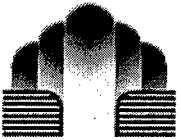


Lisa Steel/WUTC  
06/28/2005 03:08 PM

To Fred Ottavelli/WUTC@WUTC, Records Center  
cc  
bcc  
Subject Email to Qwest re: financial reporting rule

Lisa Steel  
Telecommunications Policy Advisor  
Washington Utilities and Transportation Commission  
(360) 664-1303  
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----- Forwarded by Lisa Steel/WUTC on 06/28/2005 03:07 PM -----



Lisa Steel/WUTC  
04/14/2005 05:35 PM

To Adam.Sherr@qwest.com  
cc  
Subject Qwest WAC 480-120-369 financial reporting rule

Hello, Adam. I enjoyed meeting with you, Mark R. and Pete on Friday, and hope the new week finds you well. At Mark S.'s request, I just wanted to follow-up on your questions about WAC 480-120-369 with my interpretation of the rule.

*Response to Qwest Question 1:* The transfer amount is not an allocated number, but rather is a gross, total-company (Qwest Corporation) dollar amount. In WAC 480-120-369(1) (a), the phrase beginning with "which" modifies only the phrase that immediately precedes it, "threshold of five percent." The phrase beginning with "which" does not instead modify the word "transactions" appearing earlier in that sentence. So, for example, a QC \$50 million special cash dividend in excess of net income would be reportable under the rule [ $\$50 \text{ million} > 5\% * \$845 \text{ million} = \$42.25 \text{ million}$ ].

WAC 480-120-369(1)(a) The company must report if the cumulative transactions to a subsidiary or affiliated interest for the prior twelve months exceed a threshold of five percent, which is based on the prior calendar year gross operating revenue from Washington intrastate operations subject to commission jurisdiction.

*Response to Qwest Question 2:* At any one moment in time, the threshold that applies for every Qwest cash transfer to any affiliate or subsidiary is the same. At this time, the 5% threshold for Qwest is  $\sim \$845 \text{ million} * 5\% = \$42.25 \text{ million}$ .

WAC 480-120-369(1)(a) The company must report if the cumulative transactions to a subsidiary or affiliated interest for the prior twelve months exceed a threshold of five percent, which is based on the prior calendar year gross operating revenue from Washington intrastate operations subject to commission jurisdiction.

*Response to Qwest Question 3:* It's hard to be definitive about what's exempt without a specific useful contract for the current period, but an exempt transfer under WAC 480-120-369(2) would not count in the cumulative transactions described in WAC 480-120-369(1) (a).

*Response to Qwest Question 4:* On March 28, 2005, the Commission filed a Correction Order with the Code Reviser to remove an intended deletion from WAC 480-120-369(1). The corrected rule is as follows.

**WAC 480-120-369 Transferring cash or assuming obligations.** This section does not apply to a company classified as competitive pursuant to RCW 80.36.320, or to a local exchange company that serves less than two percent of the access lines in the state of Washington.

(1) At least five business days before a telecommunications company whose corporate/issuer rating is not in one of the four highest rating categories of either Standard & Poor's L.L.C. or Moody's Investors Service, Inc., ~~or its subsidiary that is not rated investment grade~~ or its subsidiary transfers cash to any of its affiliated interests or subsidiaries or assumes an obligation or liability of any of its affiliated interests or any of its subsidiaries, the company must report to the commission an estimate of the amount to be transferred and the terms of the transaction when the transaction will exceed thresholds as described in (a) or (b) of this subsection.

We have not heard from Qwest about any specific transactions that would have been (had the rule been in effect) or are (now that the rule is in effect) reportable under WAC 480-120-369 in the month and a half since the rule adoption date. If this period is typical, then I would expect Qwest to report fewer than 8 transactions per year (12 months / [ 1.5 months / 1 report]). So the rule appears to be working in a way that is not unduly burdensome, with a level of reports that could even be sorted by hand if needed.

I hope this helps. Please give me a call if I can be of further assistance. My contact information follows. Kathy Folsom could also offer assistance. Kathy's number is 664-1279.

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