

## Qwest's Modified Proposal for an AFOR

### *Provisions:*

- 1) For the period of the AFOR, the parties agree that Qwest should be treated as if it were competitively classified, subject to certain exceptions and certain transition period requirements under this plan. Qwest is also subject to the provisions specified in **Appendix A** which provides for regulation similar to those companies who are competitively classified pursuant to RCW 80.36.320. **Appendix A** provides an overview of specific waivers of regulatory requirements that will be granted, granted in part, denied, or not affected.
- 2) The terms of this plan for AFOR will be effective upon approval by the Commission and will remain in effect for 4 years unless extended or modified by Commission order.
  - a) No less than six months prior to the 4-year anniversary of the AFOR, Qwest will file information on its financial condition as set forth in **Appendix B** to this AFOR agreement.
  - b) During the six months prior to the 4-year anniversary of the AFOR, Qwest and the Commission's Staff will conduct a review of the provisions of this AFOR to determine if changing conditions warrant modifications to the plan. All parties to the AFOR proceeding will have access to the same material made available to Commission Staff by Qwest.
  - c) During the course of that review any of the parties to this AFOR proceeding may propose or oppose modifications for consideration by Commission Staff. Upon conclusion of the review but not later than the 4-year anniversary the Commission will provide notice to the parties and hold a proceeding in which parties may advocate for or against proposed modifications.
  - d) While the Commission deliberates, the terms of this AFOR shall continue in force.
- 3) Qwest expressly agrees that if the Commission determines, after an appropriate proceeding, to revoke the previously-granted competitive classification for Qwest's DS-1 or DS-3 private line services, Qwest will not contend that the provisions of this AFOR nonetheless require those services to be treated as competitively classified. In such instance, the parties reserve their rights to advocate that an appropriate mechanism be established to ensure that rates for such services are fair, just and reasonable.
- 4) Qwest will implement a plan for broadband infrastructure development in which it will deploy high speed Internet, specifically DSL, services in its Washington wire

centers where it currently does not offer DSL.<sup>1</sup> The deployment will commence during the first quarter of 2008 and will be completed within 30 months. At the end of the AFOR, for the review process, Qwest will file a report<sup>2</sup> on broadband infrastructure development informing the commission about Qwest's progress in implementing the infrastructure plan to deploy DSL in 100 percent of its wire centers and towards the goal of ensuring that wire-line high speed internet service is available to over 83% of customers in its Washington service area.<sup>3</sup>

***Exceptions:***

- 1) This AFOR does not address the commission's authority to regulate Qwest's wholesale obligation under the Telecommunications Act of 1996, nor does it address existing carrier-to-carrier service quality requirements, including service quality standards or performance measures for interconnection and appropriate enforcement or remedial provisions in the event Qwest fails to meet service quality standards or performance measures.
- 2) Qwest will provide service quality reporting consistent with the 'Class A' company reporting requirements in WAC 480-120-439 (1). Qwest will modify its current service quality report such that it complies with WAC 480-120-439, but provides a level of reporting detail consistent with that provided by other Class A companies. Qwest will continue filing customer service guarantee reports in accordance with the Seventeenth Supplemental Order in Docket No. UT-991358, albeit semi-annually rather than monthly.
- 3) The following services will remain in Qwest's tariff for the duration of the AFOR:
  - a) Standalone Residential Exchange Services:
    - i) Exchange Areas; Flat/Measured Exchange Service Options; Hunting Service; Public Response Calling Service; (WN U-40, Sections 5.1 - 5.2.5)
    - ii) Directory Services – Listing Services (WN U-40, Section 5.7.1) and Custom Number Service (WN U-40, Section 5.7.7)
    - iii) Operator Services – Local Operator Service Surcharges (WN U-40, Section 5.8.2); Intercept Service (WN U-40, Section 5.8.4); and Operator Verification/Interrupt Service (WN U-40, Section 6.2.8)
    - iv) Directory Assistance - IntraLATA and National Directory Assistance charges will not be applicable to requests originating from telephone services Qwest has determined are used on a continuing basis by a person(s) certified incapable of using a published telephone directory. IntraLATA Directory

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<sup>1</sup> The Qwest Washington wire centers in which Qwest does not currently offer its high speed Internet (DSL) services are Easton, Elk, Northport, Pateros, Roy, Springdale, and Waitsburg.

<sup>2</sup> The report will break out data by wire center and by technology (DSL, VDSL, IPTV, etc.)

<sup>3</sup> In evaluating Qwest's performance towards the goal of ensuring 83% high speed internet service availability in its Washington service area during the review process, consideration shall be given to Qwest's access line loss and the loss of high speed internet service customers to other broadband service providers operating in its territory.

Assistance charges will not be applicable for calls that originate from hospitals. (WN U-40 Section 6.2.4 (c) and (d))

- v) Customer Service Guarantee Programs (WN U-40, Section 2.2.2 B)
  - b) Washington Telephone Assistance Program (WTAP) (WN U-40, Section 5.2.6 A.)
  - c) Tribal Lifeline (WN U-40, Section 5.2.6 B.)
  - d) Link-up Programs (WN U-40, Sections 5.2.6 C. & D.)
  - e) Basic and Enhanced Universal Emergency Number Service – 911 (WN U-40 Section 9.2.1)
  - f) Interconnection Service (WN U-42)
  - g) Resale Service (WN U-43)
  - h) Access Service (WN U-44)
  - i) Payphone services (defined as services listed in Section 5.5.7 of Qwest's Washington QC Exchange and Network Services Tariff as of March 6, 2007) will remain unaffected by the AFOR.
- 4) Qwest will continue to file:
- a) annual reports of affiliated interest transactions,
  - b) cash transfer filings (subject to Exception 6 below)
  - c) transfer of property transactions
    - i) greater than five percent of its rate base or
    - ii) involving the sale of one or more entire exchanges, or
    - iii) involving the merger or acquisition of Qwest Corporation.
  - d) Access charge and universal service reporting per WAC 480-120-399
- 5) Qwest agrees that it will abide by RCW 80.08.030 regarding the use of funds.
- 6) Qwest agrees to bound by the parts of WAC 480-120-369 and WAC 480-120-395 that are currently being challenged in the Court of Appeals of the State of Washington Division II pending a final decision on that appeal (either by that court or by the Supreme Court should either party pursue the action further). If the decision is in Qwest's favor the rules will not apply to Qwest. If the decision is in the Commission's favor, Qwest agrees to be bound by the rules.
- 7) Qwest agrees to be bound by the provisions of RCW 80.36.330(3), and the Commission's implementing regulations, in connection with below-cost pricing.

***Transition Period Requirements:***

The following requirements will apply during a 4 year transition period:

- 1) The standalone residential exchange service recurring rate is capped at \$13.50 during the transition period. Qwest may increase the rate by \$1.00 any time during the transition period if it agrees to maintain and augment the Customer Service Guarantee Programs as described in **Appendix C**.

- 2) Notwithstanding that Qwest's digital business services, analog private line services, and residential exchange service features and packages will be treated as competitively classified services in accordance with #1 above (Provisions), Qwest agrees not to geographically de-average the non-recurring and monthly recurring rates for these services. This provision does not modify or restrict Qwest's ability to enter into individual contracts for service that specify rates other than state-wide average rates.
- 3) Qwest will keep its books of accounts in accordance with WAC 480-120-355. The accounting method that Qwest commits to use is the same accounting method that it uses to maintain its books for FCC reporting purposes (MR Books). When, in accordance with 47 CFR 32.16, Qwest informs the FCC of its intention to follow a new accounting standard Qwest shall also file notice of intent with the Commission. Qwest will provide available information concerning the new accounting standard as requested by Staff. If the FCC does not accept the new accounting standard, it shall be deemed unacceptable to the Commission. If the FCC accepts the new accounting standard then it shall be deemed acceptable to the Commission unless Staff opens a docket to investigate adoption of the new accounting standard within 30 days of its acceptance by the FCC or 120 days of Qwest's filing of its notice of intent, whichever is later. If the FCC changes accounting methods used in 47 CFR Part 32, Staff may open a docket to investigate the changes to determine whether such methods are acceptable to the Commission.
- 4) Unlike competitively classified companies, which file an annual report in accordance with WAC 480-120-382, Qwest shall continue to file an annual report in accordance WAC 480-120-385(1).
- 5) Qwest shall file an annual report of Washington intrastate regulated results of operations. The report shall be based on Qwest's MR Books and shall include the following adjustments:
  - a) a directory revenue credit in the amount specified by the settlement agreement the Commission approved in the Dex case;
  - b) a credit to its depreciation reserve required for prior sale of rural exchanges;
  - c) a credit to its depreciation reserve for sharing under a prior AFOR; and
  - d) a standing adjustment reflecting the difference in rate base between its MR Books and its Washington Jurisdictional Books of Account (JR Books) on the date of transition from JR books to MR Books.
- 6) Also, in addition to the four adjustments listed above, Qwest shall maintain the capability of calculating the following Commission Basis Adjustments that it included in its quarterly financial reports to the Commission for 2006:

- a) Pension Asset
- b) Post-Retirement Benefits
- c) Disallowed Plant
- d) Interest Synchronizations
- e) End-of-Period Deferred Income Tax

**APPENDIX A**

Statute or rule to be waived	Disposition of Waiver	Conditions
<b>Securities</b>		
RCW 80.08 Securities	Grant	Will comply with RCW 80.08.030 regarding the use of funds
WAC 480-120-365 Securities Filings	Grant	
WAC 480-120-389 Securities Report	Grant	
<b>Transfers of Property</b>		
RCW 80.12.010 Definition	Deny	
RCW 80.12.020 Order required to sell, merge, etc.	Grant in part	\$78 million floor or merger or acquisition involving QC, or sale of exchange(s)
RCW 80.12.030 Disposal without authorization void.	Grant in part	Same as .020
RCW 80.12.040 Authority required to acquire property or securities of utility.	Grant in part	Same as .020
RCW 80.12.045 Small local exchange company -- Chapter does not apply.	Not applicable	
RCW 80.12.050 Rules and regulations.	Deny	
RCW 80.12.060 Penalty.	Deny	
WAC 480-120-379 Transfers of property	Grant in part	Same as .020
WAC 480-143-100 Application of rules.	Deny	
WAC 480-143-110 Filing.	Deny	
WAC 480-143-120 Transfers of property.	Grant in part	Same as .020
WAC 480-143-130 Purchase of property.	Grant in part	Same as .020
WAC 480-143-140 General contents.	Deny	
WAC 480-143-150 Statement required for nonpublic service company purchases.	Deny	
WAC 480-143-160 Public hearing.	Deny	
WAC 480-143-170 Application in the public interest.	Deny	
WAC 480-143-180 Disposal and determination of necessary or useful property.	Grant in part	Same as .020
WAC 480-143-190 Annual filing of property transferred without authorization.	Grant	
WAC 480-143-200 Certain telephone leases are exempt.	Deny	
WAC 480-143-210 Transfer customer notice requirements.	Deny	
<b>Affiliated Interests</b>		

**Docket UT-061625**  
**Exhibit 1**  
**AFOR Settlement Agreement**  
**Page 7 of 11**

RCW 80.16.010 Definitions.	Deny	
RCW 80.16.020 Dealings with affiliated interests -- Prior filing with commission required -- Commission may disapprove.	Grant	
RCW 80.16.030 Payments to affiliated interest disallowed if not reasonable.	Deny	
RCW 80.16.040 Satisfactory proof, what constitutes.	Deny	
RCW 80.16.050 Commission's control is continuing.	Deny	
RCW 80.16.055 Small local exchange company -- Chapter does not apply.	Deny	
RCW 80.16.060 Summary order on no approved payments.	Deny	
RCW 80.16.070 Summary order on payments after disallowance.	Deny	
RCW 80.16.080 Court action to enforce orders.	Deny	
RCW 80.16.090 Review of orders.	Deny	
WAC 480-120-375 - Affiliated interests — Contracts or arrangements.	Grant	
WAC 480-120-395 - Affiliated interest and subsidiary transactions report. (Parts 1-3)	Deny	
WAC 480-120-395 - Affiliated interest and subsidiary transactions report. (Part 4)	Grant	
<b>Cash Transfers</b>		
WAC 480-120-369 - Transferring cash or assuming obligations.	Subject to court decision	

<b>Accounting</b>		
WAC 480-120-359(1)(a)	Grant in part	Use FCC Part 32 subject to advance Commission review and investigation
WAC 480-120-359(2)(b)	Grant	Maintain certain adjustments, calculate all for transition report and if requested
<b>Reporting</b>		
WAC 480-120-385(1)	Grant	Continue filing results of operations report with certain regulatory adjustments
WAC 480-120-385(2)	Grant	

<b>Service Quality</b>		
WAC 480-120-439 Service quality performance reports	Deny	
<b>Customer Service Guarantee Program</b>		
17 <sup>th</sup> Supplemental Order in UT-991358 Order Directing Qwest to File Customer Service Guarantee Reports	Grant in part	Report semi-annually in lieu of Monthly
<b>Miscellaneous Waivers</b>		
RCW 80.04.300 Budgets to be filed by companies -- Supplementary budgets	Grant	
RCW 80.04.310 Commission's control over expenditures	Grant	
RCW 80.04.320 Budget rules		
RCW 80.04.330 Effect of unauthorized expenditure -- Emergencies	Grant	
RCW 80.04.360 Earnings in excess of reasonable rate -- Consideration in fixing rates	Grant	
RCW 80.04.460 Investigation of accidents	Grant	
RCW 80.04.520 Approval of lease of utility facilities	Grant	
RCW 80.36.100 Tariff schedules to be filed and open to public	Grant in part	Tariffs for excepted services unchanged.
RCW 80.36.110 Tariff changes -- Statutory notice -- Exception	Grant in part	Tariffs for excepted services unchanged.
WAC 480-80-101 Tariff requirements through WAC 480-80-143 Special contracts for gas, electric, and water companies	Grant in part	Tariffs for excepted services unchanged.
Chapter 480-140 WAC Commission general -- Budgets	Grant	
WAC 480-120-102 Service offered	Grant	
WAC 480-120-339 Streamlined filing requirements for Class B telecommunications company rate increases	Not applicable	
WAC 480-120-399 Access charge and universal service reporting	Deny	
WAC 480-120-344 Expenditures for political or legislative activities	Grant	
WAC 480-120-352 Washington Exchange Carrier Association (WECA)	Not applicable	



**APPENDIX B – FINANCIAL REPORTING**

Six months before the fourth anniversary of the AFOR, Qwest will file with the Commission:

1. Confidential copies of the Annual Results of Operations reports for each completed calendar year of the AFOR transition period.
2. A copy of the most recent calendar year annual Results of Operations report adjusted with five Commission Basis Adjustments for which Qwest agreed to maintain the capability to calculate, along with supporting calculations and workpapers. The five Commission Basis Adjustments are:

Pension Asset,  
Post-Retirement Benefits,  
Disallowed Plant,  
Interest Synchronization and  
End-of-Period Deferred Income Tax.

3. During the term of the AFOR, additional information may be needed to properly assess the effect of changes in accounting requirements, law, or policy on Qwest's financial performance. Nothing in this agreement limits Commission authority to request information pertinent to the analysis of Qwest's financial performance.

**APPENDIX C – Customer Service Guarantee Program**

Qwest agrees to augment its Customer Service Guarantee Program Tariff (WN U-40, Section 2.2.2) with the following provisions:

1. Delayed Primary Basic Exchange Alternative<sup>4</sup>

Primary basic exchange service is defined as the first residential line or first two business lines at a given location (address). If the Company is unable to provide primary basic exchange service (service) within five business days of the due date, and the reason for the delay is caused by the Company, the Company will:

- Credit the monthly recurring charge,
- Credit the nonrecurring charge,
- Assign a telephone number,
- Provide a directory listing and,
- Remote call forwarding and,
- Voice messaging service.

2. Out-of-Service Trouble Condition Credit<sup>5</sup>

- a. Customers who have an out-of-service condition (no dial tone) on their lines that is not cleared within two working days (excluding Sundays and holidays) will receive a credit of \$5.00.
- b. If the out-of service condition exceeds seven calendar days, the customer will receive a credit equal to their monthly local exchange service rate, including any associated regulated features for the month in which the outage occurred.
- c. These credits don not apply if the out-of service condition or the Company's inability to clear the condition is due to:
  - emergency situations,
  - unavoidable catastrophes,
  - force majeure,
  - work stoppage,
  - inside wiring,
  - customer premises equipment.
- d. All other reported service interruptions (i.e. noise on line, intermittent static, etc.) will be restored within 72 hours. Sundays and legal holidays are excluded from the 48 hour and 72 hour periods.

3. Trouble Report Rate Credit

- a. In the event the Company has an exchange with a trouble report rate greater than 4.0 per one hundred access lines, for two consecutive months or four

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<sup>4</sup> This provision is the same as the current tariff provision with the addition of the credit for the monthly recurring charge.

<sup>5</sup> This provision will replace Section 2.2.2 B. 3., Allowance for Service Interruptions, in Qwest Tariff WN U-40 in its entirety.

months out of a twelve month period, the customers served by that exchange will receive a credit of \$0.25 per line. The credit will not exceed \$0.25 in any month.

- b. The credits do not apply to trouble reports:
- Related to customer premises equipment,
  - Extraordinary or abnormal conditions of operation, such as those resulting from emergency or catastrophe,
  - Disruptions of service caused by persons or entities other than the Company