Qwest Corporation ("Qwest") moves the Arizona Corporation Commission (the
"Commission") for an order suspending application of the "Inflation Minus Productivity" indexing
rate reduction mechanism on April 1, 2005 (the "April 1 Rate Reduction") under the Qwest Price
Cap Plan pending an order of the Commission in the captioned docket.

The Price Cap Plan approved by the Commission in Decision No. 63487 in 2001 provided
that Basket 1 services\(^1\) are capped and subject to an annual rate adjustment determined by an
"Inflation minus Productivity" indexing mechanism. Under that mechanism, when productivity
exceeds inflation, rates will decrease, and the decrease is effective on April 1 of the following year.
Thus, under the current factors effective in the Price Cap Plan, application of Inflation minus
Productivity indexing mechanism would require Qwest to reduce its Basket 1 rates in amounts that
would reduce its annual revenues approximately $12 Million, effective April 1, 2005, absent an

\(^1\) Basket 1 services include, among other services, basic residence and basic business services.
I order by the Commission to the contrary. The Commission has previously declined to interpret the
Price Cap Plan as limiting the number of annual adjustments. In its initial February 10, 2004
Decision, the Commission, in relevant part, ordered Qwest to make further reductions in its rates
for Basket 1 services on April 1, 2004 and annually thereafter. On June 9, 2004, the Commission
considered all proffered amendments and ultimately adopted Decision No. 67047. In so doing, the
Commission accepted an amendment that prospectively reversed its earlier determination to require
further reductions in intrastate access charges, but rejected an amendment that would have similarly
reversed the mandate for further productivity/inflation adjustments to Basket 1.

In the interim, the current Price Cap case has been proceeding. The parties have conducted
extensive discovery, sending dozens of data requests containing hundreds of questions, in response
to which Qwest has produced hundreds of thousands of pages of data. The time allowed for
discovery under the procedural schedule expired on January 31, and the parties have submitted all
rounds of their pre-filed written testimony. Based on the all the testimony filed by the parties,
Qwest believes that settlement discussions may very well be productive; accordingly Qwest asked
the Hearing Division to suspend the Procedural Schedule in order to pursue settlement. A number
of parties in the case, including Staff, RURO, and Cox supported suspension of the Procedural
Schedule, and on February 2 Administrative Law Judge Rodda ordered the Schedule suspended.

Generally settlements of disputed matters are viewed favorably in litigation, and given the
complexity of this proceeding and the number of parties involved, prompt pursuit of good faith
settlement discussions is highly desirable. However, in this case, the pursuit of settlement is

2 Decision No. 66772 issued on February 10, 2004 and Decision No. 67047 issued on June 18, 2004 (the “Decisions”).
Qwest has directly appealed the Decisions to the Court of Appeals [No. 1 CA-CC 04-0001 and 1 CA-CC 04-0002
(consolidated)] pursuant to A.R.S. § 40-254.01, as well as to the Maricopa County Superior Court under A.R.S
§ 40-254 (to preserve its appeal rights should the Court of Appeals determine that it does not have jurisdiction).
Nothing herein shall be construed as a waiver of the arguments advanced by Qwest in these appeals.

3 Qwest complied with Decision No. 66772 by submitting its A.A.C. R14-2-103 for modification of the Price Cap
Plan on May 20, 2004. As a result, the Hearing Division ordered a schedule designed to achieve a hearing of the
matter in early January 2004 with a final decision from the Commission prior to April 1, 2005. However, pursuant
to procedural changes necessitated by the extensive discovery of the parties and through no fault of Qwest, the
matter was subsequently set for evidentiary hearing on February 10, 2005. “We do not grant the extension request to
penalize Qwest for any delay in responding to Staff’s data requests . . . .” Procedural Order at 3 (October 13, 2004).
jeopardized by the looming April 1 Rate Reduction.

The April 1 Rate Reduction will be required automatically unless the Commission suspends it under the Commission’s currently effective interpretation of its Decision 63487. An automatic rate reduction at this time is not supported by the evidence in the case, and if effected would most probably have to be subsequently reversed in whole or in part. Based on the written pre-filed testimony, no likely scenario warranting Basket 1 rate reductions exists. Qwest’s testimony and revised AAC R14-2-103 revenue requirement finds a $275 million revenue deficiency. RUCO’s testimony states that Qwest has a $160 million revenue deficiency. The Arizona Corporation Commission Staff (“Staff”) analysis concludes that Qwest has a $3.5 million revenue deficiency. Even taking the most conservative view of the likely outcome of this case, there is no likelihood that a rate reduction will be supported by the evidence. Indeed, given the testimony that has been pre-filed, a rate reduction would be unreasonable and confiscatory. Further, a rate reduction may very well have to be reversed in a matter of months, as a consequence of this proceeding. “Yo-Yo” rates are confusing to consumers, expensive for the company to administer, and bad public policy.

Unfortunately, under the circumstances of the current case, in which the parties are just now beginning settlement discussions, there is little, if any, chance that the Commission will consider its final decision concerning modification, amendment or termination of the Price Cap Plan prior to April 1, 2005. However, the Commission has the option of staying any further Basket 1 reduction until it has issued its final decision concerning modification, amendment or termination of the Price Cap Plan and can then determine whether any further adjustment or true-up will be necessary. The Commission should now take action to suspend the April 1 Rate Reduction. Taking such action expeditiously will prevent unjust rate reductions, and the possibility of customer confusion when the rate reductions are later reversed. Intervention now demonstrates sound public interest stewardship by the Commission.

Qwest respectfully requests that the Commission suspend any further Basket 1 rate
reduction under the Inflation minus Productivity indexing mechanism under the Price Cap Plan pending a final decision concerning the matters in this docket.

RESPECTFULLY SUBMITTED this 3rd day of February, 2005.

By: 
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2238 W. Lone Cactus Dr., Ste.100
Phoenix, AZ 85027
1. Alliance Group Services, Inc.
   1221 Post Road East
   Westport, CT 06880

2. Archtel, Inc.
   1800 West Park Drive, Ste. 250
   Westborough, MA 01581

   201 Spear Street, 9th Floor
   San Francisco, CA 94105

4. Centurytel
   PO Box 4065
   Monroe, LA 71211-4065

5. Citizens Utilities Rural Co., Inc.
   Citizens Communications Co. of Arizona
   4 Triad Center, Suite 200
   Salt Lake City, UT 84180

6. Citizens Telecommunications Co. of the White Mountains, Inc.
   4 Triad Center, Ste. 200
   Salt Lake City, UT 84180

7. Comm South Companies, Inc.
   2909 N. Buckner Blvd., Ste. 200
   Dallas, TX 75228

8. Copper Valley Telephone, Inc.
   PO Box 970
   Willcox, AZ 85644

   4 Triad Center, Ste. 200
   Salt Lake City, UT 84180

10. Eschelon Telecom of Arizona, Inc.
    730 Second Avenue South, Ste. 1200
    Minneapolis, MN 55402

11. Ernest Communications, Inc.
    5275 Triangle Pkwy, Ste. 150
    Norcross, GA 30092-6511

12. Intermedia Communications, Inc.
    3608 Queen Palm Drive
    Tampa, FL 33619-1311
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<th>Company Name</th>
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<td>Level 3 Communications, LLC</td>
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<td>Max-Tel Communications, Inc.</td>
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<td>Alvord, TX 76225</td>
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<td>MCI WorldCom Communications</td>
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<td>MCIMetro</td>
<td>201 Spear Street, 9th Floor</td>
<td>San Francisco, CA 94105</td>
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<td>Metropolitan Fiber Systems of Arizona, Inc.</td>
<td>201 Spear Street, 9th Floor</td>
<td>San Francisco, CA 94105</td>
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<td>6</td>
<td>Midvale Telephone Exchange</td>
<td>PO Box 7</td>
<td>Midvale, ID 83645</td>
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<td>Navajo Communications Co., Inc.</td>
<td>4 Triad Center, Suite 200</td>
<td>Salt Lake City, UT 84180</td>
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<td>Nextlink Long Distance Svcs.</td>
<td>3930 E. Watkins, Ste. 200</td>
<td>Phoenix, AZ 85034</td>
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<td>North County Communications Corporation</td>
<td>3802 Rosencrans, Ste. 485</td>
<td>San Diego, CA 92110</td>
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<td>10</td>
<td>One Point Communications</td>
<td>Two Conway Park</td>
<td>Lake Forest, IL 60045</td>
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<td>Opex Communications, Inc.</td>
<td>500 E. Higgins Rd., Ste. 200</td>
<td>Elk Grove Village, IL 60007</td>
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<td>12</td>
<td>Pac-West Telecomm, Inc.</td>
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Table Top Telephone Co., Inc.  
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Valley Telephone Cooperative, Inc.  
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