BY THE COMMISSION

On July 1, 2003, Qwest Corporation ("Qwest") filed the Qwest Renewed Price Regulation Plan in accordance with the provisions of the Second Revised Settlement Agreement approved in Decision No. 63487 on March 30, 2001. Qwest filed an Amended Renewed Price Regulation Plan on September 26, 2003.

On November 7, 2003, Qwest filed a Motion to Clarify, Or In the Alternative, To Terminate Price Cap Plan. Qwest requested that the Commission clarify that after the expiration of the initial term of the Price Cap Plan, the following conditions apply until the Commission enters an order approving a revised plan or setting new rates for Qwest:

1. No further adjustment of the Price Cap Index for Basket 1 Services will be made pursuant to 2(b) of the Price Cap Plan after March 30, 2004;

2. No further annual reduction in the level of access charges under the Settlement Agreement and the Price Cap Plan will be made after April 1, 2004
3. The procedures for changes in Qwest’s rates and charges, including the hard caps imposed on the specific Basket 1 Services, continue to apply until superceded by a revised plan approved by the Commission or a Commission order setting new rates and charges for Qwest.

Alternatively, Qwest requested that if the Commission does not clarify the Plan as it suggests, the Commission should terminate the Plan. After receiving written comments by all interested parties and holding an Open Meeting on January 29, 2004, allowing all interested parties an opportunity for oral comment, the Commission entered Decision No. 66772 on February 10, 2004. In Decision No. 66772, the Commission determined that Qwest was required to make a Basket 1 adjustment on April 1, 2004 for year 3 of the Plan, and was further required under the Continuation Clause of the Plan to make further Basket 1 adjustments until the Commission adopted a new or revised Plan or terminated the existing Plan. The Commission also determined that Qwest was required to make another access charge reduction of $5,000,000.00 under the Continuation Clause of the Plan.

On February 25, 2004, Qwest filed an Application for Rehearing of Decision No. 66772. Qwest’s Application for Rehearing was deemed denied by operation of law on March 16, 2004. On March 8, 2004, Qwest filed a Motion to Revise Productivity Factor and Notice of Filing Updated Productivity Analysis and Affidavit of Philip E. Grate on March 8, 2004. Subsequently, a majority of Commissioners requested oral argument on the issues raised in Qwest’s Application pursuant to A.R.S. §40-252. The Parties were also given an opportunity to file written comments on Qwest’s Application for Rehearing of Decision No. 66772 and Qwest’s Motion to Revise Productivity Factor.

Written comments were filed by the Commission Staff, the Residential Utility Consumer Office ("RUOCO"), MCI, Inc., ("MCI") and AT&T Communications of the Mountain States, Inc. ("AT&T"). Oral argument before the Commission and ALJ Rodda was held on May 4, 2004. In order to allow all parties sufficient opportunity to be heard on any proposed changes to Decision No. 66772, a deadline was established to file proposed amendments to Decision No. 66772 of June 1, 2004. Parties were allowed the opportunity to comment on the proposed amendments on or before June 4, 2004. Proposed amendments were filed by Commissioners Hatch-Miller and
Gleason on amendments on June 4, 2004. On June 9, 2004, the Commission convened an Open Meeting to consider the proposed amendments to Decision No. 66772.

In its Application for Rehearing, Qwest contends that the Commission misinterpreted the Settlement Agreement and the Plan by (a) requiring Qwest to make additional access reductions; (b) requiring Qwest to make additional Basket 1 price reductions; and (c) eliminating the simplified filing requirements. Qwest claims that the Agreement and Plan are clear that no further switched access charge reductions beyond $15 million were contemplated. Qwest also argues that there has been no hearing on whether switched access reductions beyond the $15 million are reasonable and necessary, or meet the fair value requirement previously determined under the existing Plan. Qwest also argues that further reductions in the Basket 1 Price Index is also contrary to the Agreement and the Plan, and results in confiscation of Qwest’s property in violation of the United States and Arizona Constitutions. Qwest argues that the Continuation Clause provides only for termination of the Plan and for the existing rate levels to be frozen. Qwest further argues that the Staff and Commission are now interpreting the Clause to change what was a clearly 3 year Plan into one with an indefinite term. Qwest nonetheless agreed with AT&T that to the extent ambiguity exists, the Plan cannot be reasonably interpreted as extending beyond a single reduction in April 2004, and that continued reductions into 2005 are simply not authorized.

RUCO supported Qwest’s Application for Rehearing on the issue of intrastate access rate reductions only. RUCO believes that the Plan calls for only three $5 million intrastate access charge reductions. However, RUCO argues that with respect to further Basket 1 adjustments, the Plan requires annual Basket 1 adjustments until the Commission approves a new or modified Plan or terminates the existing Plan. In support of its interpretation, RUCO relies upon the language of the Plan itself as well as cross-examination of the parties during the hearing on this matter.

MCI argues that the $5,000,000.00 access charge reduction required by Decision No. 66772 is both justified and reasonable and the Commission should not reconsider this portion of its earlier Order. MCI argues that the Price Cap Plan language supports an additional access
charge reduction because it specifically states that further reductions in intrastate switched access
service would occur during any subsequent term of the Price Cap Plan. MCI also argues that
substantial evidence supports an access charge reduction. MCI notes that both Qwest and Staff
testimony filed in the access charge case, which has been consolidated with the price cap case,
demonstrates that access charges are well above cost. MCI also argues that since Decision No.
63487, there have been significant new events impacting these public policy issues and that the
Commission is faced with this emergency interim situation due to Qwest's inability to provide
adequate information on a timely basis.

Staff believes that Qwest is required to make the April 1, 2004 Basket 1 adjustment under
the express terms of the Plan. Staff argues that even if Qwest is correct that the Basket 1
adjustment was limited to the initial 3 year term of the Plan, the April 1, 2004 adjustment is the
third adjustment expressly required under the Plan's terms for the third year of the Plan. After
that, under the Continuation Clause, the Parties agreed that the Plan (including all of its collective
terms and conditions) would continue in effect until the Commission approved a new or modified
Plan, or terminated the existing Plan. Staff also argues that the Continuation Clause, which is the
only clause of the Agreement to address this situation, was inserted to address the very
predicament the Commission is now facing, an unexpected contingency that has resulted in a
delay in the Commission being able to approve a new Plan for Qwest. Moreover, Staff argues
that the delay was caused by Qwest's inability to certify the accuracy of its financial statements
until recently and that the ratepayers should not bear the brunt of Qwest having to restate its
financial statements.

Staff also argues that had the parties intended Qwest's interpretation of the Continuation
Clause, they could have clearly stated that the Plan terminates and existing rates remain in place.
However, they did not. The Clause clearly states that the existing Plan remains in place until a
new or modified Plan is approved. Finally, Staff believes that under the Continuation Clause it
could be argued that Qwest would be required to make another access charge reduction.
However, since this is a non-essential provision of the Plan and given the intent of the parties, the
Commission had the discretion to require this reduction or not require it. Staff believes that Qwest's confiscation argument is meritless since under the terms of the Plan, Qwest is entitled to a $5 million increase in the Basket 3 Cap to offset the $5 million reduction in access charges, making the change revenue neutral.

Having considered the arguments, pleadings and positions of the parties, the Commission affirms its earlier determination with respect to the Basket 1 adjustment. We find that even if Qwest's argument that it is required to make the Basket 1 adjustment for the initial term of the Plan only is correct, it is still required under the terms of the Agreement and Plan to make the April 1, 2004 Basket 1 adjustment for the third year of the Plan (April 1, 2003 to April 1, 2004). We believe that further adjustments after April 1, 2004 would be governed by the Continuation Clause of the Agreement and that the Basket 1 adjustment remains in effect as an integral part of the Plan until the Commission approves a new or revised Plan.

We, however, reconsider Decision 66772 with respect to further switched access charge reductions. While the Continuation Clause could arguably be read to encompass further switched access reductions, we believe that the intent of the parties was that there would be only three switched access charge reductions under the Plan. We also find that, unlike the Basket 1 adjustment, the switched access charge provisions were not an integral part of the Plan, and thus, a legitimate argument can be made that the Continuation Clause did not envision this provision's continuation.

* * * * *

Having considered the entire record herein and being fully advised in the premises, and having given notice of our intent to reconsider Decision No. 66772 pursuant to A.R.S. §40-252, and having given parties an opportunity to comment upon our proposed changes to Decision No. 66772, the Commission finds, concludes and orders that:

FINDINGS OF FACT

1. In Decision No. 63487 (March 30, 2001), the Commission approved a Settlement Agreement in Qwest's then pending rate case which adopted a Price Cap Plan for Qwest.
2. On July 1, 2003, Qwest filed its Renewed Price Regulation Plan in accordance with the provisions of the Second Revised Settlement Agreement approved in Decision No. 63487.

3. On September 26, 2003, Qwest filed its Amended Renewed Price Regulation Plan.

4. On November 7, 2003, Qwest filed a Motion to Clarify, Or In the Alternative, To Terminate Price Cap Plan.

5. After considering the written comments filed by Qwest and interested parties, and hearing oral argument thereon, the Commission entered Decision No. 66772 which found that "...until the Commission approves a renewed or modified Price Cap Plan, or orders a termination of the Plan after its term, the Plan, including the hard caps on Basket One Services set forth paragraph 2(c)(1) shall continue in effect." This includes the Plan's terms and conditions relating to adjustments to Basket 1 and switched access charges.


7. Subsequently, a majority of Commissioners determined to hear oral argument on the issues raised in Qwest's Application pursuant to A.R.S. § 40-252. By Procedural Order dated April 6, 2004, parties were given until April 16, 2004, to file written comments on Qwest's Application. Oral argument on Qwest's Application was scheduled for May 4, 2004.

8. Proposed Amendments to Decision No. 66772 were filed by Commissioners Gleason and Hatch-Miller on May 24, 2004 and June 1, 2004, respectively.

9. MCI was the only party to comment on the proposed amendments through written comment filed on June 4, 2004.

10. The Commission reaffirms its earlier determination with respect to the Basket 1 adjustment in Decision 66772. Even if Qwest's argument that it is required to make the Basket 1 adjustment for the initial term of the Plan only is correct, it is required under the terms of the Agreement and Plan to make the April 1, 2004 Basket 1 adjustment for the third year of the Plan (April 1, 2003 to April 1, 2004). Further adjustments after April 1, 2004, would be governed by
the Continuation Clause of the Agreement and Basket 1 adjustments would remain in effect until the Commission approves a new or revised Plan.

11. We, however, reconsider Decision 66772 with respect to further switched access charge reductions. While the Continuation Clause could arguably be read to encompass further switched access reductions, we believe that the intent of the parties was that there would be only three switched access charge reductions under the Plan. We also find that, unlike the Basket 1 adjustment, the switched access charge provisions were not an integral part of the Plan, and thus, a legitimate argument can be made that the Continuation Clause did not envision this provision's continuation.

**CONCLUSIONS OF LAW**

1. Qwest is a public service corporation within the meaning of the Arizona Constitution, Article XV, and under Arizona Revised Statutes, Title 40, generally.

2. The Commission has jurisdiction over Qwest and the subject matter of the issues raised in Qwest's Application pursuant to A.R.S. §40-252.

3. The Findings of Fact are consistent with the Second Revised Settlement Agreement and Price Cap Plan, as modified by Decision No. 63487.

4. Pursuant to A.R.S. §40-252, Qwest and all Parties were given notice of the Commission's intent to take oral argument on the issues raised in Qwest's Application for Rehearing. Qwest and all Parties were given notice and an opportunity to comment on any proposed amendments prior the Commission's determination herein.

5. The Commission hereby reconsiders and amends Decision No. 66772 as set forth herein.
ORDER

IT IS THEREFORE ORDERED, that Decision No. 66772 is hereby reconsidered to the extent set forth herein in the Findings of Fact above.

IT IS FURTHER ORDERED, that Qwest is authorized to make the corresponding adjustments to any rates for switched access charges reduced pursuant to Decision No. 66772, to be effective July 1, 2004.

IT IS FURTHER ORDERED, that in all other respects, except as set forth in the Findings of Fact herein, Decision No. 66772 is affirmed.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

IN WITNESS WHEREOF, I, BRIAN C. McNEIL, Executive Secretary of the Arizona Corporation Commission, have hereunto set my hand and caused the official seal of the Commission to be affixed at the Capitol, in the City of Phoenix, this 18th day of June, 2004.

BRIAN C. McNEIL
EXECUTIVE SECRETARY
Original and 15 copies of the foregoing filed this 15th day of June, 2004 with:

Docket Control
Arizona Corporation Commission
1200 West Washington
Phoenix, AZ 85007

Copy of the foregoing mailed this 18th day of June, 2004 to:

Jane L. Rodda
Administrative Law Judge
400 West Congress Street
Tucson, AZ 85701

Timothy Berg
Theresa Dwyer
Darcy R. Renfro
Fennemore Craig, P.C.
3003 N. Central, Suite 2600
Phoenix, AZ 85012-2913
Attorneys for Qwest Corporation

Todd Lundy
Qwest Law Department
1801 California Street
Denver, CO 80202

Joan S. Burke
Osborn Maledon, P.A.
2929 N. Central, Suite 2100
Phoenix, AZ 85012-2794
Attorneys for AT&T Communications
Of the Mountain States and TCG Phoenix

Richard S. Wolters
AT&T Communications of the Mountain States
1875 Lawrence Street, Suite 1503
Denver, CO 80202-1870

Patrick A. Clisham
AT&T Arizona State Director
320 East Broadmoor Court
Phoenix, AZ 85022

Scott S. Wakefield
Chief Counsel
RU CO
1110 W. Washington, Suite 220
Phoenix, AZ 85007