinafter set forth, the Parties hereby agree as follows:

ARTICLE III

Joint Motion

Upon execution of this Agreement, the parties move the Iowa Utilities Board (Board) to promptly issue an Order approving this Agreement in its entirety without condition or modification and approving the reorganization.

ARTICLE IV

Condition Precedent

This Agreement shall not become effective unless and until the Board enters an Order approving this Agreement in its entirety without condition or modification. The Parties will consider, but are not bound by, any Board condition or modification.

ARTICLE V

Privilege and Limitation

This Agreement is made pursuant to Iowa Code ' 17A.10 (1999), 199 I.A.C. 7.7(4) and 199 I.A.C. 7.2(11), and shall become binding upon the Parties upon its execution, provided, however, that if this Agreement does not become effective in accordance with Article IV above, it shall be null, void, and privileged. This Agreement is intended to relate only to the specific matters referred to herein; no party waives any claim or right which it may otherwise have with respect to any matter not expressly provided for herein; no party shall be deemed to have approved, accepted, agreed or consented to any principal or precedential determination, or be prejudiced or bound thereby in any other current or future proceeding before the Board. No party or representative thereof shall directly or indirectly refer to this Agreement or that part of any Order of Board referring to this Agreement in any other current or future rate proceeding before the Board.

ARTICLE VI

Applicability

This Settlement Agreement and its terms and conditions are applicable to Applicants and any internally reorganized entity of Applicants and to each of their affiliates, in each case for so long as such affiliate remains an affiliate of Applicants.

ARTICLE VII

Terms

Applicants hereby amend their proposal for reorganization and agree and commit as follows:

1. The quality and reliability of all services provided in Iowa by U S West Communications, Inc. are of vital concern to Iowa customers and to the Iowa public. U S West Communications, Inc., and Applicants, to the extent their participation or assistance may be necessary and appropriate, shall have first and principal responsibility for assuring that the quality and reliability of all such services are in no way slighted or compromised at any time following consummation of the transaction. These parties, and each of them, commit and agree, fully and

without reservation, that the quality and reliability of all such services shall in all respects and at all times following consummation of the transaction be preserved or enhanced.

2. If a wire center fails to meet the regulatory standard of no more than four trouble reports per hundred access lines per month in three or more of twelve months, the Company shall credit all customers in the wire center $.25 per month for 12 months. The initial twelve-month measuring period for these purposes shall commence on the first day of the first month following consummation of the merger. The regulatory standard applies under normal operating circumstances. It does not apply to extraordinary or abnormal conditions of operation, such as those resulting from work stoppage, civil unrest or other events.

3. Upon consummation of the merger, residential customers whose trouble reports are not cleared within 48 hours shall receive a daily credit after 48 hours in the amount of five dollars, with remote call forwarding offered, until operation is restored (all lines). Business customers whose trouble reports are not cleared within 48 hours shall receive a daily credit after 48 hours in the amount of ten dollars, with remote call forwarding offered, until operation is restored (primary lines). Any residential or business customer whose trouble report is not cleared within eight days shall also receive a one-time credit of one hundred dollars (primary lines). The customer relief afforded by this paragraph shall be specified in the Company's tariff. The customer relief afforded by this paragraph shall not be payable to the extent the Company's ability to clear the trouble report was prevented by an event beyond the reasonable control of the Company and which, with exercise of due care, the Company could not reasonably have been expected to avoid, including, but not limited to, acts of God, explosions or fires, floods, tornadoes, epidemics, injunction, war or negligent or willful misconduct by customers or third parties. Except as identified above, events caused by employees or contractors of the Company are not outside the control of the Company.

4. Upon consummation of the merger, for customers whose primary line connections are not completed within five business days, the Company shall offer an assigned telephone number and directory listing in tandem with remote call forwarding and voice messaging (primary line). Upon consummation of the merger, for customers whose primary line connections are not completed within fifteen business days, the customer credit option shall be increased to one hundred dollars. Effective no later than July 1, 2000, the Company shall institute, as a third option to its cellular subsidy and customer credit options, a cellular loaner program option, subject to approval by the Board following comments by OCA, under which customers can (i) pick up a handset on the appropriate day and return it when wireline service is connected and (ii) make unlimited local calls without any charge other than the basic monthly charge for wireline service. Installation charge shall continue to be waived on primary line connections not made within five days and, upon consummation of the merger, shall also be waived on secondary line connections not made within thirty business days. The Company shall specify the relief afforded by this paragraph in its tariff.

5. The Company shall, at the earliest possible time, give a scheduled service connection date to each customer who requests a service connection. The Company shall at all times keep the customer notified of circumstances that may cause delay. For primary line service connections, if and when the Company determines that a connection cannot be made within five business days of the day on which the customer makes the request for connection or the day on which the customer requests connection, whichever is later, the Company shall, on the same day the determination is made, send written notice to the customer advising the customer of: (1) availability after five business days of remote call forwarding, voice messaging, assigned telephone number and directory listing; and (2) availability after fifteen business days of cellular loaner, cellular subsidy and customer credit options. The notice shall explain each option and shall not discourage local cellular use. The contents of the notice shall be subject to Board approval following OCA comments. The Company shall also give telephone notice the same day the determination is made.

6. The Company establishes the following targets for held orders for primary service and agrees and commits to meet them: (1) beginning December 31, 2000, and continuing thereafter, the three-month rolling average of held orders longer than thirty days (excluding cellular) shall not exceed 1.0 percent of service orders; (2) beginning December 31, 2001, and continuing thereafter, the three-month rolling average of held orders longer than thirty days (excluding cellular) shall not exceed .8% of service orders; (3) beginning December 31, 2000, and thereafter, the number of held orders longer than 150 days (including cellular) shall not exceed zero.

7. The Company commits to working with OCA to develop enhanced reporting formats designed to facilitate assessment of compliance with the quality standards set forth in the Board's rules. Such formats shall be subject to Board approval following OCA comments.

8. Nothing in this Settlement Agreement is intended to, or has the effect of, precluding OCA or the Board from exercising any authority vested in OCA or the Board for the purpose of securing compliance with service quality standards or other requirements of law or regulation or from otherwise discharging the responsibilities entrusted to them by law. Without limiting the generality of the foregoing, nothing in this Settlement Agreement is intended to, or has the effect of precluding OCA or the Board from conducting any investigation authorized by law, or of precluding OCA from pursing or the Board from conducting any proceedings authorized by law, including without limitation any proceeding for imposition of civil monetary penalties or for amendment of regulatory standards. Without limiting the generality of the foregoing, nothing in this Settlement Agreement is intended to preclude OCA or the Board from pursuing any changes regarding any subject matter addressed in this Settlement Agreement in any future proceeding.

9. The Company commits to invest a minimum of $90 per access line (as of year end)

on average for each of the next two years (2000 and 2001) for infrastructure modernization and maintenance to achieve telephone service improvement in Iowa.

10. Applicants shall not allow any affiliate, including Applicants, of U S West Communications, Inc. to obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to U S West Communications, Inc.'s Iowa regulated assets. The financial arrangements of all affiliates, including Applicants, of U S West Communications, Inc., are subject to the following restrictions:

a Any indebtedness incurred by an affiliate will be without recourse to U S West Communications, Inc.

b U S West Communications, Inc. shall not enter into any agreements under terms whereby it is obligated to commit funds in order to maintain the financial viability of an affiliate, including Applicants.

c U S West Communications, Inc. shall not make any investment in an affiliate, including Applicants, under circumstances in which U S West Communications, Inc. would be liable for the debts and/or liabilities of an affiliate, incurred as a result of acts or omissions of an affiliate, including Applicants.

d U S West Communications, Inc. shall not issue any security for the purpose of financing the acquisition, ownership, or operation of an affiliate, including Applicants.

e U S West Communications, Inc. shall not assume any obligation or liability as guarantor, endorser, surety, or otherwise in respect of any security of an affiliate, including Applicants.

f U S West Communications, Inc. shall not pledge, mortgage or otherwise use as collateral any assets of U S West Communications, Inc. for the benefit of an affiliate, including Applicants.

g Applicants shall assure that rates to the Iowa regulated service customers of U S West Communications, Inc. are not increased by reason of the effects of credit rating declines or other adverse consequences directly cause by the merger.

h An affiliate, including Applicants, shall not incur debt or pledge the stock of U S West Communications, Inc. in any manner that, on the affiliate's default, would permit a creditor to have recourse against the Iowa regulated assets of U S West Communications, Inc.

i For purposes of this paragraph, the term "affiliate" shall not include any subsidiary of U S West Communications, Inc., nor shall that term include any entity that is controlled or owned by U S West Communications Inc.

j The provisions of this paragraph shall expire no later than December 31, 2001, or at such sooner time as allowed by the Board.

11. The Applicants agree to insulate the Iowa customers of U S West Communications, Inc. from any adverse impact on the rates, services or service quality of U S West Communications resulting directly from the merger.

12. The Applicants agree and commit that the cost of capital as reflected in U S West Communications, Inc.'s rates shall not be adversely affected by the result of the merger of Qwest, Inc. with U S West, Inc. The Applicants also agree and commit that, subsequent to the completion of the merger, the cost of capital for U S West Communications, Inc. in any future earnings analysis or rate base/rate of return rate case shall be set commensurate with the risk of U S West Communications, Inc. and shall not be affected by the merger. Applicants agree and commit that they will not oppose, in either a regulatory proceeding or an appeal of a decision by the Board, the application of the principle that the determination of the cost of capital shall be based on the risk attendant to the regulated operations of U S West Communications, Inc. Any declines in U S West Communications, Inc. credit ratings caused by the merger shall be quantified by applicants in any future earnings analysis, or rate base/rate of return case and adjusted as if such declines did not occur. Applicants agree and commit to the use of any imputed or hypothetical capital structure in any future earnings analysis, or rate base/rate of return case if necessary to reflect the cost of capital U S West

Communications, Inc. without the effects of the merger.

13. Applicants agree, for themselves and each of their affiliates, that all transactions between U S West Communications, Inc. and any and all affiliates will be structured and performed in a manner that in no way compromises, financially or otherwise, the soundness and integrity of the Iowa operations of U S West Communications, Inc.

14. Applicants commit to fully comply with Iowa Code sections 476.73 and 476.74 and with the Board's affiliate rules at IAC 199-31.2 through 199-31.7 in all respects and will provide duplicate copies of all filings made pursuant to IAC 199-31.3 to the OCA coincident with any filing made with the Board.

15. Applicants agree to make all records equally available to both the Board and the OCA pursuant to IAC 199-31.2 within the State of Iowa. If access to relevant records of affiliates in Iowa is not commercially practical, Applicants agree to reimburse any costs incurred by the OCA or the Board and its employees or contractors in accessing such records outside the State.

16. Applicants agree to maintain accounting records for Iowa regulated operations pursuant to the requirements of 199 IAC 16.5 as that rule may be amended from time to time.

17. Unless and to the extent explicitly approved in advance by the Board, Applicants shall not for accounting purposes charge any of the following expenses to U S West Communications, Inc. or to any other regulated Iowa utility:

(1) merger transaction costs including but not limited to fees and expenses of financial advisors, consultants or lawyers, filing fees, joint proxy costs, and relocation costs.

(2) acquisition adjustment, transaction premium or goodwill amortization arising from the

proposed transaction.

(3) Applicants' or any affiliate's contributions to civic, political, education or charitable organizations.

(4) any administrative or other costs from off shore operations or employees, absent specific prior written approval from the Board.

(5) any change in control payments to officers, directors and employees,

18. Applicants state that they plan to make the following network modernizations to complete the installation of an all digital switched network, improving service to approximately 250,000 access lines by year end 2001:

B Marshalltown central office conversion

B Council Bluffs central office conversion

B Des Moines Northwest central office conversion

B Des Moines West central office conversion

B Dubuque Downtown central office conversion

B Waterloo Downtown central office conversion

19. Applicants state that they intend to upgrade the following 911 tandem switches to further modernize U S West Communications, Inc.'s Iowa network:

B Marshalltown

B Davenport

B Council Bluffs

B Des Moines West

B Waterloo

20. For customers reporting out-of-service trouble, Applicants are in the process of

adding network employees to the Iowa workforce as part of a continuing effort to improve the performance of restoration of service.

21. Applicants agree and commit that Iowa employees directly involved in the provisioning and maintenance of service will not be disproportionately reduced for two years beginning upon consummation of the merger and that workforce levels will be maintained at levels that are required to provide good service quality to customers.

22. Charitable contributions, community activities and civic support efforts of U S West Communications, Inc. will not be reduced for a period of two years.

ARTICLE VIII

Waiver

The Board shall have the right to waive any term or condition of this Agreement pursuant to its waiver power, after notice and opportunity to be heard, upon a finding that the change in such term or condition will not be detrimental to the regulated service customers of U S West Communications, Inc. and that the change is not contrary to the public interest.

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