Exhibit
57-59

BEFORE THE
PUBLIC UTILITIES COMMISSION
STATE OF SOUTH DAKOTA

IN THE MATTER OF THE INVESTIGATION INTO QWEST CORPORATION'S COMPLIANCE WITH SECTION 271 (C) OF THE TELECOMMUNICATIONS ACT OF 1996	))))	DOCKET TC01-165

QWEST CORPORATION'S

SUPPLEMENTAL AFFIDAVIT

OF

LARRY B. BROTHERSON

GENERAL TERMS AND CONDITIONS

April 16, 2002

TABLE OF CONTENTS

REBUTTAL AFFIDAVIT

OF

LARRY B. BROTHERSON

General Terms and Conditions

Larry B. Brotherson states as follows:

I. INTRODUCTION.

My name is Larry B. Brotherson. I filed a rebuttal affidavit in this proceeding on April 2, 2002.

II. PURPOSE OF TESTIMONY.

The purpose of my supplemental affidavit is to provide further information regarding Midcontinent Communications's ("Midco") concern regarding a mailing it received from Qwest.

III. BACKGROUND.

In the testimony of W. Thomas Simmons, Midco expresses concern about a mailing that Mr. Simmons says a Midco customer received from Qwest.[1] In my rebuttal affidavit I stated that I would supplement my testimony after Qwest had an opportunity to obtain more information about this issue from Midco and to investigate.

As I stated in my rebuttal affidavit, Mr. Simmons is in regular contact with Qwest's account team but had never raised this issue, nor does his testimony provide any details sufficient for Qwest to investigate and respond. Qwest takes Mr. Simmons's

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1 Simmons Testimony at 13.

concern seriously. Since receipt of Mr. Simmons's testimony, Qwest has contacted Midco and requested the underlying information and details so that Qwest could investigate and respond. Midco has cooperated with Qwest's request for more information and has provided a copy of the mailing at issue. This mailing was addressed to Midco, not to a customer of Midco's. It is a brochure advertising a Qwest product. The mailing at issue is attached as Exhibit LBB-GTC-3.

IV. INVESTIGATION

Upon receipt from Midco of the mailing that Mr. Simmons referenced in his testimony, I initiated an investigation to determine why Midco received this mailing. I learned that the brochure that Midco received was a mass mailing that was sent to business customers throughout South Dakota. The brochure Midco received advertised a time-specific promotion for Qwest Dedicated Internet Access ("Qwest DIA"). Qwest DIA provides an advanced OC-192 broadband IP backbone for high-speed internet connectivity. The promotion required a customer to sign up for the service between March 6, 2001 and May 31, 2001 to receive Qwest DIA for $799 a month. Qwest DIA offers a customer dedicated internet access T1 port, a Cisco 1720 router, on-site installation, and 24 X 7 hardware maintenance agreement.

This Qwest DIA promotion was a joint promotion between Qwest and Cisco directed at business customers. The data used to create the mailing list for this promotion was a combination of data from Qwest's business retail, Cisco and Harte-Hanks Direct Marketing, a third-party marketing company with whom Qwest contracted. These three databases were combined and the duplicate information was removed to create the mailing list for the Qwest DIA promotion at issue. Because of its expertise and marketing database, Harte-Hanks was selected to help create the mailing list, generate interest in the product, and generate inquiries to Qwest's call centers and web-site. A copy of the Harte-Hanks home web-site is attached as Exhibit LBB-GTC-4. Cisco provided marketing information and mailing lists because the promotion included a Cisco 1720 router as part of the service offering. Qwest utilized its retail customer information to help create the promotional list.

Qwest obtained its retail business customer information from Qwest's database of retail business customers. The Qwest retail business customer list that contributed to this mailing list does not contain any customers identified as "Midco resold customer." If, however, a Midco resold customer also happens to purchase retail services directly from Qwest, that customer will be on the list of Qwest retail customers. Accordingly, it is impossible to state that a Midco customer did not receive the Qwest DIA mailing. This is because the customer could also be a retail customer of Qwest. Further the customer could be on a commercially available mailing list offered by Harte-Hanks. Finally, the customer could be on the Cisco list. In sum, if this mailing went to any customers of Midco, the customer addresses were obtained through legitimate marketing mailing lists and not through any use of Qwest wholesale customer data.

Because Midco is a retail customer of Qwest services as well as a wholesale customer of Qwest, a query of the business retail customers included Midco as a purchaser of retail services. As a result, it is not surprising that Midco received the promotional brochure advertising Qwest DIA services. Midco is a business that could require 1) reliable high-speed internet connectivity over an OC-192 broadband IP network, 2) network connectivity, 3) web hosting, 4) web-centric consulting, certified technical expertise, 5) 24 X 7 system monitoring and hardware support, 6) guaranteed 99.9% internet access “up-time”, 7) single point of contact, 8) bandwidth and scalability, 9) DS1 internet access, 10) a Cisco 1720 router, 11) on-site installation and 12) 24 X 7 hardware maintenance agreement.

V. CONCLUSION.

Qwest markets its products and services to its customers as well as to potential customers through various marketing companies. The mailing at issue went to Midco because Midco is a retail business customer of Qwest's. My investigation reaffirms that Qwest marketing does not use the competitive information of its wholesale customers.

BEFORE THE
PUBLIC UTILITIES COMMISSION
STATE OF SOUTH DAKOTA

IN THE MATTER OF THE INVESTIGATION INTO QWEST CORPORATION'S COMPLIANCE WITH SECTION 271 (C) OF THE TELECOMMUNICATIONS ACT OF 1996	))))	**DOCKET TC01-165**

AFFIDAVIT OF LARRY B. BROTHERSON

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct to the best of my knowledge, information, and belief.

Executed this __ day of April, 2002.

____
Larry B. Brotherson

STATE OF COLORADO)
)ss.
COUNTY OF ________________)

Subscribed and sworn before me this __ day of April, 2002.

____
Notary Public

BEFORE THE
PUBLIC UTILITIES COMMISION
STATE OF SOUTH DAKOTA

IN THE MATTER OF THE INVESTIGATION INTO QWEST CORPORATION'S COMPLIANCE WITH SECTION 271 (C) OF THE TELECOMMUNICATIONS ACT OF 1996	))))	DOCKET TC01-165

QWEST CORPORATION'S

EXHIBITS to the SUPPLEMENTAL AFFIDAVIT

OF

LARRY B. BROTHERSON

GENERAL TERMS AND CONDITIONS

April 1, 2002

INDEX TO EXHIBITS

DESCRIPTION	EXHIBITS
Qwest DIA Brochure	LBB-GTC-3
Harte-Hanks Website Information	LBB-GTC-4

BEFORE THE
PUBLIC UTILITIES COMMISSION
STATE OF SOUTH DAKOTA

IN THE MATTER OF THE INVESTIGATION INTO QWEST CORPORATION'S COMPLIANCE WITH SECTION 271 (C) OF THE TELECOMMUNICATIONS ACT OF 1996	))))	DOCKET TC01-165

AFFIDAVIT OF LARRY B. BROTHERSON

I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct to the best of my knowledge, information, and belief.

Executed this 11th day of April, 2002.

Larry B Brotherson

Larry B. Brotherson

STATE OF COLORADO)
)ss.
COUNTY OF Denver)

Subscribed and sworn before me this __ day of April, 2002.

Jean M Towner

Notary Public

JEAN M. TOWNER
My Commission Expires
April 13, 2006

for immediate service,
call 1.800.RIDE.QWEST
(800.743.3793) or visit www.qwest.com for more information

Qwest
ride the light

QWEST DEDICATED INTERNET ACCESS.

NOW FOR ONLY $799 PER MONTH!

QWEST DIA OFFERS:

- > DEDICATED INTERNET ACCESS T1 PORT
- > A CISCO® 1720 ROUTER
- > ON-SITE INSTALLATION
- > 24 X 7 HARDWARE MAINTENANCE AGREEMENT

EVERYTHING YOU NEED FOR ONE GREAT PRICE.

The productivity you need...

Qwest Dedicated Internet Access (DIA) provides the productivity that others only promise. Qwest provides reliable high-speed Internet connectivity over one of the world's most advanced OC-192 broadband IP backbones. This helps provide the bandwidth and the scalability you need to become more efficient, now and in the future. So you can enable the Internet applications your business needs to be successful, such as:

- > *E-commerce*
- > *Electronic Data Interchange*
- > *Supply Chain Management*
- > *Finance and Administration*
- > *Online Training and E-learning*
- > *E-government and more*

...not the overhead you don't.

Better yet, with Qwest DIA, you'll gain efficiencies from dealing with a single company responsible for everything from network connectivity, to web hosting, to web-centric consulting. We also provide diverse billing options and low subscription rates to match your current and future budgets and bandwidth needs.

All to help you avoid the cost, time and headaches of trying to run, or cobble together a network on your own. (Talk about insane.)

Reliability to rave about...

To really put your mind at ease, Qwest's performance metrics are some of the best in the business (see chart below). And because Qwest DIA is designed to be a turn-key solution, you can also take advantage of our exceptional features and benefits, including:

- > *Certified technical expertise to help you design and maintain your network*
- > *24 x 7 system monitoring and hardware support*
- > *99.9% Internet access "uptime" guarantee*
- > *System scalability*

All of which translates into superior availability, reliability, and responsiveness for your most critical applications.

...and all for one great offer.

Best of all, Qwest DIA provides everything you need for one great offer. Sign-up for a Qwest Dedicated Internet Access Package and receive a DIA T1 port, a Cisco® 1720 router, on-site installation and 24 x 7 hardware maintenance agreement *for only $799/month.*[1]

So sign-up for Qwest DIA today. Then drive your competition crazy.

Provider	Qwest Dedicated Internet Access	WorldCom*	Sprint*	Cable & Wireless*
OC-192 Miles in service*	4,600 [illegible]	1,700 [illegible]	0 [illegible]	0 [illegible]
Number of hubs with OC-192 switches*	8	3	0	0
Monitoring/Performance	Real-Time at: http://www.qwest.com	www.uu.net	Limited customer level only	Real-Time
Bandwidths	56Kbps to OC-48	56Kbps to OC-12	56Kbps to OC-12	56Kbps to OC-12
Cisco® Powered Network (Domestic)	Yes	No	Yes	No

*Data based on information posted on public websites as of 3/6/01. †Three year service agreement required to obtain special promotional pricing. Internet Service Provider cost is additional. Customers in the states of AZ, CO, ID, IA, MN, MT, NE, NM, ND, OR, SD, UT, WA and WY will have their Qwest Internet services provided in conjunction with a separate Global Service Provider (GSP). This provider will supply customers with [illegible] to the global Internet in those states. [illegible] Please refer to the Service Agreement for more information. Services not available in all areas. Some restrictions apply. Call Qwest for details. Offer expires [illegible]. ©2001 Qwest Communications International Inc. All rights reserved.

Cisco®, Cisco Powered Network, and Cisco Powered Network logo are trademarks of Cisco Systems, Inc.

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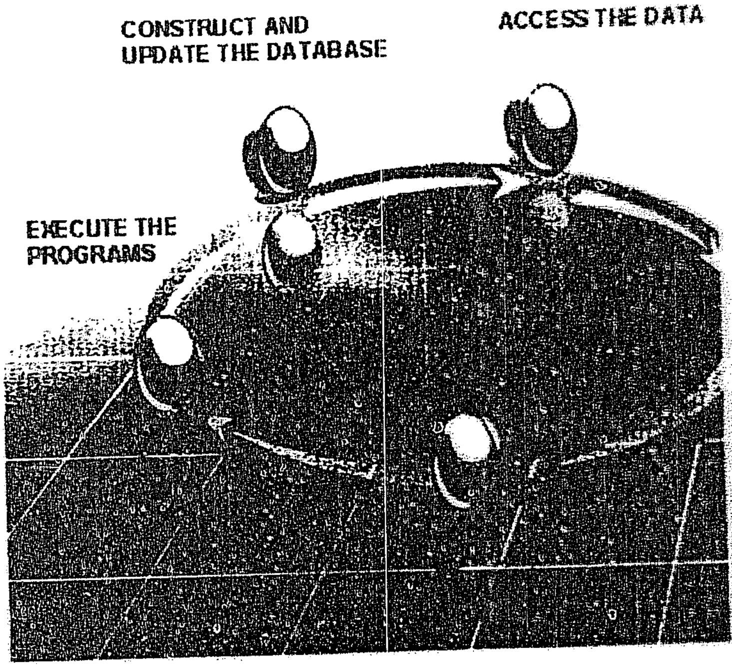
Qwest

for immediate service, call 1.800.RIDE.QWEST
(800.743.3793) or visit www.qwest.com for more information

Harte-Hanks Direct Marketing



Harte-Hanks Direct Marketing

Stock Exchange Listing: NYSE:HHS
Location: Headquarters, San Antonio, TX – with more than 40 offices throughout the United States and worldwide

Overview

Harte-Hanks Direct Marketing is a worldwide, direct and interactive services company that provides end-to-end customer relationship management (CRM) and related marketing services solutions for a host of consumer and business-to-business marketers. Harte-Hanks and its CRM integrated solutions use technology as the enabler to capture, to analyze and to disseminate customer and prospect data at all points of contact. The company's customer-centric models allow it to be the overall solutions provider for driving traffic to a Web site, call/contact center, or brick-and-mortar location. With premier specialized offerings -- Web page design to e-care, desktop database capabilities to systems integration, personalized mail to e-mail, proprietary software products to application service provider and hosting solutions -- Harte-Hanks provides practical implementation of technology and understands the needs of clients and their customers to deliver best-of-breed solutions. Visit the

Harte-Hanks Web site at www.harte-hanks.com or call (800) 456-9748.

Technology / Product Description

In our nationwide facilities, as well as our international locations, we help organizations attain their goals by developing, implementing and delivering specialized direct and interactive CRM marketing services.

CRM Solutions

Harte-Hanks provides end-to-end CRM and related solutions for businesses in both consumer and business-to-business markets across North America, Europe, South America and the Pacific Rim. We capture, analyze and disseminate customer and prospect data at all points of contact. Our services help clients generate traffic to web sites, call/contact centers and retail locations, gaining knowledge about customers in the process. What continues to separate Harte-Hanks from other CRM companies is our proven ability to turn insight into action and provide the tangible marketing recommendations to drive incremental profits. In fact, for more than 30 years, Harte-Hanks successfully has delivered hundreds of marketing database solutions.

Marketing Expertise

What's more we deliver it all: proprietary systems, resources, locations, expertise, capacity, experience and volume. We create, produce and mail promotional pieces; we make and take customer and prospect telemarketing calls; we build Web sites and create and receive e-mail; and we are one of the largest and most focused providers in each of these areas. We offer fulfillment both electronically and traditionally. We do more than execute these functions – we own them. Truly, we are one of the largest providers of direct marketing services worldwide, we are among the largest mailers with state-of-the-art targeting and postal preparation expertise, and we provide full-service direct and interactive marketing agency capability.

Harte-Hanks proudly promotes a drug-free work environment and a diverse workforce, and is an EEO employer.

View Jobs for Harte-Hanks Direct Marketing

Qwest. ride the light

P.O. Box 7159
Denver, CO 80207-9974

2DI77601
Midco Comm (Reseller M07)
Telecommunications Manager
401 S Phillips Ave.
Sioux Falls, SD 57104-6819

EXHIBIT
Qwest
58

End bandwidth deprivation...Gain amazing productivity...Experience proven reliability and responsiveness...In one great offer.

QWEST DEDICATED INTERNET ACCESS

Dear Telecommunications Manager:

Piecing together "best-of-breed" solutions to get dedicated Internet access can make you crazy. And you still may not get the bandwidth you need. ***What you need is the simple, cost effective, comprehensive solution that you get with Qwest Dedicated Internet Access.***

Qwest's Dedicated Internet Access (DIA) provides the productivity that was only a promise before. Get highly reliable, high-speed Internet connectivity. All from a leading source of Internet broadband technology. All in one great offer.

Now, for only $799.00 per month,* you can receive a Qwest Dedicated Internet Access T1 port, a Cisco® 1720 router, on-site installation, and 24 x 7 hardware maintenance agreement, when you sign up for a Qwest Dedicated Internet Access Package. That helps you to:

> **Increase productivity**
> **Reduce overhead**
> **Gain exceptional peace-of-mind**
> *...all for one great price.*

Qwest DIA provides secure, Internet connectivity over one of the world's most advanced OC-192 broadband IP backbones. Which means you'll get the bandwidth and the scalability you need to become more efficient. And you'll gain even more efficiencies from dealing with a single company who can arrange for everything from network connectivity, to web hosting, to web-centric consulting.

So end the madness of bandwidth deprivation and management. Sign up for Qwest Dedicated Internet Access for ***only $799 a month.*** Simply contact your Qwest representative, Qwest Business Partner, or call ***1.800.RIDE.QWEST*** (1-800-743-3793).

Then drive your competition crazy.

Sincerely,

S. Daly

S. Daly
Marketing Director
Qwest Communications, Inc.

P.S. Don't let this limited time offer pass you by. Offer ends 5/31/01.
Call 1.800.RIDE.QWEST (1-800-743-3793) or visit www.qwest.com for more information.

MIDCO 15

*Three-year service agreement required to obtain this special promotional pricing. Internet Service Provider cost is additional. Internet Access Service availability objective is 99.9%. Please refer to the Service Agreement for more information. Customers in the states of AZ, CO, ID, IA, MN, MT, NE, NM, ND, OR, SD, UT, WA and WY will have their Qwest Internet services provided in conjunction with a separate Global Service Provider (GSP). That provider will supply customers with connectivity to the global Internet in these states. Services not available in all areas. Some restrictions apply. Call Qwest for details.

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End bandwidth deprivation...Gain amazing productivity...Experience proven reliability and responsiveness...In one great offer.

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MIDCO 15

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BEFORE THE
PUBLIC UTILITIES COMMISSION
STATE OF SOUTH DAKOTA

IN THE MATTER OF THE INVESTIGATION INTO QWEST CORPORATION'S COMPLIANCE WITH SECTION 271(C) OF THE TELECOMMUNICATION ACT OF 1996	))))))	DOCKET TC 01-

QWEST CORPORATION'S

AFFIDAVIT

OF

MARIE E. SCHWARTZ

SECTION 272

OCTOBER 24, 2001

EXHIBIT
Qwest
59

TABLE OF CONTENTS

AFFIDAVIT

OF

MARIE E. SCHWARTZ

Section 272

Marie E. Schwartz states as follows:

My name is Marie E. Schwartz. My business address is 1314 Douglas-On-The-Mall, Floor 10, Omaha, Nebraska 68102. I am a Director in FCC Regulatory Accounting at Qwest Corporation ("the BOC") and am responsible for ensuring Qwest Corporation's regulatory accounting compliance with Section 272 of the Telecommunications Act of 1996 ("the Act").[1]

I. PURPOSE OF AFFIDAVIT

The purpose of my affidavit is to demonstrate that Qwest Corporation is prepared to satisfy all of the relevant requirements of Section 272 of the Act, and related FCC rules, following Qwest Corporation's receipt of in-region, interLATA authority in South Dakota.

My affidavit addresses each of the requirements in Section 272 and how Qwest Corporation's Section 271 authorization will be carried out in compliance with Section

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1 Professional experience, education and other biographical information is set forth in Exhibit MES-272-1.

272, and therefore satisfy the statutory requirement for grant of Section 271 authority.[2] I also review the employee training and awareness efforts that the BOC has undertaken to ensure that the requirements of Section 272 continue to be followed.

Throughout my affidavit, I refer to several different companies within the Qwest Corporate family. Four companies, however, are discussed repeatedly: (1) Qwest Services Corporation ("QSC"), which is the parent corporation to many Qwest subsidiaries and provides corporate services to the Qwest family of companies; (2) Qwest Communications Corporation ("QCC"), which is the 272 Affiliate, (3) Qwest Corporation ("QC"), formerly known as U S WEST Communications, Inc., which is the BOC, and (4) Qwest Long Distance Inc. ("QLD"), formerly named U S WEST Long Distance, Inc., which was the 272 affiliate under U S WEST before the merger with Qwest and will be dissolved during fourth quarter 2001. For ease of reference, throughout the affidavit I may refer to QSC, the parent of QC and QCC, as the "Services Company", QCC as the "272 Affiliate" and QC as the "BOC." Exhibit MES-272-2 illustrates these current relationships.

The BOC has recently received two decisions approving its compliance with Section 272. The Nebraska Commission entered an order on September 19, 2001 that stated that "Qwest Corporation has satisfied the requirements of 47 U.S.C. Section 272

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2 *See* 47 U.S.C. § 271(d)(3)(B) ("The Commission shall not approve the authorization requested ... unless it finds that — ... the requested authorization will be carried out in accordance with the requirements of section 272.").

of the Telecommunications Act of 1996 as set forth above".[3] Also, in the multi-state proceedings, a report was issued on September 21, 2001 which stated that, "The record demonstrates that Qwest has met each of the separate affiliate requirements established by section 272 of the Telecommunications Act of 1996".[4]

II. EXECUTIVE SUMMARY

The specific provisions of Section 272 include:

- Section 272(a), Separate Affiliate Requirement
- Section 272(b), Structural and Transactional Requirements
- Section 272(c), Nondiscrimination Safeguards
- Section 272(d), Biennial Audit Requirement
- Section 272(e), Fulfillment of Requests for Telephone Exchange Service
- Section 272(f), Sunset Provisions
- Section 272(g), Joint Marketing
- Section 272(h), Transition Provisions

Section 272(a) requires the BOC to provide in-region, interLATA long distance services through a separate long distance affiliate. The BOC will offer such long

3 In the Matter of U S WEST Communications, Inc., Denver, Colorado, filing its notice of intention to file its Section 271(c) application with the FCC and request for the Commission to verify U S WEST compliance with Section 271(c), Application No. C-1830, Section 272 Satisfied, ¶ 35. (Entered Sept. 19, 2001).

4. Report issued by The Liberty Consulting Group, September 21, 2001, General Terms and Conditions, Section 272 & Track A Report, p. 7.

distance services, upon Section 271 approval, through its long distance affiliate, Qwest Communications Corporation ("the 272 Affiliate").

Section 272(b) requires that the BOC and Section 272 Affiliate operate independently; maintain separate books, records, and accounts; have their own directors, officers, and employees; and, conduct all transactions on an arm's length basis, with all such transactions reduced to writing and available for public inspection. Moreover, the 272 Affiliate cannot obtain credit that will provide recourse to the assets of the BOC. The BOC is prepared to satisfy these requirements of the Act.

Section 272(c) prohibits the BOC from discriminating between the 272 Affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or in the establishment of standards. The BOC is prepared to satisfy this requirement of the Act.

Section 272(d) requires that, once the BOC obtains Section 271 authority, it must obtain and pay for a joint Federal/State audit every two years to determine whether the company has complied with the requirements of Section 272 and the regulations promulgated under Section 272. In particular, the audit will determine whether the company has complied with the separate accounting requirements of Section 272(b). The BOC will adhere to this provision of the Act.

Section 272(e) requires the BOC to fulfill requests from unaffiliated entities for telephone exchange service and exchange access within the same period, under the same terms and conditions, and at an amount that is no more than that for which it provides such services to its 272 Affiliate, or imputes exchange access services to itself (if the BOC is using the access for the provision of its own services). The BOC will satisfy these requirements of the Act.

Section 272(f) contains sunset provisions, which state that the separate affiliate requirements on manufacturing and long distance will end three years after entry in a given state unless extended by FCC rule or order. In addition, Section 272(f) preserves the existing authority of the FCC to prescribe safeguards consistent with the public interest, convenience, and necessity. The BOC will adhere to this section to the extent required by the FCC.

Section 272(g) permits the BOC to join in the marketing and sale of the 272 Affiliate's in-region, interLATA service once the 272 Affiliate is authorized to provide in-region, interLATA services under Section 271(d). The joint marketing of services will be exempt from the nondiscrimination provisions of Section 272(c). Section 272(g) also provides that the 272 Affiliate may not market or sell the BOC's telephone exchange services unless other similar entities are permitted to do the same. The BOC will adhere to these provisions of the Act.

Finally, Section 272(h) gives the BOC one year to conform to the requirements of Section 272 to the extent that it had already engaged in any interLATA long distance or interLATA information services in February 1996. Because the BOC was not engaged in any such activities, this transitional period did not apply to the BOC.

II. TRANSITION TO NEW SECTION 272 AFFILIATE

On June 30, 2000, U S WEST, Inc. merged with Qwest Communications International, Inc. Prior to the merger, U S WEST, Inc. had planned to offer in-region, interLATA services as a reseller, through U S WEST Long Distance, later named Qwest Long Distance. Following the merger, Qwest undertook a comprehensive reorganization that entailed a number of changes to the corporate structure. As part of that process, in August 2000, Qwest decided to reevaluate its plans regarding how it would offer long-distance service in-region following its receipt of Section 271 approval, including the decision about which entity should serve as its Section 272 affiliate.

In January 2001, Qwest Communications International, Inc. decided that the same entity should offer long-distance service both in-region and out-of-region, and that that entity should offer in-region, interLATA services predominately as a facilities-based provider, instead of as a reseller. QCC fit this strategy because it was the Qwest long-distance operating company nationwide prior to the merger, it had interLATA expertise, and it owned network facilities. Therefore, in January 2001, a decision was made to designate QCC as the new 272 Affiliate. On March 26, 2001, after a three-month period of intense transition activity, QCC became a compliant Section 272 Affiliate.

From January through March 2001, the Qwest family of companies worked at transitioning QCC to be Section 272 compliant so that it could serve as its new Section

272 subsidiary as stated above. These activities included such things as realigning employees from the BOC and the 272 Affiliate to the Services Company. The Services Company employees would be providing governance and administrative services to the family of Qwest companies. Other transition activities included writing contractual arrangements between the BOC and the 272 Affiliate, evaluating transactions, reviewing pricing, ensuring posting, training employees about the 272 affiliate rules, and meeting all other requirements of Section 272 as soon as possible. QCC became operational as a 272 Affiliate on March 26, 2001. The BOC now has processes in place to meet all of the requirements of Section 272 for QCC, the 272 Affiliate.

QLD, the previous 272 Affiliate, is no longer operational and will be dissolved during fourth quarter 2001. Until its dissolution, however, QLD is a subsidiary of QSC and maintains the 272 requirements. QLD became a 272 affiliate in 1998, but all transactions with QLD had been identified and posted back to 1996. Therefore, QLD has been 272 compliant for several years. In fact, the Nebraska Public Utilities Commission held that QLD was 272 compliant back in 1999.[5]

QLD was compliant with all Section 272 rules throughout the merger transition, which is discussed below, and will continue to be compliant until its dissolution is completed. Therefore, the BOC has had a compliant 272 Affiliate for many years which

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[5] *See* U S WEST Communications, Inc., Application No. C-1830, Nebraska Public Service Commission, April 9, 1999. Nebraska is the only state that issued an order regarding QLD's compliance with Section 272.

can be used to examine past behavior of the BOC regarding Section 272 compliance. QLD was a separate entity from the BOC with separate officers, employees and directors; all transactions with QLD were documented and posted to an Internet web-site within the 10 day posting requirement (this web-site is still available at http://www.qwest.com/about/policy/docs/long_distance.html); creditors of QLD had no recourse to BOC assets, and other controls were in place to ensure that all activities and transactions with QLD were conducted in accordance with the Section 272 rules. The processes and controls that were in place for QLD were duplicated, enhanced with additional controls, and overlaid onto QCC in order to make QCC 272 compliant as of March 26, 2001.

During the merger transition timeframe from July through December 2000, and the transition from QLD as the designated 272 Affiliate to QCC (the "272 transition") from January through March 2001, the BOC and QCC experienced delays in identifying and billing transactions. The merger resulted in strategic changes as well as conducting major activities associated with consolidating operations, eliminating duplicate functions, employee turnover, realignment of responsibilities and other merger related impacts. When the merger transition triggered a decision to change the designated 272 Affiliate from QLD to QCC, it created additional activities as described above. As a result of the merger transition and 272 transition, the identification of affiliate transactions was hampered, which impacted recording accruals and billing. However, interest charges have been recorded for all instances of delayed billing between the BOC and the 272 Affiliate.

The merger transition and 272 transition periods were one-time, unprecedented events. However, this brief period of billing and accounting delays is not an indication of how the BOC will comply with Section 272 now that the controls and processes are in place and working. In fact, paragraph (h) of Section 272 allowed a one-year transition period for a BOC and 272 affiliate to become 272 compliant regarding services provided, thereby recognizing that 272 compliance takes some period of time to put into place.[5]

III. QWEST CORPORATION, THE BOC, WILL COMPLY WITH THE REQUIREMENTS OF SECTION 272

A. The BOC Complies with Section 272(a) – Separate Affiliate Requirement

Section 272(a) of the Act states that any interLATA long distance service originating in a state within a BOC's region shall be provided through an affiliate separate from any entity that is subject to Section 251(c). The BOC complies with the separate affiliate requirement of Section 272(a).

The BOC is an incumbent local exchange carrier subject to Section 251(c). The BOC will not itself provide in-region, interLATA services originating within its 14-state region as long as the structural separation obligation of Section 272 applies to this activity.

When the BOC receives Section 271 approval from the FCC, interLATA long distance service originating from within South Dakota will be offered exclusively through

[5] I am not advocating that Section 272(h) applies to the transitions discussed above, but it is a recognition by Congress that it takes time for a transition to occur.

the 272 Affiliate, QCC. The 272 Affiliate, a wholly owned subsidiary of the Services Company, is fully separate from the BOC. In fact, the 272 Affiliate is already one of the top five interLATA providers nationwide despite the fact that, because of the merger with U S WEST, Inc., Qwest Communications International Inc. and its subsidiaries were required to divest themselves of all in-region, interLATA business.[7]

The Services Company is a wholly owned subsidiary of Qwest Communications International Inc. The BOC owns no stock in the 272 Affiliate; nor does the 272 Affiliate own any stock in the BOC. The affidavit of Judith L. Brunsting contains further explanation of the structure and organization of the 272 Affiliate.

B. The BOC Is Prepared to Comply with Section 272(b) – Structural and Transactional Requirements

Section 272(b) places five structural and transactional requirements on the interactions between the BOC and 272 Affiliate. These separate affiliate requirements are addressed in further detail in CC Docket 96-149, the Non-Accounting Safeguards Order, and CC Docket 96-150, the Accounting Safeguards Order.[8] Specifically, Section 272(b) requires that the 272 Affiliate:

7 See Qwest Communications International Inc. and U S WEST, Inc., Applications for Transfer of Control of Domestic and International Section 214 and 310 Authorizations and Applications to Transfer Control of Submarine Cable Landing License, Memorandum Opinion and Order, CC Docket No. 99-272, FCC 00-231, 15 FCC Rcd 11909 (rel. June 26, 2000) ("Divestiture Order").

8 See Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended, First Report and Order and Further Notice of Proposed Rulemaking, CC Docket No. 96-149, FCC 96-489, 11 FCC Rcd 21905 (rel. Dec. 24, 1996) (subsequent history omitted) ("Non-Accounting Safeguards Order"); Implementation of the Telecommunications Act of 1996:

1) operate independently from the BOC;

2) maintain books, records, and accounts in the manner prescribed by the FCC that shall be separate from the books, records, and accounts maintained by the BOC;

3) have separate officers, directors, and employees from the BOC;

4) not obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the BOC; and,

5) conduct all transactions with the BOC on an arm's length basis, with all such transactions reduced to writing and available for public inspection.

The BOC and the 272 Affiliate have processes in place to satisfy these five provisions of Section 272(b) as discussed below.

1. Section 272(b)(1) - Operate Independently

Section 272(b)(1) provides that the BOC and 272 Affiliate shall operate independently. The BOC and the 272 Affiliate currently operate independently and in compliance with the requirements of *the Non-Accounting Safeguards Order*, and will remain in compliance for as long as this requirement is in effect. The BOC and the 272 Affiliate do not and will not jointly own telecommunications switching or transmission facilities, or the land or buildings where those facilities are located for so long as such a restriction applies under the rules.

Accounting Safeguards Under the Telecommunications Act of 1996, Accounting Safeguards Under the Telecommunication Act, Errata, CC Docket No. 96-150, DA-366, 12 FCC Rcd 2993 (rel. Feb. 19, 1996) ("Accounting Safeguards Order").

Not only is there no joint ownership of network facilities, but no switching and transmission facilities have been transferred from the BOC to the 272 Affiliate. Moreover, the BOC is monitoring asset transfers on an ongoing, quarterly basis to ensure compliance with Section 272(b)(1).

Section 272(b)(1)'s requirements include additional rules associated with the performance of operation, installation and maintenance ("OI&M") functions. Neither the BOC nor any other Qwest affiliate performs any OI&M functions associated with the 272 Affiliate's switching and transmission facilities. Similarly, the 272 Affiliate does not perform such functions associated with the BOC facilities. To ensure Qwest continues to meet this requirement, the Services Company conducted extensive one-on-one training with approximately fifty Network department leaders.

2. Section 272(b)(2) - Separate Books, Records, and Accounts

Section 272(b)(2) requires that the BOC maintain separate books, records, and accounts from the 272 Affiliate in the manner prescribed by the FCC. The BOC and the 272 Affiliate are separate legal entities and as such the accounting records of the two entities are not commingled.

The BOC and the 272 Affiliate maintain separate Charts of Accounts. The BOC Chart of Accounts, which is based on the FCC's Uniform System of Accounts for Telecommunications Companies ("USOA"), is attached as Confidential Exhibit MES-272-3C. See Judith Brunsting's affidavit for a copy of the 272 Affiliate's Chart of Accounts.

The BOC's and the 272 Affiliate's general ledgers are completely separate; they were never combined following the merger. The BOC continues to use the same general ledger software that it used before the merger. The system is located in Denver, Colorado. The 272 Affiliate also continues to use its pre-merger accounting system and general ledger, which is located in Arlington, Virginia. In addition, the feeder systems for the two companies are separate. Thus, the 272 Affiliate and the BOC use separate accounting software maintained in separate locations.

System controls are in place to ensure separation between BOC employees and 272 Affiliate employees, and to make sure that employees of each entity cannot obtain access to the other's information systems. Specifically, each employee of the Qwest family of companies is required to be assigned a unique User ID. Once a User ID is assigned, the employee submits a request form, signed by his or her supervisor, for approval by the system control group before access is granted to any specific financial systems. If the employee has a job requiring access to specific systems, the control group enables the employee's User ID to access the particular data sets or applications needed. System edits are entity-specific, requiring that, when accessed, a system displays data only if the correct combinations of User ID, entity code, and account and responsibility code are entered. Additional system edits are designed to provide meaningful controls based on the information and reporting needs of the entity; therefore, data fields that are valid and have meaning for one entity may not be valid for another entity.

The combination of system security, controls and procedures ensures separateness by requiring each company to have its own books, keep its own records, and have its own Chart of Accounts. At the same time, processing on common consolidating financial systems permits consolidated reporting at the Qwest Communications International Inc. level as required for Federal and State tax and Securities and Exchange Commission ("SEC") purposes and is an acceptable practice under Section 272.[9]

The BOC follows Generally Accepted Accounting Principles ("GAAP"), including accrual accounting, to properly record expenses in the period incurred. The audit opinion of Qwest's external auditors, Arthur Andersen, confirms that the BOC follows GAAP in all material respects. See Exhibit MES-272-4, the Report of Independent Public Accountants filed with the Qwest Corporation Annual Report 10K for year 2000. The BOC also follows regulatory accounting rules as required by the FCC. The BOC's books, records, and accounts are maintained in accordance with USOA, Part 32.27, and Part 64.901, Allocation of Costs. In the past, the FCC's Part 64 and CAM audits have never reported a finding that the BOC was not following GAAP. Biennial reports are filed publicly via the FCC's Automated Reporting Management Information System ("ARMIS") and are accompanied by the report of independent accountants, Arthur Andersen, L.L.P. ("Arthur Andersen"), which also has found no material departures from

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9 See General Standard Procedures for Biennial Audits Required Under Section 272 of the Communications Act of 1934, As Amended, As of December 16, 1998. ("Biennial Audit Procedures") at Objective II, Procedure 1.

GAAP.[10] The Report of Independent Public Accountants that was filed with the FCC ARMIS 43-03 report for 1999 is attached as Exhibit MES-272-5.

The BOC had difficulty identifying QCC affiliate transactions in 2000 due to the merger transition. The BOC did accrue $1.5M of receivables from QCC for 2000. No accruals were made for payables to QCC in 2000 as they had not yet been identified. In order to facilitate identifying all transactions, the BOC hired Arthur Andersen (AA) as loaned staff in January, 2001 to work under the direction of BOC management[11] to assist in conducting over 140 interviews. These interviews identified transactions between the BOC and the 272 Affiliate back to the merger date, and the transactions identified were then billed with interest in 2001.

The affidavit of Judith L. Brunsting describes the accounting practices of the 272 Affiliate, its Chart of Accounts, and other evidence that establishes that the 272 Affiliate's books, records, and accounts are separate from those of the BOC.

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[10] In Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase I, Report and Order, CC Docket No. 99-253, FCC 00-78, 15 FCC Rcd 8690 (rel. Mar. 8, 2000), the FCC gave carriers the option of choosing an attest examination or financial audit every two years covering the prior two-year period. The rules became effective September 28, 2000. *See* 65 Fed. Reg. 58661 (2000). Thus, the audit engagement for the year 2000 will be combined with 2001 and the report will be issued in 2002.

[11] AA applied no testing procedures, but simply acted as additional professional accounting staff to assist in identifying transactions between the BOC and the 272 Affiliate.

The BOC will continue to maintain books, records, and accounts that are separate from the 272 Affiliate and will comply with Part 32, Part 64, and the Accounting Safeguards Order for as long as these requirements are in effect.

3. Section 272(b)(3) - Separate Officers, Directors, and Employees

Section 272(b)(3) requires that the BOC and the 272 Affiliate have separate officers, directors, and employees. The 272 Affiliate's officers, directors or employees are not officers, directors or employees of the BOC, nor is any BOC officer, director, or employee also an officer, director, or employee of the 272 Affiliate. As long as this requirement of Section 272 applies, no officer, director, or employee of the BOC will simultaneously be an officer, director, or employee of the 272 Affiliate. See Exhibit MES-272-6 for the officer list of the BOC and Judith L. Brunsting's affidavit for the officer list for the 272 Affiliate. Previous Section 271 orders support the view that having officers or directors that report to a common parent does not violate Section 272(b)(3).[illegible]

The BOC and the 272 Affiliate's employees are paid from separate payrolls. I have overseen a comparison of the BOC and the 272 Affiliate payroll registers conducted in March 2001 by the payroll organization, to ensure no employee appears

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[illegible] Application of BellSouth Corporation, BellSouth Telecommunications, Inc. and BellSouth Long Distance, Inc., for Provision of In-Region, InterLATA Services in Louisiana, Memorandum Opinion and Order, CC Docket No. 98-121, FCC 98-271, 13 FCC 20599, ¶ 330 (rel. Oct. 13, 1998) ("BellSouth Louisiana II Order"); Application of Ameritech Michigan Pursuant to Section 271 of the Communications Act of 1934, as Amended, To Provide In-Region, InterLATA Services in Michigan, Memorandum Opinion and Order, CC Docket No. 97-137, FCC 97-298, 12 FCC Rcd 20543, ¶ 362 (rel. Aug. 18, 1997) ("Ameritech Michigan Order").

on both payrolls. A comparison of the BOC and the 272 Affiliate officer lists, and a payroll comparison, satisfies the FCC's test for Section 272(b)(3) compliance.[13]

When moving from one organization to another, or from one company to another, employees of the Qwest family of companies apply for jobs through a process that is similar to an external hiring process. In order for an employee to transfer from one affiliate to another, the employee must be terminated and re-hired. Prior to resignation, a departing employee must return any assets such as pagers, cell phones, etc. and then obtain such equipment in accordance with the hiring company's practices.

The FCC does not prohibit employees transferring between the BOC and the 272 Affiliate. As the FCC noted in the Non-Accounting Safeguards Order, Section 272(b)(3) prohibits "simultaneously" serving as an employee of both companies.[14]

For employees who do transfer, numerous controls are in place to help ensure that no unauthorized information sharing takes place between the BOC and the 272 Affiliate. These controls include: (1) the Code of Conduct, which prohibits the sharing of confidential information; (2) Qwest's policy to physically separate the BOC and the 272

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13 Application by Bell Atlantic New York for Authorization Under Section 271 of the Communications Act to provide In-region, interLATA Service in the State of New York, Memorandum Opinion and Order, CC Docket No. 99-295, FCC 99-404, 15 FCC Rcd 3953, ¶ 409 (rel. Dec. 22, 1999) ("Bell Atlantic New York Order"); Application by SBC Communications Inc., Southwestern Bell Telephone Company, and Southwestern Bell Communications Services Inc. d/b/a/Southwestern Long Distance Pursuant to Section 271 of the Telecommunications Act of 1996 to Provide In-Region Inter-LATA Services in Texas, Memorandum Opinion and Order, CC Docket No. 00-65, FCC 00-238, 15 FCC Rcd 18354, ¶ 401 (rel. June 30, 2000) ("SBC Texas Order").

14 Non-Accounting Safeguards Order, ¶178.

Affiliate employees; (3) the extensive efforts undertaken to educate employees on Section 272's requirements; and (4) the color-coded dots on company badges and office nameplates that indicate for which company an employee works. Any disregard for these company policies can result in disciplinary action up to and including employee dismissal.

BOC employees who provide services to the 272 Affiliate, and vice versa, do not violate Section 272(b)(3). The FCC specifically allows the provision of services between the affiliates.[15] The BOC employees who provide services to the 272 Affiliate do so under contract. These transactions under contract are conducted at "arm's length," reduced to writing, and available for public inspection consistent with Section 272(b)(5). The Master Services Agreement ("MSA") constitutes the general agreement for services provided by the BOC to the 272 Affiliate. The MSA requires the BOC to perform its obligations as an independent contractor and not as an agent or employee of the 272 Affiliate. See Article 6 of the MSA, which is included as Exhibit MES-272-7. The MSA is available on Qwest's Web-site as required by the Accounting Safeguards Order.[16]

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[15] *See* Non-Accounting Safeguards Order, ¶179 ("We also decline to impose a prohibition on the sharing of services other than operating, installation, and maintenance services, on policy grounds. We find that, if we were to prohibit the sharing of services, other than those restricted pursuant to section 272(b)(1), a BOC and a section 272 affiliate would be unable to achieve the economies of scale and scope inherent in offering an array of services.").

[16] *See* http://www.qwest.com/about/policy/docs/qcc/MSA_qcc.html.

4. Section 272(b)(4) - No Recourse to the BOC's Assets

Section 272(b)(4) prohibits the 272 Affiliate from obtaining credit under any arrangement that would permit a creditor, upon default, to have recourse to BOC assets. The BOC employs three mechanisms to comply with this requirement. First, the BOC is capitalized separately from other Qwest affiliates.

Second, the BOC issues its own direct financial obligations, principally commercial paper, notes, and bonds, to fund its operations. The BOC's commercial paper and long-term debt are rated separately from the other financial obligations of Qwest Communications International Inc. by the rating agencies, further evidencing the separation between the BOC's funding and that of the rest of Qwest Communications International Inc.'s operations. Funding for all Qwest entities other than the BOC, including the 272 Affiliate, is provided by financial obligations issued by Qwest Capital Funding, Inc. ("QCFI"), a separate subsidiary of Qwest Communications International Inc., which guarantees the debt issued by QCFI. Neither the debt obligations issued by QCFI nor the guarantee by Qwest Communications International Inc. provides creditors recourse to the assets of the BOC. The BOC does not obtain financing from QCFI.

Third, neither Qwest Communications International Inc. nor the BOC has co-signed a contract or any other instrument that would allow the 272 Affiliate to obtain credit in a manner that grants the creditor recourse to the BOC's assets in the event of a default by the 272 Affiliate. The BOC will continue to satisfy this Section 272 requirement for as long as it applies.

5. Section 272(b)(5) - Transactions at Arm's Length, in Writing and Publicly Available

Section 272(b)(5) requires that all transactions between the BOC and the 272 Affiliate be conducted at arm's length, reduced to writing, and available for public inspection. All services provided by the BOC to the 272 Affiliate are either tariffed services or services provided under separate contract. Tariffed services have always been a matter of public record. Contracted services between the BOC and the 272 Affiliate have been identified and priced according to FCC rules. These services were initially identified through the company's affiliate transaction processes. These processes were supplemented during the transition from QLD to the 272 affiliate, by engaging Arthur Andersen as loaned staff. Arthur Andersen met with key personnel and conducted over 140 interviews to ensure that all transactions had been identified, as I mentioned earlier in my affidavit.

Processes have been established for the 272 Affiliate to purchase non-tariffed products, services, facilities and information under contract. Such transactions are documented in the form of MSAs and work orders. The MSA, attached as Exhibit MES-272-7, contains the general articles governing the way the BOC and the 272 Affiliate conduct business when the BOC provides services to the 272 Affiliate. Work orders are the mechanisms used to document the specific transactions provided under these contracts and contain details regarding each service provided.

Similarly, the Services Agreement ("SA") contains the general articles governing the way in which the 272 Affiliate provides services to the BOC. Task orders are the mechanisms used to document the specific transactions provided under these contracts and contain detailed information. Business unit affiliate managers are responsible for administration and billing of services contained in these work orders and task orders. All agreements are subject to FCC Part 32.27 Affiliate Transaction rules.

Additionally, the BOC established a Compliance Oversight Team to review all services between the BOC and the 272 Affiliate. This team, of which I am a member, is made up of regulatory accounting, legal and public policy experts. The Compliance Oversight Team reviews newly requested services to ensure compliance with Section 272(b)(5) and the nondiscrimination safeguards included in Section 272(c). The charter of the Compliance Oversight Team, which describes its responsibilities, is included in Exhibit MES-272-8. QCC is not a member of, and is not represented on, the Compliance Oversight Team.

The BOC posts its Section 272 transactions on the Internet [17] within ten days of being executed by both parties, in accordance with the rules of Section 272(b)(5) and the Accounting Safeguards Order. Exhibit MES-272-9 includes a sample of the contents of that site.

The transactions posted consist of agreements, work orders, and task orders, which collectively contain all of the information required by FCC orders, including a description of the rates, terms, and conditions of all transactions, as well as the frequency of recurring transactions and the approximate date of completed transactions. For asset transfers, the agreements contain the appropriate quantity and, if relevant, the quality of the transferred assets. For affiliate transactions involving services, the

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[17] *See* http://www.qwest.com/about/policy/docs/qcc/overview.html.

agreements contain "the number and type of personnel assigned to the project, the level of expertise of such personnel, any special equipment used to provide the service, and the length of time required to complete the transaction."[18] Currently, the BOC and the 272 Affiliate have two agreements, fifteen work orders, and two task orders executed to document the arm's length relationship. All existing work orders and task orders are available for public inspection and posted on the Web site, as required. Complete descriptions of past transactions are also posted on the Web site.

Any third party can view the transactions, evaluate the rates, terms and conditions of the offering, and has the option to obtain the same goods or services from the BOC. In addition to contracts, the section labeled "tariff rated services" provides a description of the services that the 272 Affiliate purchases out of the BOC's tariffs. This section also contains a hyperlink to another Web-site where the tariffs themselves can be found.

In addition, posted in the section labeled "Terminated Transactions" is a reference to prior-year or expired transactions. Terminated contracts will remain listed in this section under the link labeled "Expired Agreements" for one year after the date of termination.

The BOC keeps non-public detailed billing information between the BOC and the 272 Affiliate available for viewing at its principal place of business. This billing information is back-up detail calculating the predetermined rates with the basis for pricing, i.e., hours, headcount, level of employee expertise providing the service, etc.

[18] Bell Atlantic New York Order, ¶ 413.

and the actual volume of service used during the billing period. This detailed billing information is available for both current and expired transactions and may be viewed under confidential agreement.

It is important to note that the BOC has taken a conservative approach concerning transactions with the 272 Affiliate. Although QCC was not identified as the Section 272 affiliate of the future until January 2001, and was not operational as a 272 Affiliate until March 26, 2001, the BOC has identified and posted any transactions identified with QCC back to the Qwest–U S WEST merger date of June 30, 2000. This process took considerable effort, but was accomplished in less than three months, from January to March, 2001, under Ms. Brunsting's leadership and with the assistance of loaned staff from Arthur Andersen. All such transactions were identified by March 26, 2001, and the Web-page posting the QCC/BOC transactions was turned up that same day. These postings should eliminate any concerns regarding the types of services being provided between the BOC and QCC before QCC became the 272 Affiliate in March 2001. Postings for transactions with QLD, the previous 272 Affiliate, began in 1996 and have continued without disruption. This is further evidence of the BOC's commitment to Section 272 compliance.

The FCC evaluates the sufficiency of a BOC's Internet disclosures by referring to its ARMIS filings, Cost Accounting Manual ("CAM"), and its CAM Audit workpapers.[19] The BOC performed these reconciliations for QLD for the year ended December 31, 2000, to ensure that they agreed. Reconciliations to ARMIS will be performed on an

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[19] Bell Atlantic New York Order, ¶ 411; SBC Texas Order, ¶ 403.

annual basis for the 272 Affiliate. In addition, the FCC notes that postings will undergo "a thorough and systematic review in the section 272(d) biennial audit, which will ensure that any failure[s] to post sufficient detail are identified in time for appropriate remedial action." [20]

Paper copies of Section 272 transactions are accompanied by an officer affidavit stating that the BOC complies with the Section 272(b)(5) requirement to post and make public all transactions between the 272 Affiliate and the BOC, as required in the Accounting Safeguards Order. In March 2001, the BOC erroneously had an officer certification signed by a financial officer of QSC because the BOC had no controller appointed; that document was subsequently replaced by a new certification signed by the BOC's controller, Mark Schumacher, in May 2001. This new officer certification is attached as Exhibit MES-272-10.

In addition, the BOC has undertaken a monthly reconciliation process whereby it compares the billing between itself and QCC each month to the work orders and task orders posted on the Internet. This ensures that the actual billing that is occurring matches the Internet postings. No discrepancies have occurred since the initial billing month of March 2001, when the BOC found and corrected several posting discrepancies. Exhibit MES-272-11 shows the reconciliation results by month.

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[20] SBC Texas Order, ¶ 405; *see also* Bell Atlantic New York Order, ¶ 412; *see also* Joint Application by SBC Communications Inc., Southwestern Bell Telephone Company, and Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance for Provision of In-Region InterLATA Services in Kansas and Oklahoma, Memorandum Opinion and Order, CC Docket No. 00-217, FCC 01-29, 16 FCC Rcd 6237, ¶ 260 (rel. January 22, 2001) ("SBC Kansas Oklahoma Order").

To meet the "arm's length" requirement, the 272 Affiliate will place orders for tariffed services in the same manner as other interexchange carriers ("IXCs"), and those orders will be processed by an IXC Sales Executive Team account representative in a nondiscriminatory manner. For example, the 272 Affiliate is required to contact a Sales Executive on its Sales Executive Team to obtain access services. Sales Executives ensure that all IXCs have equal access to the BOC's goods, services, facilities, and information. The BOC's Sales Executive then contacts the BOC business unit who will be providing the requested service.

In summary, the BOC and the 272 Affiliate have processes in place to satisfy the provisions of Section 272(b). They operate independently in compliance with the *Non-Accounting Safeguards Order*; maintain separate books and records; have separate officers, directors, and employees; and obtain debt financing independently. The BOC also satisfies the FCC's requirements for affiliate transactions. Transactions between the BOC and the 272 Affiliate are tariffed and/or represented by contracts made publicly available and posted on the Internet. These transactions are accounted for in compliance with FCC rules as described in Section 32.27 and the Accounting Safeguards Order. Thus, the BOC and the 272 Affiliate have met the FCC's requirement for "internal control mechanisms reasonably designed to prevent, as well as detect and correct, any noncompliance with Section 272."[21]

[21] Bell Atlantic New York Order, ¶ 405; SBC Texas Order, ¶ 398.

C. The BOC Has Processes in Place to Satisfy Section 272(c) - Nondiscrimination Safeguards

Section 272(c) requires the BOC to treat the 272 Affiliate in the same manner it treats other IXCs. Section 272(c)(1) prohibits the BOC from discriminating between the 272 Affiliate and any other IXC in the provision or procurement of goods, services, facilities, and information, or in the establishment of standards.

The BOC is committed to providing its services to all of its IXC customers, including the 272 Affiliate, on a nondiscriminatory basis. The BOC requires the 272 Affiliate to contact its IXC Sales Executive Team representative to obtain services in the same manner as other IXCs. Standard offerings provided to the 272 Affiliate will be extended to unaffiliated IXCs under the same terms and conditions and at the same rates. Non-standard services and services that have not previously been offered outside the corporate family undergo a review by the Compliance Oversight Team to assess the BOC's nondiscrimination obligation concerning the requested service and its willingness to offer the service to the 272 Affiliate on a nondiscriminatory basis. This rigorous review is depicted in the flowchart attached as Exhibit MES-272-12, which ensures that the BOC satisfies the requirement to provide services to the 272 Affiliate on a nondiscriminatory basis as required under Section 272(c)(1). This process further ensures that all services provided to the 272 Affiliate are submitted such that a work order can be written and priced accordingly, fulfilling the requirement under Section 272(b)(5).

The 272 Affiliate does not currently have access to the BOC's Operation Support Systems ("OSS"). These systems are used to support local retail efforts (such as ordering and pre-ordering interfaces, repair and maintenance, etc.) related to local exchange services, and are available only to Competitive Local Exchange Carriers ("CLECs"). If the 272 Affiliate were to obtain CLEC status at some time in the future, the BOC would require it to access OSS interfaces in the same manner as other CLECs. This would be in keeping with the BOC's current practice, which requires the 272 Affiliate to access services through its IXC Sales Executive Team representative.

Each non-tariffed service available to the 272 Affiliate is reduced to writing either in a stand-alone contract, or in a work order associated with the MSA, as described earlier in my affidavit. With the exception of joint marketing-related services, which will not be subject to a nondiscrimination requirement, these services will also be made available to unaffiliated entities under the same terms and conditions and at the same rates. All future transactions between the BOC and the 272 Affiliate will also be reduced to writing and made available on the Internet.

The BOC and the 272 Affiliate also purchase services from their common parent company, the Services Company, which provides services to the Qwest family of companies. See Exhibit MES-272-13 for a current list of shared services provided to the BOC. These services satisfy the FCC's requirements by being accounted for under the appropriate non-structural safeguards.[22]

Section 272(c)(2) requires the BOC to account for all transactions with the 272 Affiliate in accordance with accounting principles designated or approved by the FCC. The BOC satisfies this requirement for transactions with the 272 Affiliate.

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[22] SBC Texas Order, ¶ 408; SBC Kansas Oklahoma Order, ¶ 261.

The BOC follows the FCC's affiliate transactions rules, as amended in the Accounting Safeguards Order, and applies the appropriate valuation to the BOC's transactions with the 272 Affiliate. Those valuations are based on either tariffed rates, Prevailing Company Price, Fully Distributed Cost or Fair Market Value.

The BOC files reports publicly via the FCC's Automated Reporting Management Information System ("ARMIS") each year. The audit opinion of the BOC's auditor, Arthur Andersen, which is filed with the ARMIS Report 43-03 (also known as the Joint Cost Report), certifies that the BOC complies with GAAP and specified FCC accounting rules (See Exhibit MES-272-5). While this audit, known as the Joint Cost Audit, does not focus specifically on the relationship between the BOC and the 272 Affiliate, the sample base of affiliate transactions includes a review of general administrative type services that are provided between the two companies. Therefore, the statement of compliance rendered by Arthur Andersen as part of that audit is general in nature and concludes, based on the sample, that the BOC complies with the affiliate transactions rules in all material respects. As I indicated earlier in this affidavit, the FCC has considered historical results of the Joint Cost Audit in order to assess Section 272 compliance in Section 271 applications.[23] Neither the FCC's review of the BOC's accounting information nor the audits conducted by independent auditors have revealed any material discrepancies with the BOC's corporate accounting procedures for affiliate transactions in the last three reports.

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[23] Bell Atlantic New York Order, ¶ 411; SBC Texas Order, ¶ 406.

Additionally, the BOC files an Annual Report Form 10K ("10K") with the Securities and Exchange Commission each year. The 10K includes an auditor's opinion stating that the BOC's financial statements are prepared in compliance with GAAP (See Exhibit MES-272-4). The BOC also files its CAM with the FCC annually. These filings and the Joint Cost audit provide assurance that the BOC accounts for all transactions in accordance with the accounting principles approved by the FCC.

In summary, the BOC is prepared to comply with Section 272(c). The 272 Affiliate must obtain services like any other IXC. These services are documented, priced, and posted according to the requirements set out in Section 272(b)(5). Therefore, the BOC has implemented the proper internal controls and processes to satisfy the requirements of Section 272(c).[24]

D. The BOC Will Satisfy Section 272(d) - Biennial Audit

Section 272(d) requires that, once the BOC receives Section 271 authority, it must obtain and pay for a joint Federal/State audit every two years. An independent auditor must determine whether the company has complied with the requirements of Section 272 and the regulations promulgated under Section 272. In particular, the audit is designed to determine whether the company has complied with the separate accounting requirements of Section 272(b). The FCC has chosen to fulfill the audit requirement by selecting a type of audit known in the accounting industry as an "agreed-upon-procedures" audit. A joint Federal/State biennial audit oversight team will

[24] SBC Texas Order, ¶ 410.

determine the scope of each audit. The biennial audit is required in addition to the Joint Cost audit. The Draft Biennial Audit procedures are attached as Exhibit MES-272-14. These procedures will serve as a template or starting point for the Federal/State biennial audit oversight team and the independent auditor.

The FCC has established that the first biennial audit will be conducted 12 months after the BOC receives its first Section 271 approval.[25] The BOC will engage an independent auditor to conduct the biennial audit according to the audit requirements agreed upon by the Federal/State biennial audit oversight team. The BOC will cooperate to the fullest extent possible in providing any data necessary to assist the auditor in accomplishing its objective. The results of these audits will be provided to the FCC and state regulatory commissions as required.

The auditor will have access to the financial accounts and records of the BOC and the 272 Affiliate, as necessary, to verify that all transactions conducted between them are appropriate under the specific requirements of Section 272. The FCC will have access to the working papers and supporting materials of the auditor who performs the audit with appropriate protection for proprietary information.

The biennial audit acts as an additional control to ensure the BOC complies with the requirements in Section 272. The FCC has placed reliance on the existence of the biennial audit in consideration of Section 271 applications.[26]

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25 Accounting Safeguards Order, ¶ 203.

26 Bell Atlantic New York Order, ¶ 412; SBC Texas Order, ¶ 406; SBC Kansas Oklahoma Order, ¶ 260.

E. The BOC Complies with Section 272(e) - Fulfillment of Certain Requests

Section 272(e) contains four express requirements ensuring that the BOC treats the 272 Affiliate similarly to other IXCs with respect to special and switched access. Specifically,

- Section 272(e)(1) provides for nondiscriminatory provision of telephone exchange service and exchange access for unaffiliated entities;
- Section 272(e)(2) prohibits the BOC from providing any facilities, services, or information concerning its provision of exchange access to the 272 Affiliate unless such facilities, services, or information are made available to other providers of interLATA services under the same terms and conditions;
- Section 272(e)(3) requires the BOC to charge the 272 Affiliate, or impute to itself, rates for telephone exchange service and exchange access that are no less than the amount that would be charged to any unaffiliated IXC for such service; and
- Section 272(e)(4) allows the BOC to provide in-region interLATA or intraLATA facilities or service to the 272 Affiliate only if such services or facilities are made available to all carriers at the same rate and under the same terms and conditions.

The BOC does not and will not discriminate in favor of the 272 Affiliate in the provision of telephone exchange service or exchange access. Upon obtaining Section 271 approval, the 272 Affiliate will obtain such services from the BOC under the same tariffed terms and conditions as are available to unaffiliated IXCs. The 272 Affiliate will contact its Sales Executive Team representative at the BOC to obtain services through the same procedures that are available to other IXCs. The BOC's sales representatives will process orders in a nondiscriminatory manner. While Section 272 is in force, the

BOC will actually bill the 272 Affiliate, and the 272 Affiliate will be required to pay for access charges under the same rates, terms and conditions that any other IXC would be charged. Therefore, there is no unfair advantage.

F. The BOC Is Prepared to Comply with Section 272(g) - Joint Marketing

Section 272(g)(1) prohibits the 272 Affiliate from marketing or selling telephone exchange services of the BOC except under the same conditions as are available to other similarly situated entities. If the 272 Affiliate markets the BOC's telephone exchange services, the BOC will permit other entities offering services that are the same as or similar to the 272 Affiliate's services (including information services) to market and sell its telephone exchange services.

Section 272(g)(2) prohibits the BOC from marketing or selling in-region, interLATA services provided by the 272 Affiliate within a state until the 272 Affiliate is authorized to provide in-region interLATA services in that state. However, once the BOC obtains Section 271 approval, the BOC and the 272 Affiliate may jointly market services without regard to the nondiscrimination provisions of Section 272(c).

In compliance with the statute and with the terms of the divestiture plan as approved by the FCC on June 26, 2000, the BOC does not currently market or sell in-region, interLATA services, and will not do so until the 272 Affiliate is authorized to provide such services under Section 271. When permitted, the BOC and the 272 Affiliate will market and sell in-region, interLATA services pursuant to arm's length agreements, reduced to writing, available for public inspection, and accounted for in accordance with the then-effective rules of the FCC.

The BOC understands the requirements of Section 272(g) and will comply with these provisions. The BOC also understands that the joint marketing exclusions do not apply to product design, planning, or development. Therefore, if the BOC offers those services to the 272 affiliate, it will be prepared to offer those same services to other entities as well. Currently these services are provided to the 272 Affiliate by the Services Company and therefore are not subject to Section 272 requirements.

IV. THE BOC HAS UNDERTAKEN EDUCATION AND TRAINING EFFORTS TO ENSURE COMPLIANCE

In 1998, the BOC began implementing an education plan specifically targeted at increasing employee awareness and understanding of Section 272 requirements, and this education effort is ongoing. The BOC has instituted process changes to ensure that it conducts business subject to the provisions of Section 272. The BOC has also continued to inform and educate employees about those process changes, as well as the Act and related FCC Orders.

Employees in the Qwest family of companies are required to undergo annual corporate Code of Conduct training and to certify their understanding of and compliance with company policies including regulatory requirements. This annual compliance training includes coverage on affiliate transactions as well as other requirements concerning appropriate employee behavior to ensure Section 272 compliance. See Exhibit MES-272-15.

Annual Code of Conduct training was supplemented with specific Section 272 requirements and delivered to the BOC, the 272 Affiliate, and Services Company management employees via email with a link to the company's internal Web-site and is attached as Exhibit MES-272-16. This training emphasizes the Section 272 transaction and nondiscrimination requirements and provides an email mailbox specifically for Section 272 related questions called ask272@qwest.com.

The BOC also conducts targeted training to employees who conduct business with the 272 Affiliate, specifically the Sales Executive Team representatives. See Exhibit MES-272-17. This training reinforces the process the 272 Affiliate must go through to order service from the BOC as detailed earlier in my affidavit.

To ensure Qwest continues to meet the OI&M requirements, the Services Company conducted extensive one-on-one training with over fifty Network department leaders.

BOC employees must treat the 272 Affiliate like any other IXC. To reinforce employee awareness and facilitate nondiscrimination, the BOC employees and 272 Affiliate employees have been physically separated. This separation was accomplished by using separate buildings, separate floors, or floors with restricted access. In addition, the Services Company has deployed a color coding scheme such that BOC, 272 Affiliate, and Services Company employees display different colors on employee badges and office name plates to indicate the company they work for. The blue dot on my badge and nameplate distinguishes me as a BOC employee.

Qwest Communications International Inc. also offers a Corporate Compliance Advice line for reporting all compliance issues, including any suspected violations of Section 272. The hotline number is 1-800-333-8938. Any employee can call this number for answers to corporate compliance questions or to report suspected violations.

For employees involved in processing affiliate transactions, the Methods for Affiliate Transactions ("MAT") training manual includes Section 272–specific instructions. The MAT is attached as Confidential Exhibit MES-272-18C. The Services Company, the BOC, and the 272 Affiliate continue to hold one-on-one training sessions as needed to focus specifically on the compliance requirements related to Section 272 and the Accounting Safeguards Order.

The BOC will continue to ensure that once Section 271 approval is obtained, business with the 272 Affiliate will be conducted in compliance with Section 272.

V. SUMMARY AND CONCLUSION

My affidavit has shown that past and present 272 compliance practices prove that the BOC is prepared to carry out the requirements of Section 272. Past practices with QLD and present practices with QCC, as described in my affidavit, demonstrate that the BOC's relationship with the 272 Affiliate will be consistent with Section 272 requirements. The BOC has satisfied the FCC's test for Section 272 approval by providing sufficient evidence that it is prepared to conduct business subject to the rules of Section 272.

The BOC understands its obligations under Section 272. This affidavit has demonstrated that the BOC has established sufficient controls to comply with each specific requirement of Section 272 upon approval for the 272 Affiliate to offer originating interLATA services in South Dakota.

Being first duly sworn upon oath, I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct to the best of my knowledge, information, and belief.

Executed on this __16__ day of _October_, 2001.

Marie E. Schwartz

STATE OF NEBRASKA

COUNTY OF DOUGLAS

Subscribed and sworn to before me this _16_ day of _October_, 2001.

Notary Public

GENERAL NOTARY-State of Nebraska
TERESA M. PEATROWSKY
My Comm. Exp. March 17, 2004

BEFORE THE
PUBLIC UTILITIES COMMISSION
STATE OF SOUTH DAKOTA

IN THE MATTER OF THE INVESTIGATION INTO QWEST CORPORATION'S COMPLIANCE WITH SECTION 271(C) OF THE TELECOMMUNICATIONS ACT OF 1996	)))))	DOCKET TC 01-

QWEST CORPORATION'S

EXHIBITS TO THE AFFIDAVIT

OF

MARIE E. SCHWARTZ

SECTION 272

OCTOBER 24, 2001

INDEX OF EXHIBITS

QUALIFICATIONS OF MARIE E. SCHWARTZ

Marie E. Schwartz is a director in FCC Regulatory Accounting at Qwest Corporation ("the BOC") and is responsible for ensuring Qwest Corporation's regulatory accounting compliance with Section 272 of the Telecommunications Act of 1996 ("the Act").

Ms. Schwartz holds a Bachelors Degree in Business Administration from the University of Nebraska at Omaha as well as a Certified Management Accountant certificate from the Institute of Management Accountants.

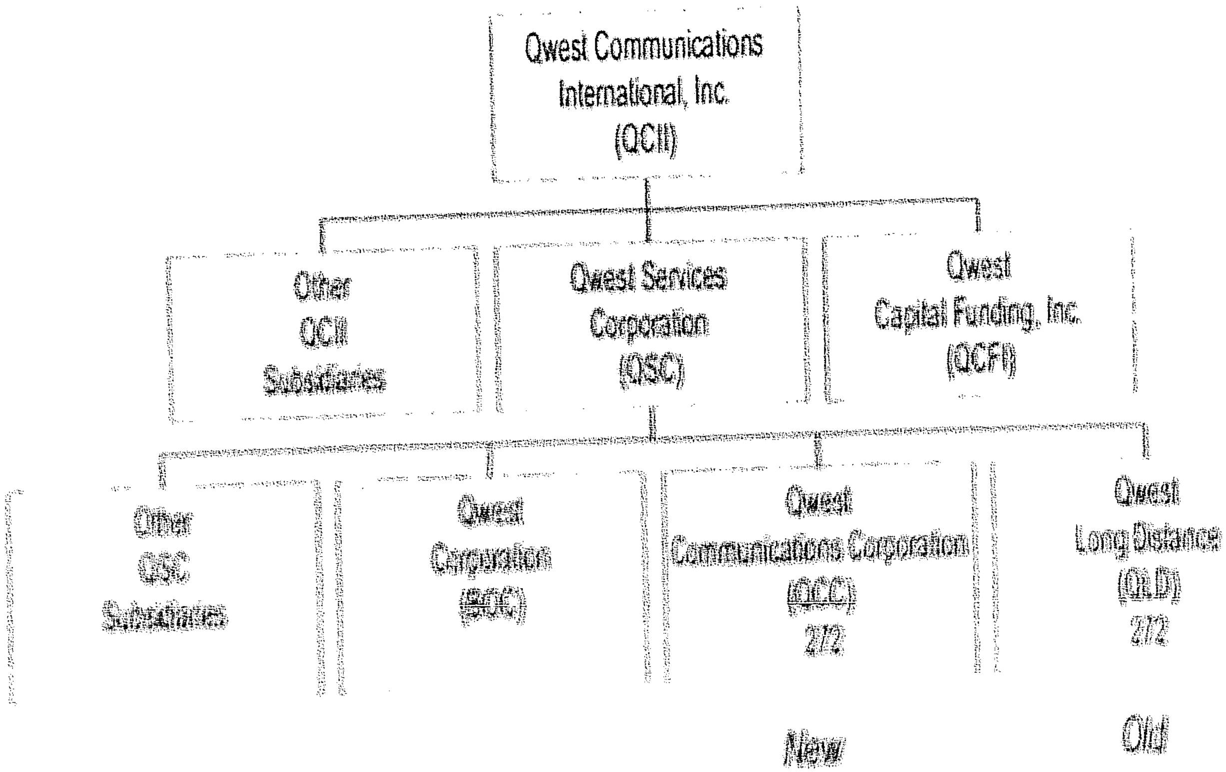
Ms. Schwartz has over 13 years experience in the telecommunications and high tech industries, concentrating in regulatory compliance, finance, and accounting. Ms. Schwartz began her career with U S WEST Communications, Inc., now Qwest Corporation, in 1989 in the Tax Department. In 1990, and began working in FCC Regulatory Accounting with responsibilities in Part 64 cost allocation and Part 32.27 affiliate transactions compliance for six years, and chaired an industry task group representing those areas. From 1996-1999, Ms. Schwartz gained further accounting and finance experience in the high tech industry in California. Ms. Schwartz resumed her career at U S WEST Communications, Inc., now Qwest Corporation, in 1999.

Ms. Schwartz has filed testimony on the subject of Section 272 in Arizona, Colorado, Idaho, Iowa, Montana, Nebraska, New Mexico, North Dakota, Oregon, Utah, Washington and Wyoming. She has participated in workshops in Arizona, Colorado, and Washington, as well as the multi-state workshops for Idaho, Iowa, Montana, New Mexico, North Dakota, Utah and Wyoming and in hearings in Nebraska.

QWEST CORPORATE STRUCTURE

Qwest Corporate Structure

ride the light
Qwest



CONFIDENTIAL/PROPRIETARY INFORMATION CLASSIFICATION RATIONALE

Description/Title of Information: QWEST CORPORATION CHART OF ACCOUNTS

Confidential/Proprietary Designation Rationale:

This exhibit categorizes the Chart of Accounts for Qwest Corporation. The detailed subaccounts listed in this document contain confidential information about revenue streams and cost categories. Because this information would be valuable to Qwest Corporation's competitors, it is proprietary.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NO. 1-3040

QWEST CORPORATION
(formerly known as U S WEST Communications, Inc.)

A COLORADO CORPORATION (State or other jurisdiction of incorporation or organization)	84-0273800 (I.R.S. Employer Identification No.)

1801 CALIFORNIA STREET, DENVER, COLORADO 80202
TELEPHONE NUMBER (303) 992-1400

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
5.625% Notes Due 2008	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
NONE

THE REGISTRANT, A WHOLLY-OWNED SUBSIDIARY OF QWEST COMMUNICATIONS INTERNATIONAL INC., MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION I(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION I(2).

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. ***

*** Not applicable in that registrant is a wholly-owned subsidiary.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Qwest Corporation:

We have audited the accompanying consolidated balance sheets of Qwest Corporation (a Colorado corporation) and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholder's equity, and cash flows for each of the three years in the period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Qwest Corporation and subsidiaries as of December 31, 2000 and 1999, and the results of their operations, changes in stockholder's equity and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

/s/ ARTHUR ANDERSEN LLP

Denver, Colorado,
January 24, 2001

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

FCC REPORT 43-03

ARTHUR ANDERSEN

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To U S WEST Communications, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States, the balance sheet of U S WEST Communications, Inc. (the "Company") at December 31, 1999, and the related statements of income, stockholder's equity and cash flows for the year then ended. We have also issued our report dated January 26, 2000, in which we expressed an unqualified opinion on those financial statements. We have also audited the accompanying Federal Communications Commission (the "FCC") Report 43-03, ARMIS Joint Cost Report (columns (b) through (j) on pages 1 through 18) of the Company for the year ended December 31, 1999.

As described in Note 1, this report was prepared pursuant to the Company's Cost Allocation Manual, the FCC's Joint Cost Orders issued in conjunction with FCC Docket No. 86-111 and the FCC's published rules and regulations thereto (including 47 CFR Sections 32.23, 32.37, 64.901 and 64.903) in force as of March 31, 2000. This report was prepared for the purpose of complying with those rules and regulations and is not intended to be a complete presentation of the Company's financial statements. The FCC Report 43-03, ARMIS Joint Cost Report is the responsibility of the Company's management. Our responsibility is to express an opinion on the FCC Report 43-03, ARMIS Joint Cost Report based on our audit.

We conducted our audit of the FCC Report 43-03, ARMIS Joint Cost Report in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the FCC Report 43-03, ARMIS Joint Cost Report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the report. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall report presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the FCC Report 43-03, ARMIS Joint Cost Report referred to above presents fairly, in all material respects, the information of the Company required to be set forth therein for the year ended December 31, 1999, in accordance with the Company's Cost Allocation Manual, the FCC's Joint Cost Orders issued in conjunction with FCC Docket No. 86-111 and the FCC's published rules and regulations thereto (including 47 CFR Sections 32.23, 32.27, 64.901 and 64.903) in force as of March 31, 2000.

This report is intended for the information of the Company and the FCC which established the criteria against which the FCC Report 43-03, ARMIS Joint Cost Report was evaluated. Accordingly, this report should not be used for any other purpose.

Arthur Andersen LLP

Denver, Colorado,
March 31, 2000.

QWEST CORPORATION
OFFICERS

- James A. Smith – President
- Robert Tregemba – Senior Vice President – Network
- Mark Schumacher – Vice President & Controller
- Beth Halvorson – Vice President – Wholesale
- Mark Pitchford – Vice President – Retail Markets
- Kamelia Davidson – Assistant Secretary
- Jennifer Pettus – Assistant Secretary

DIRECTORS

- Augustine M. Cruciotti – Director
- James A. Smith – Director

MASTER SERVICES AGREEMENT

MASTER SERVICES AGREEMENT

BETWEEN

QWEST CORPORATION

AND

QWEST COMMUNICATIONS CORPORATION

TABLE OF CONTENTS

EXHIBIT

MASTER SERVICES AGREEMENT
QWEST CORPORATION
AND
QWEST COMMUNICATIONS CORPORATION

[illegible] Jan 2001 [illegible]

Qwest Corporation [illegible]

Qwest Communications Corporation hereinafter [illegible]

[illegible]

ARTICLE 1
DESCRIPTION OF SERVICES

[illegible] agrees to provide services ("Services") to QCC [illegible] incorporated herein as Exhibit A, and QCC agrees to pay for these services consistent with the [illegible] Order.

[illegible] Order shall include at a minimum the [illegible] information:

Description/Location of Service(s) Requested
Dates of Commencement and Completion of Service(s) Requested
Units and Price per Unit for Requested Service
[illegible]
[illegible]
Special Requirements, if required
[illegible] manager and type of personnel in work group to perform functions

[illegible] Qwest [illegible] developed products or Services

ARTICLE 2
TERM

[illegible] Agreement shall become effective as of 1-19-01 and will remain in full force and effect until [illegible] party provides sixty (60) calendar days written notice of termination to the other party. If this Agreement is terminated prior to the completion of any Service, QCC shall pay [illegible] charges billed and [illegible] to Qwest Corp for Services performed up to and including the date of termination, provided [illegible] performed are in accordance with the terms and conditions of this Agreement. Qwest Corp shall [illegible] any such work in progress prior to the termination of the Agreement, and Qwest Corp shall perform such Services in accordance with the terms and conditions of this Agreement.

[illegible] MSA Master
[illegible] Qwest Communications Corporation

ARTICLE 3
BILLING

A. Qwest Corp shall submit invoices to QCC for Services provided in accordance with the terms and conditions of this Agreement on a monthly basis unless otherwise specified in the Work Order. QCC shall notify Qwest Corp of the address to which invoices are to be sent.

B. Invoices shall include the following billing information as a minimum:

1. Invoice number
2. Payment due date
3. Date of Service
4. Description of charges
5. Applicable taxes
6. Total charge

ARTICLE 4
INDEPENDENT CONTRACTOR

Qwest Corp hereby declares and agrees that it is engaged in an independent business and will perform its obligations under this Agreement as an independent contractor and not as the agent or employee of QCC; that Qwest Corp does not have the authority to act for QCC or to bind QCC in any respect whatsoever, or to incur any debts or liabilities in the name of or on behalf of QCC; that any persons provided by Qwest Corp shall be solely the employees or agents of Qwest Corp under its sole and exclusive direction and control. Qwest Corp and its employees or agents are not entitled to QCC's unemployment insurance benefits as a result of performing under this Agreement. Qwest Corp shall be solely responsible for all matters relating to payment of its employees and agents, including compliance with worker's compensation, unemployment, disability insurance, social security withholding, and all other federal, state and local rules and regulations. Qwest Corp shall indemnify and hold QCC harmless from any causes of action arising out of Qwest Corp's liability to its employees or agents.

ARTICLE 5
PROPRIETARY INFORMATION

Solely for the purposes of providing Services under this Agreement, each party grants to the other a nonexclusive, nontransferable license to use information provided by the other. Neither party shall publish, circulate, or otherwise distribute or disclose any such information that is marked proprietary or confidential to any third party other than its affiliates and its consultants who have executed a confidentiality agreement unless and until (1) the original disclosing party has consented to such disclosure and such third party executes a confidentiality agreement containing terms substantially similar to the ones contained in this Agreement, (2) such information has come into the public domain through no fault of QCC or Qwest Corp, (3) such information is otherwise in the possession of QCC or Qwest Corp free of any obligation of confidentiality, or (4) such party is required to do so by regulatory mandate.

Any third party information provided by QCC or Qwest Corp to the other party shall be deemed QCC or Qwest Corp information according to its source and shall be treated accordingly. If such information is subject to a separate agreement with a third party, the party receiving information agrees to hold and use the information in strict accordance with the separate agreement, provided it has knowledge of the separate agreement, unless otherwise instructed in writing by the party providing the information.

ARTICLE 6
INDEMNIFICATION

A. Qwest Corp shall indemnify and hold harmless QCC, its owners, parents, subsidiaries, affiliates, agents, directors and employees against all Liabilities to the extent they arise from or in connection with: (1) the fault or negligence of Qwest Corp, its officers, employees, agents, subcontractors and/or representatives; and/or (2) the furnishing, performance or use of any Services under this Agreement or any product liability claims relating to any Services; and/or (3) failure by Qwest Corp, its officers, employees, agents, subcontractors and/or representatives to comply with the Article entitled "Compliance with Laws;" and/or (4) assertions under workers' compensation or similar employee benefit acts by Qwest Corp or its employees, agents, subcontractors, or subcontractors' employees or agents.

B. QCC shall indemnify and hold harmless Qwest Corp, its owners, parents, subsidiaries, affiliates, agents, directors and employees against all Liabilities to the extent they arise from or in connection with: (1) the fault or negligence of QCC its officers, employees, agents, subcontractors and/or representatives; and/or (2) the furnishing, performance or use of any Services under this Agreement or any product liability claims relating to any Services; and/or (3) failure by QCC, its officers, employees, agents, subcontractors and/or representatives to comply with the Article entitled "Compliance with Laws," and/or (4) assertions under workers' compensation or similar employee benefit acts by QCC or its employees, agents, subcontractors, or subcontractors' employees or agents,

ARTICLE 7
LIMITATION OF LIABILITY

Neither party is liable to the other for consequential, incidental, indirect, punitive or special damages, including commercial loss and loss profits, however caused and regardless of legal theory or foreseeability, directly or indirectly arising under this Agreement. Notwithstanding the foregoing, the parties are liable in accordance with the provisions of this Agreement and this limitation of liability shall not apply to the indemnification obligations under this Agreement.

ARTICLE 8
REGULATORY SUPPORT

This agreement shall comply with all state statutes and regulations, and Qwest Corp shall bear the financial risk if it does not. The parties agree that to the extent Qwest Corp is under the regulation of federal or state agencies, QCC will provide cooperation and support for Qwest Corp's response to regulatory inquiries or discovery requests concerning this Agreement or relationships derived from this Agreement.

ARTICLE 9
COMPLIANCE WITH LAWS

A. The parties shall obtain and maintain at its own expense all permits and licenses and pay all fees required by law with respect to any Services and/or performance of this Agreement. The parties shall, in connection with performance of and Services under this Agreement, comply with all applicable federal, state, and local laws, ordinances, rules, regulations, court orders, and governmental or regulatory agency orders ("Laws"), including, without limitation:

1. The Communications Act of 1934, as amended and all rules, regulations and orders issued in connection with that Act and this Agreement shall, to the greatest extent possible, be construed to be consistent with the same.

2. Laws relating to non-discrimination in employment, fair employment practices, equal employment opportunity, employment opportunities for veterans, non-segregated facilities, and/or employment of the disabled, except to the extent a party is exempt therefrom, and the Laws and contract clauses required by those Laws to be made a part of this Agreement are incorporated herein by this reference.

3. The Laws referred to in the Article entitled "Independent Contractor".

B. Qwest Corp acknowledges that Purchase(s) and/or Confidential Information ("Exports") may be subject to U.S. and applicable foreign export laws or regulations. Qwest Corp shall perform its obligations under this Agreement in a manner consistent with the requirements of all applicable U.S. and all applicable foreign laws and regulations, including the U.S. export laws and regulations, the Foreign Corrupt Practices Act, and anti-boycott laws, and U.S. export laws and regulations prohibiting the unauthorized export or re-export of certain items to residents of countries listed in U.S. Export Administration Regulations.

C. The requirements of this Article shall survive the expiration, termination or cancellation of this Agreement. All provisions of this Article shall also apply to all subcontractors, and similar terms shall be included in all Qwest Corp's contracts with subcontractors.

ARTICLE 10
NOTICES

Where written notices, demands, or other communications are required under this Agreement, they shall be deemed duly given when made in writing and delivered to the other party's address listed below. Addresses may be changed by written notice to the other party. Notices shall be delivered by hand, overnight courier service or certified mail, return receipt requested. Notification will be deemed to have taken place upon delivery, if delivery is by hand, overnight courier service or five (5) calendar days after posting if sent by certified mail.

Qwest Communications Corporation
Attention: Contract Manager
Contract Development & Services
7800 East Orchard Road, Suite 250
Englewood, CO 80111-2526

Qwest Corporation
Attention: Contract Specialist
Contract Development & Services
7800 East Orchard Road, Suite 250
Englewood, CO 80111-2526

ARTICLE 11
DISPUTE RESOLUTION

A. Any claim, controversy or dispute which arises between the parties, their agents, employees, officers, directors or affiliates ("Dispute") which the parties are unable to settle through consultation and negotiation may be mediated under the Commercial Mediation Rules of the American Arbitration Association ("AAA") by a mutually acceptable mediator. Any Dispute which cannot be resolved through negotiation or mediation shall be resolved by binding arbitration as provided in this Article. The arbitrability of claims shall be determined under the Federal Arbitration Act, 9 USC Secs. 1-16. Notwithstanding the foregoing, the parties may cancel or terminate this Agreement in accordance with its terms and conditions without being required to follow the procedures set forth in this Article.

B. A single arbitrator engaged in the practice of law, who is knowledgeable about the subject matter of this Agreement and the matter in Dispute, shall conduct the arbitration under the rules of the AAA then in effect, except as otherwise provided herein. The arbitrator shall be selected in accordance with AAA procedures from a list of qualified people maintained by the AAA. The arbitration shall be conducted in Denver, Colorado, and all expedited procedures prescribed by the AAA rules shall apply. The laws of Colorado shall govern the construction and interpretation of this Agreement. The arbitrator's decision and award shall be final, conclusive and binding, and judgment may be entered upon it in accordance with applicable law in any court having jurisdiction thereof.

C. Either party may request from the arbitrator injunctive relief to maintain the status quo until such time as the arbitration award is rendered or the Dispute is otherwise resolved. The arbitrator shall not have authority to award punitive damages. Each party shall bear its own costs and attorneys' fees, and the parties shall share equally the fees and expenses of the mediator and arbitrator.

D. If any party files a judicial or administrative action asserting claims subject to arbitration, as prescribed herein, and another party successfully stays such action and/or compels arbitration of said claims, the party filing said action shall pay the other party's costs and expenses incurred in seeking such stay and/or compelling arbitration, including reasonable attorneys' fees.

E. Qwest Corp agrees that in the event of any Dispute between the parties, it will continue to provide Services without interruption.

[illegible]

[illegible]

[illegible]

[illegible]

CONTINUATION

[1]

Scan ~ ~ # Pgs [ ]

SUMMARY OF AFFILIATE TRANSACTIONS

[illegible] ☐ [illegible] $ [illegible] ☐ Terminated Services ☐ Asset Transfer

[illegible] __ to __ Qwest Corporation to __from__ _____, a Qwest affiliate.
[illegible] 272 [illegible] __

[illegible]

[illegible] Termination Date (if applicable):

[illegible] to Qwest Corporation or Gross Book Value, listed by Primary USOA Account:
[illegible] Account
$

[illegible] Expenses to the States:
[illegible]
[illegible] the percentage assigned to each state.)

[illegible] __ or lower __ of net book value or fair market value.
[illegible] $
[illegible] $

[illegible]
__ [illegible]
__ [illegible] state commission pursuant to Section 252(e)
__ [illegible]
__ [illegible] Cost or Fair Market Value
__ [illegible] Cost or Fair Market Value

[illegible] 272 [illegible], Please Provide the Following Information:

[illegible]
[illegible]
[illegible]
[illegible]
[illegible] for the actual prices charged.
[illegible]

[illegible]	Name of Qwest Affiliate:
[illegible] ____________	Signed: ____________
[illegible] ____________	Printed Name: ____________
[illegible] ____________	Title: ____________
[illegible] ____________	Date: ____________

[illegible]

[illegible]
[illegible]
[illegible]

272 Compliance Oversight Team
Charter

[illegible]	October 1, 2000. Replaces 272 Working Team.
[illegible]	October 9, 2001
[illegible]	Betty Knapp – Director, FCC Regulatory Accounting Patricia Taylor – Director, State Regulatory Accounting Blair Rosenthal – Legal Counsel Marie Schwartz – Director, 272 Witness Joyce McDonald – 272 Support Team Lynn Ray – 272 Support Team Scott Hamilton – Affiliate Transaction Support Debi Adams – Compliance Manager, Policy and Law Gayle Williams – 272 Support Team Maggie Barrington - FCC Regulatory Accounting Renee Virlee - Wholesale QCC Contact Pamela McCoy - Wholesale QCC Contact Ronnie Cordova-Cloutier - Affiliate Transaction Support
[illegible]	1. Facilitate overall compliance integration of new 272 subsidiary 2. Review requests for BOC products, services, and information received from the 272 subsidiary for compliance with the: • Affiliate Transaction Rules • Nondiscrimination Safeguards 3. Review web posting processes for compliance with: • 10 day rule • Adequate disclosure • Accuracy 4. Review processes to insure separate officers, directors and employees. 5. Insure appropriate documentation is generated for all review activities.
[illegible]	Weekly, Thursday at 2:00 Mountain time or as needed.

SAMPLE OF TRANSACTIONS DISCLOSED ON THE WEBSITE

Qwest Communications Corporation Section 272 Affiliate Transactions

[illegible]

[illegible] is a Bell Operating Company (BOC).

[illegible] (QCC) is a Section 272 [illegible]

[illegible]

[illegible] Act of 1996 requires [illegible] Company (BOC) [illegible] "reduced to writing and [illegible]".

[illegible] U S WEST [illegible] is a BOC as defined by Section 272. [illegible] is a Section 272 affiliate [illegible]. This web site includes the transactions [illegible] and Qwest Communications [illegible]

[illegible] each of the requirements [illegible] related regulations [illegible]. Accordingly, this site contains [illegible] and Qwest [illegible] a section labeled "[illegible]" [illegible] services that Qwest [illegible] out of Qwest [illegible]. This section also contains a hot link to [illegible] the tariffs themselves can be [illegible]

[illegible] is located in the [illegible] "[illegible]". The Master Services [illegible] document the rates, [illegible] by QC to QCC. The [illegible] Task Orders document the [illegible] by QCC to [illegible]

"Terminated Transactions" represent transactions that have expired or have been replaced.

Documentation of new transactions will be posted on the Internet within ten (10) days of being executed by both parties. In the event that an Agreement is executed before a rate or other specific term has been developed for the service, the posted Agreement will contain a notation that the rate or other specific term is "to be determined". Once new information is received, the Agreement will be updated and the new information will be posted within 10 days.

Qwest Corporation has another Section 272 affiliate, Qwest Long Distance. To view transactions between Qwest Corporation and Qwest Long Distance, please click here:

http://www.qwest.com/about/policy/docs/long_distance.html

ABOUT QWEST | CAREERS AT QWEST

About Qwest

Affiliate Transactions

Qwest Communications Corporation
Section 272 Affiliate Transactions

Posting Summary

» Return to Current Transactions

Agreement	Signed Date	End Date	Date Posted	Removal Date*	Days Sign-Post
Current Agreements					
Master Services Agreement	01/19/01	Indefinite	03/26/01	N/A	N/A [1]
(For services provided from QC to QCC)					
Amendment 1 to Master Services Agreement	07/19/01	Indefinite	07/23/01	N/A	4
Access to Mineral Lab Work Order	09/25/01	Indefinite	10/01/01	N/A	6
Bill Printing & Processing Work Order	09/25/01	Indefinite	10/01/01	N/A	6
Correspondence Center Work Order	09/25/01	Indefinite	10/01/01	N/A	6
Discounts for Universal Services Administration Corporation Work Order	09/25/01	Indefinite	10/01/01	N/A	6
Employee Discount Work Order	09/25/01	Indefinite	10/01/01	N/A	6
Finance Services Work Order	09/25/01	Indefinite	10/01/01	N/A	6
Human Resources Work Order	09/25/01	Indefinite	10/01/01	N/A	6
Information Technologies Work Order	09/25/01	Indefinite	10/01/01	N/A	6
Integrated Office Technologies Work Order	09/25/01	Indefinite	10/01/01	N/A	6
Intermedia Communications Work Order	09/25/01	Indefinite	10/01/01	N/A	6
Qwest Marketing Work Order	09/25/01	Indefinite	10/01/01	N/A	6
Waste Identification Work Order	09/25/01	Indefinite	10/01/01	N/A	6

Shared Space & Furniture Rental Work Order	09/25/01	Indefinite	10/01/01	N/A	6
Small Business & Consumer Services Work Order	09/25/01	Indefinite	10/01/01	N/A	6
Tariff Support Services Work Order	09/25/01	Indefinite	10/01/01	N/A	6
Services Agreement	01/19/01	Indefinite	03/26/01	N/A	N/A (1)
(For services provided from QCC to QC)					
Amendment 1 to Services Agreement	07/19/01	Indefinite	07/23/01	N/A	4
Lease of Fiber Optic Lines Task Order	09/25/01	Indefinite	10/01/01	N/A	6
Use of Test Equipment Task Order	09/25/01	Indefinite	10/01/01	N/A	6
Expired Agreements					
Work Order - Access to Mineral Lab	03/22/01	09/30/01	03/26/01	09/30/02	N/A (1)
Amendment 1 to Work Order - Access to Mineral Lab	05/03/01	09/30/01	05/09/01	09/30/02	6
Amendment 2 to Work Order - Access to Mineral Lab	05/16/01	09/30/01	05/22/01	09/30/02	6
Work Order - Bill Printing & Processing	05/01/01	09/30/01	05/03/01	09/30/02	2
Work Order - Correspondence Work	03/08/01	09/30/01	03/26/01	09/30/02	N/A (1)
Amendment 1 to Work Order - Correspondence Work	04/30/01	09/30/01	05/03/01	09/30/02	3
Work Order - Discounts for USAC	03/19/01	09/30/01	03/26/01	09/30/02	N/A (1)
Work Order - Employee Discount	03/12/01	09/30/01	03/26/01	09/30/02	N/A (1)
Work Order - Finance Services	03/22/01	09/30/01	03/26/01	09/30/02	N/A (1)
Amendment 1 to Work Order - Finance Services	05/11/01	09/30/01	05/18/01	09/30/02	7
Amendment 2 to Work Order - Finance Services	05/31/01	09/30/01	06/06/01	09/30/02	6
Amendment 3 to Work Order - Finance Services	07/31/01	09/30/01	08/01/01	09/30/02	1
Work Order - Global Business Channel Planning	03/22/01	05/11/01	03/27/01	05/11/02	5
Work Order - Human Resources Services	03/22/01	09/30/01	03/26/01	09/30/02	N/A (1)
Work Order - Information Technologies	03/22/01	09/30/01	03/26/01	09/30/02	N/A (1)
Work Order - Integrated Office Solutions	03/19/01	09/30/01	03/26/01	09/30/02	N/A (1)

Work Order - Interim Common Supervision	03/27/01	03/02/01	03/28/01	03/02/02	1
Work Order - Interim Engineering Support	03/22/01	03/01/01	03/26/01	03/01/02	N/A (1)
Work Order - Interim Finance Services	03/22/01	03/02/01	03/26/01	03/02/02	N/A (1)
Amendment 1 to Work Order - Interim Finance Services	05/11/01	03/02/01	05/18/01	03/02/02	7
Amendment 2 to Work Order - Interim Finance Services	05/16/01	03/02/01	05/22/01	03/02/02	6
Amendment 3 to Work Order - Interim Finance Services	05/31/01	03/02/01	06/06/01	03/02/02	6
Work Order - Interim Financial Management	03/22/01	03/03/01	03/26/01	03/03/02	N/A (1)
Work Order - Interim Human Resources Services	03/22/01	03/02/01	03/26/01	03/02/02	N/A (1)
Amendment 1 to Work Order - Interim Human Resources Services	05/11/01	03/02/01	05/18/01	03/02/02	7
Work Order - Interim Network Support	03/19/01	03/01/01	03/26/01	03/01/02	N/A (1)
Amendment 1 to Work Order - Interim Network Support	05/02/01	06/01/01	05/09/01	06/01/02	7
Work Order - Interim Planning & Marketing Services	03/22/01	03/03/01	03/26/01	03/03/02	N/A (1)
Work Order - Interim Policy & Law Support Services	03/22/01	03/03/01	03/26/01	03/03/02	N/A (1)
Work Order - Interim Product Development	03/27/01	03/02/01	03/28/01	03/02/02	1
Work Order - Interim Security Services	03/22/01	03/02/01	03/26/01	03/02/02	N/A (1)
Work Order - Interim Shared Space & Furniture Rental	05/01/01	12/31/00	05/03/01	12/31/01	2
Amendment 1 to Work Order - Interim Shared Space & Furniture Rental	05/11/01	12/31/00	05/18/01	12/31/01	7
Work Order - Intermedia Communications	03/14/01	09/30/01	03/26/01	09/30/02	N/A (1)
Amendment 1 to Work Order - Intermedia Communications	05/03/01	09/30/01	05/09/01	09/30/02	6
Work Order - Official Communications Services	03/19/01	03/01/01	03/26/01	03/01/02	N/A (1)
Work Order - Sale of QCC Products & Services	03/22/01	09/30/01	03/26/01	09/30/02	N/A (1)
Amendment 1 to Work Order - Sale of QCC Products & Services	06/18/01	09/30/01	06/25/01	09/30/02	7
Amendment 2 to Work Order - Sale	07/12/01	09/30/01	07/18/01	09/30/02	6

of QCC Products & Services					
Amendment 3 to Work Order - Sale of QCC Products & Services	08/14/01	09/30/01	08/16/01	09/30/02	2
Work Order - Secure ID	03/22/01	01/01/01	03/26/01	01/01/02	N/A (1)
Work Order - Shared Space & Furniture Rental	03/19/01	09/30/01	03/26/01	09/30/02	N/A (1)
Amendment 1 to Work Order - Shared Space & Furniture Rental	05/11/01	09/30/01	05/18/01	09/30/02	7
Amendment 2 to Work Order - Shared Space & Furniture Rental	06/14/01	09/30/01	06/20/01	09/30/02	6
Amendment 3 to Work Order - Shared Space & Furniture Rental	08/21/01	09/30/01	08/24/01	09/30/02	3
Work Order - Small Business & Consumer Channel Planning	02/09/01	09/30/01	03/26/01	09/30/02	N/A (1)
Amendment 1 to Work Order - Small Business & Consumer Services	05/01/01	09/30/01	05/03/01	09/30/02	2
Amendment 2 to Work Order - Small Business & Consumer Services	05/03/01	09/30/01	05/09/01	09/30/02	6
Amendment 3 to Work Order - Small Business & Consumer Services	08/22/01	09/30/01	08/28/01	09/30/02	6
Work Order - Tariff Support Services	03/22/01	09/30/01	03/26/01	09/30/02	N/A (1)
Work Order - Voice Over IP	03/19/01	09/30/01	03/26/01	09/30/02	N/A (1)
Asset Transfer - Transfer of Desktop Computer Equipment	04/24/01	09/30/01	04/25/01	09/30/02	1
Task Order - Financial Services	04/10/01	06/01/01	04/16/01	06/01/02	6
Task Order - Interim Administrative Services	03/27/01	03/03/01	03/28/01	03/03/02	1
Task Order - Interim Common Supervision	03/27/01	03/02/01	03/28/01	03/02/02	1
Amendment 1 to Task Order - Interim Common Supervision	04/10/01	03/02/01	04/16/01	03/02/02	6
Task Order - Interim Executive Management	04/10/01	03/02/01	04/16/01	03/02/02	6
Task Order - Interim Human Resources Services	03/27/01	03/02/01	03/28/01	03/02/02	1
Amendment 1 to Task Order - Interim Human Resources Services	04/10/01	03/02/01	04/16/01	03/02/02	6
Task Order - Interim Product Development/Management Services	04/10/01	03/02/01	04/16/01	03/02/02	6
Task Order - Lease of Fiber Optic Lines	02/26/01	09/30/01	03/26/01	09/30/02	N/A (1)
Task Order - Use of Test Equipment	03/27/01	09/30/01	03/28/01	09/30/02	1
Asset Transfer - Transfer of Desktop Computer Equipment	04/24/01	09/30/01	04/25/01	09/30/02	1

* Internet postings will be maintained during the term of the contract and for a period of one year thereafter, unless the contract is superseded or replaced. In such cases the contract will be removed once the superceding or replacement contract has is superseded or replaced. In such cases the contract will be removed once the superceding or replacement contract has been posted. Removal dates are subject to change if contracts are renewed or extended through amendments.
Note: Work Orders are prepared when products, information, or services are provided from Qwest Corporation (Regulated) to Qwest Communications Corporation, the Section 272 organization (Unregulated). Task Orders are prepared when Qwest Communications Corporation provides products, information, or services to Qwest Corporation.

[1] QCC web site not activated until 03/26/01.

About Qwest

Affiliate Transactions

- Overview
- Posting Procedures
- Current Transactions
- Posting Summary
- Tariff Rated Services
- Terminated Transactions
- Certification Statement
- Written Copies

Qwest Communications Corporation Section 272 Affiliate Transactions

Current Transactions

to Qwest Communications Corporation, the Section 272 affiliate:

Master Services Agreement

Amendment 1 to Master Services Agreement

Access to Mineral Lab Facility Work Order

Bill Printing & Processing Work Order

Correspondence Center Work Order

Discounts for Universal Service Administration Corporation Work Order

Employee Discount for Telecommunications Services Work Order

Finance Services Work Order

Human Resources Services Work Order

Information Technologies Services Work Order

Integrated Office Solutions Work Order

Intermedia Communications Work Order

Joint Marketing Work Order

Photo Identification Services Work Order

Shared Space & Furniture Rental Work Order

Small Business & Consumer Services Work Order

Tariff Support Services Work Order

Services provided from Qwest Communications Corporation, the Section 272 affiliate to Qwest Corporation (the Bell Operating Company)

Services Agreement

Amendment 1 to Services Agreement

Lease of Fiber Optic Lines Task Order

Use of Test Equipment Task Order

SEARCH GO ABOUT QWEST CAREERS AT QWEST

About Qwest

Affiliate Transactions

Qwest Communications Corporation
Section 272 Affiliate Transactions

Back to Current Transactions

SUMMARY OF AFFILIATE TRANSACTIONS

WORK ORDER

Finance Services

[ ] Original Summary of Services [X] Amendment (# 4)

For services provided from Qwest Corporation to Qwest Communications Corporation, a Section 272 affiliate.

Description of Services Provided:

General Finance Services *- providing general accounting and business advice for Qwest Communications Corporation (QCC) business transactions.*

Tax Accounting *- providing tax support for income tax accounting calculations, consolidations and tax issues.*

Payroll Services *- providing payroll support to QCC in processing payroll, maintaining the payroll system, including input, check processing, record maintenance, payroll tax filings, employee benefit remittances and payroll related account reconciliation.*

Accounts Payable *- providing the processing of employee and vendor invoices and payments and accounts payable reconciliation.*

General Ledger Processing *- providing the processing of the general ledger system.*

Fixed Asset Accounting *- providing the recording of capital assets, providing the physical inventory, calculating depreciation and meeting all fixed asset tax requirements.*

Bankruptcy Work *- providing bankruptcy work to QCC for regional toll accounts. Work includes searching for accounts, determining post-petition charges, moving accounts to bankruptcy collectors database, preparing spreadsheets for adjustments, mailing deposit letters to customers, populating tracker database and filing proof of claims.*

Effective Date: 10/01/01

Termination Date:

[ ] Specific termination date:

[X] Ongoing transactions until cancelled in accordance with Master Services Agreement provision

Special Equipment Used in Providing Service: None

Number of Personnel Used to Provide Each Service: See Pricing Addendum

Type/Title of Personnel Providing Each Service: See Pricing Addendum for Titles of Personnel

Estimated Length of Time to Complete Transaction (for specific projects only):

Expected Frequency of Services Provided: See Pricing Addendum

Pricing: See Pricing Addendum for the actual prices charged.

Approved By:

Qwest Corporation
Signed: Mark W. Oldaker
Printed Name: Mark W. Oldaker
Title: Business Unit Affiliate Manager
Date: 09/10/01

Qwest Communications Corporation
Signed: Judith L. Brunsting
Printed Name: Judith L. Brunsting
Title: Executive Director
Date: 09/25/01

Comments: *Amendment Four to the Finance Services Work Order replaces the original Finance Services Work Order and all previous amendments including the related Pricing Addenda in their entirety.*

About Qwest

Affiliate Transactions

Qwest Communications Corporation
Section 272 Affiliate Transactions

Back to Current Transactions

Finance Services
Addendum A - Pricing
Effective: October 1, 2001

A. General Finance Services

Service	*Employee Title & Salary Level/ Wage Scale*	*Number of Qwest Corporation Employees*	*Rate/ Unit*	*Pricing Methodology (Tariff, PFR, FCR, FDC/FMV)*[1]	*Frequency of Service (Daily, Monthly, Occasionally)*[2]
General Finance Services Per Hourly Rates	Senior Director/ Salary Level 8	1- 5	$159.65 Per Hour	FDC	Daily
General Finance Services Per Hourly Rates	Director/ Salary Level 7	1- 5	$113.20 Per Hour	FDC	Daily
General Finance Services Per Hourly Rates	Sr. Manager/ Salary Level 5	1- 10	$67.75 Per Hour	FDC	Daily
General Finance Services Per Hourly Rates	Business Analyst/ Salary Level 4	1- 10	$57.45 Per Hour	FDC	Daily
General Finance Services Per Hourly Rates	General Accountant/ Salary Level 3	1- 5	$45.81 Per Hour	FDC	Daily
General Finance Services Per Hourly Rates	General Accountant/ Salary Level 2	1- 5	$38.58 Per Hour	FDC	Daily
General Finance Services Per Hourly Rates	Office Clerical Assistant/ Wage Scale 11	1- 5	$23.42 Per Hour	FDC	Daily
General Finance Services Per Hourly Rates	Data Administrator/ Wage Scale 9	1- 5	$32.90 Per Hour	FDC	Daily
General Finance Services Per Hourly Rates	Data Specialist/ Wage Scale 8	1- 5	$33.56 Per Hour	FDC	Daily
General Finance	Information				

Services Per Hourly Rates	Specialist/ Wage Scale 7	1- 5	$33.65 Per Hour	FDC	Daily
General Finance Services Per Hourly Rates	Technical Clerk/ Wage Scale 6	1- 5	$37.18 Per Hour	FDC	Daily
General Finance Services Per Hourly Rates	Analytical Assistant/ Wage Scale 4	1- 5	$40.46 Per Hour	FDC	Daily
General Finance Services Per Hourly Rates	Analysis Clerk – Specialist/ Wage Scale 3	1- 5	$46.76 Per Hour	FDC	Daily

B. Payroll Services

Service	***Employee Title & Salary Level/ Wage Scale***	***Number of Qwest Corporation Employees***	***Rate/ Unit***	***Pricing Methodology*** *(Tariff, PFR, PCP, FDC/FMV)*	***Frequency of Service*** *(Daily, Monthly, Occasionally)*
Payroll Processing			$2.69 Per Employee Per Month	FDC	Daily
Payroll Processing	Director General Accounting/ Salary Level 8, Sr. Manager Payroll/ Salary Level 5, Sr. Manager Customer Service/ Salary Level 5, Supervisor Customer Service/ Salary Level 4, Senior Process Analyst/ Salary Level 4, Supervisor Payroll/ Salary Level 4, Financial Business Analyst/ Salary Level 4, Analytical Assistant/ Wage Scale 4, Technical Clerk/ Wage Scale 6	1- 87	$39.03 Per Manual Check	FDC	Daily

C. Accounts Payable Service

Service	***Employee Title & Salary Level/ Wage Scale***	***Number of Qwest Corporation Employees***	***Rate/ Unit***	***Pricing Methodology*** *(Tariff, PFR, PCP, FDC/FMV)*	***Frequency of Service*** *(Daily, Monthly, Occasionally)*
Accounts Payable Processing	Director/ Salary Level 7, Senior Manager/ Salary Level 5, Business Analyst/ Salary Level 4, Schedule Clerk/ Wage Scale 4,	1-53	$1.26 Per Invoice	FDC	Daily

	Technical Clerk/ Wage Scale 6				

D. General Ledger Processing

Service	*Employee Title & Salary Level/ Wage Scale*	*Number of Qwest Corporation Employees*	*Rate/ Unit*	*Pricing Methodology* (Tariff, PFR, PCP, FDC/FMV)	*Frequency of Service* (Daily, Monthly, Occasionally)
General Ledger Processing	Professional Management/ Salary Level 5, Senior Project Professional/ Salary Level 4	1-4	$0.0062 Per Transaction	FDC	Daily

E. Bankruptcy Work

Service	*Employee Title & Salary Level/ Wage Scale*	*Number of Qwest Corporation Employees*	*Rate/ Unit*	*Pricing Methodology* (Tariff, PFR, PCP, FDC/FMV)	*Frequency of Service* (Daily, Monthly, Occasionally)
Bankruptcy Work Per Hourly Rates	Senior Manager/ Salary Level 5, Supervisor Support/ Salary Level 4, Analytical Assistant/ Wage Scale 4	1- 21	$76.50 Per Hour	FMV	Daily

F. Fixed Asset Accounting

Service	*Employee Title & Salary Level/ Wage Scale*	*Number of Qwest Corporation Employees*	*Rate/ Unit*	*Pricing Methodology* (Tariff, PFR, PCP, FDC/FMV)	*Frequency of Service* (Daily, Monthly, Occasionally)
Fixed Asset Accounting Services Per Hourly Rates	Director General Accountant/ Salary Level 7	1	$113.20 Per Hour	FDC	Daily
Fixed Asset Accounting Services Per Hourly Rates	Senior Manager/ Salary Level 5	1- 10	$67.75 Per Hour	FDC	Daily
Fixed Asset Accounting Services Per Hourly Rates	Staff Fixed Asset Accountant/ Salary Level 5	1- 10	$67.75 Per Hour	FDC	Daily
Fixed Asset Accounting Services Per Hourly Rates	General Accountant/ Salary Level 4	1- 20	$57.45 Per Hour	FDC	Daily
Fixed Asset Accounting Services Per Hourly Rates	Fixed Asset Accountant/ Salary Level 4	1- 20	$57.45 Per Hour	FDC	Daily
Fixed Asset Accounting Services Per	Senior Fixed Asset Accountant/ Salary Level 4	1- 20	$57.45 Per Hour	FDC	Daily

Hourly Rates					
Fixed Asset Accounting Services Per Hourly Rates	Senior General Accountant/ Salary Level 4	1- 20	$57.45 Per Hour	FDC	Daily
Fixed Asset Accounting Services Per Hourly Rates	Information Specialist/ Wage Scale 7	1- 5	$33.65 Per Hour	FDC	Daily
Fixed Asset Accounting Services Per Hourly Rates	Data Specialist/ Wage Scale 8	1- 5	$33.56 Per Hour	FDC	Daily

G. Tax Accounting

Service	***Employee Title & Salary Level/ Wage Scale***	***Number of Qwest Corporation Employees***	***Rate/ Unit***	***Pricing Methodology*** *(Tariff, PFR, PCP, FDC/FMV)*	***Frequency of Service*** *(Daily, Monthly, Occasionally)*
Tax Accounting Hourly Rate	Professional Senior Management/ Salary Level 5	1	$67.75 Per Hour	FDC	Daily
Tax Accounting Hourly Rate	Senior General Accountant/ Salary Level 4	1-5	$57.45 Per Hour	FDC	Daily
Tax Accounting Hourly Rate	Information Specialist/ Wage Scale 7	1-5	$33.65 Per Hour	FDC	Daily
Tax Accounting Hourly Rate	Data Specialist/ Wage Scale 8	1-5	$33.56 Per Hour	FDC	Daily

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[1] Pricing methodologies include Tariff or Publicly Filed Rate (PFR); Prevailing Company Price (PCP); and higher/lower of Fully Distributed Cost (FDC) or Fair Market Value (FMV).

[2] As indicated in the Cost Allocation Manual

SEARCH: GO ABOUT QWEST | CAREERS AT QWEST

DSL WIRELESS INTERNET QWEST DEX SEARCH

RESIDENTIAL SMALL BUSINESS LARGE BUSINESS PARTNERS WHOLESALE HOME

Qwest

About Qwest

COMPANY INFORMATION MEDIA INFORMATION INVESTOR INFORMATION THIS IS QWEST PUBLIC POLICY

Affiliate Transactions

Qwest Communications Corporation
Section 272 Affiliate Transactions

Back to Current Transactions

SUMMARY OF AFFILIATE TRANSACTIONS

WORK ORDER

Shared Space & Furniture Rental

[ ] Original Summary of Services [X] Amendment (# 4)

For services provided from Qwest Corporation to Qwest Communications Corporation, a Section 272 affiliate.

Description of Services Provided: *Qwest Corporation (QC) will arrange for rental of office space and rental of office furniture for Qwest Communications Corporation (QCC). Rental will be priced at the higher of Fully Distributed Cost or Fair Market Value.*

QC will also provide project management services as requested by QCC. Services may be for personnel moves, workstation arrangement, or building remodel and addition. Labor is priced at Fully Distributed Cost and procured goods and services are priced at actual cost.

Effective Date: 10/01/01

Termination Date:

[ ] Specific termination date:

[X] Ongoing transactions until cancelled in accordance with Master Services Agreement provision

Special Equipment Used in Providing Service: None

Number of Personnel Used to Provide Each Service: See Pricing Addendum

Type/Title of Personnel Providing Each Service: See Pricing Addendum for Titles of Personnel

Estimated Length of Time to Complete Transaction (for specific projects only):

Expected Frequency of Services Provided: See Pricing Addendum

Pricing: See Pricing Addendum for the actual prices charged.

Approved By:
Qwest Corporation
Signed: Thomas M. Martinez
Printed Name: Thomas M. Martinez
Title: Business Unit Affiliate Manager
Date: 09/05/01

Qwest Communications Corporation
Signed: Judith L. Brunsting
Printed Name: Judith L. Brunsting
Title: Executive Director
Date: 09/25/01

Comments: *Amendment Four to the Shared Space & Furniture Rental Work Order replaces the Shared Space & Furniture Rental Work Order and all previous amendments and the related Pricing Addenda in their entirety.*

About Qwest

Affiliate Transactions

Qwest Communications Corporation
Section 272 Affiliate Transactions

Back to Current Transactions

Shared Space & Furniture Rental
Addendum A - Pricing
Effective: October 1, 2001

Service	*Employee Title & Salary Level/ Wage Scale*	*Number of QC Employees*	*Rate/ Unit*	*Pricing Methodology* (Tariff, PFR, PCP, FDC/FMV)[1]	*Frequency of Service* (Daily, Monthly, Occasionally)[2]
Shared Space 1020 Babcock Road, Colorado Springs, CO			$12.86 Per sq ft/year	FDC	Daily
Shared Space 1101 West Mineral, Littleton, CO			$30.58 Per sq ft/year	FDC	Daily
Shared Space 1201 Farnham St, Omaha, NE			$45.62 Per sq ft/year	FDC	Daily
Shared Space 1600 7th Avenue, Seattle, WA			$28.00 Per sq ft/year	FMV	Daily
Shared Space 1801 California St, Denver, CO			$37.63 Per sq ft/year	FDC	Daily
Shared Space 250 East 200 S, Salt Lake City, UT			$19.00 Per sq ft/year	FMV	Daily
Shared Space 2001 6th Avenue Seattle, WA			$40.26 Per sq ft/year	FDC	Daily
Shared Space 2800 N Central			$43.75 Per sq ft/year	FDC	Daily

Ave, Phoenix, AZ					
Shared Space 310 SW Park, Portland, OR			$15.00 Per sq ft/year	FMV	Daily
Shared Space 323 Stinson Boulevard, Minneapolis, MN			$34.96 Per sq ft/year	FDC	Daily
Shared Space 3033 North 3rd St, Phoenix, AZ			$20.79 Per sq ft/year	FDC	Daily
Shared Space 3245 146th Pl SE, Bellevue, WA			$34.29 Per sq ft/year	FDC	Daily
Shared Space 421 SW Oak St, Portland, OR			$18.00 Per sq ft/year	FMV	Daily
Shared Space 5090 North 40th St, Phoenix, AZ			$39.87 Per sq ft/year	FDC	Daily
Shared Space 600 Stinson Boulevard, Minneapolis, MN			$33.57 Per sq ft/year	FDC	Daily
Shared Space 6300 Shingle Creek Brooklyn Center, MN			$11.01 Per sq ft/year	FDC	Daily
Shared Space 6912 South Quintin St, Englewood, CO			$16.50 Per sq ft/year	FMV	Daily
Shared Space 800 Main St, Grand Junction, CO			$9.62 Per sq ft/year	FDC	Daily
Shared Space 8021 SW Capitol Hill, Portland, OR			$5.33 Per sq ft/year	FDC	Daily
Shared Space 931 14th St, Denver, CO			$28.00 Per sq ft/year	FMV	Daily
Furniture Rental (All Locations)			$0.72 Per sq ft/year	FDC	Daily
Project Management	Project Manager Salary Level 4	41-52	$71.37 Per hour	FDC	Daily

[1] Pricing methodologies include Tariff or Publicly Filed Rate (PFR); Prevailing Company Price (PCP); and higher/lower of Fully Distributed Cost (FDC) or Fair Market Value (FMV).

[2] As indicated in the Cost Allocation Manual

OFFICER CERTIFICATION

CERTIFICATION

I certify that I am an officer of Qwest Corporation; that I have examined the Qwest Communications Corporation Section 272 Affiliate Transactions and that to the best of my knowledge, information, and belief, all statements of fact posted at that website are true and that said postings accurately reflect the transactions that have occurred between QC and QCC for the period July 1, 2000 through December 31, 2000.

PRINTED NAME Mark A. Schumacher

POSITION Controller

SIGNATURE

DATE 5/11/01

(Persons making willful false statements in this report form can be punished by fine or imprisonment under the Communications act, 47 U.S.C. 220 (e).)

PERFORMANCE ON SECTION 272(b)(5)

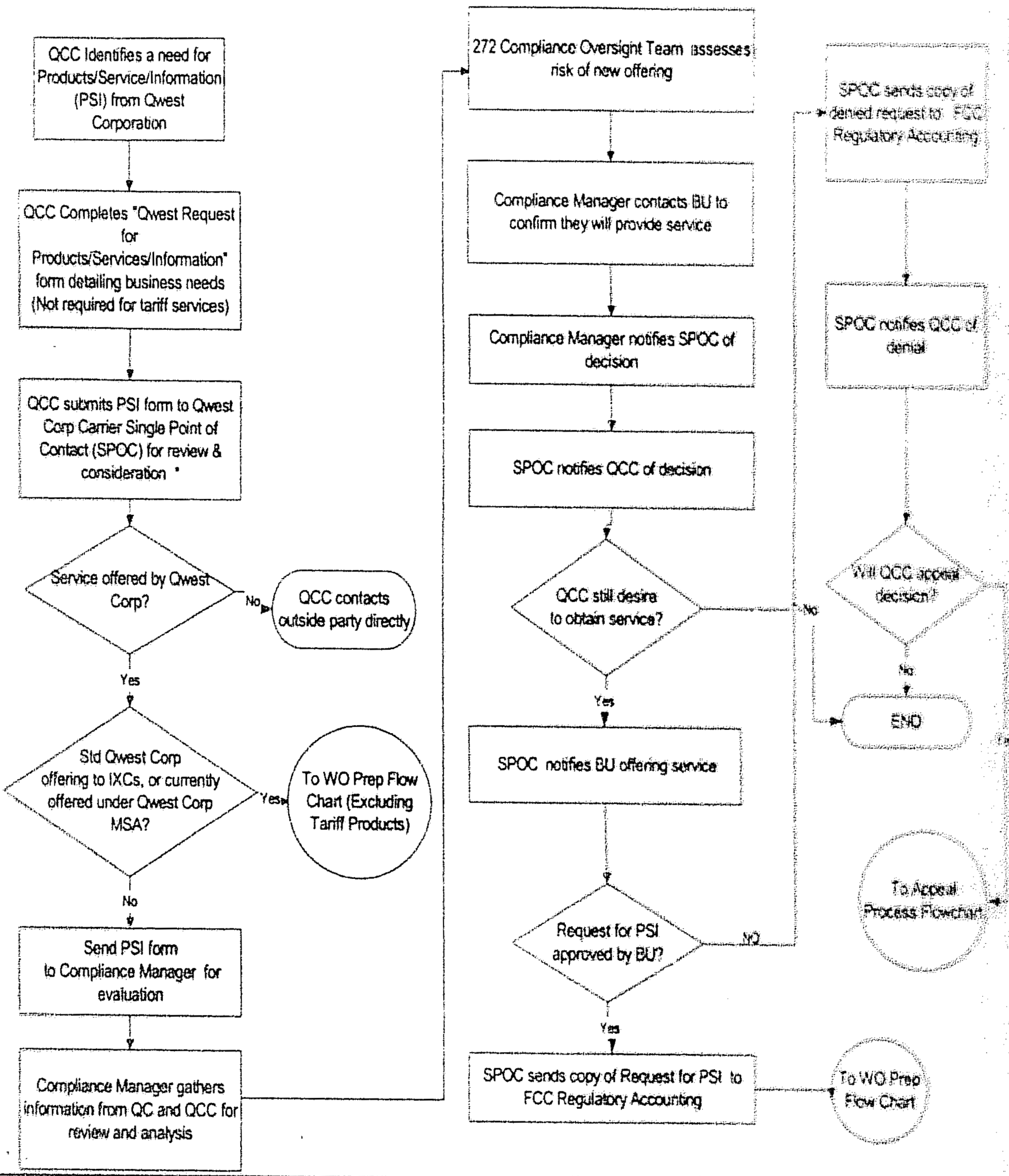
TRANSACTIONS FOR QCC

2001

	272 Transition			Compliance Ready			
	JAN	FEB	MAR	APR	MAY	JUN	JUL
Differences between web & price billed			12%	0%	0%	0%	0%
All Transactions - billing and accruals - are reconciled monthly							

PROCESS FLOWCHART FOR THE 272 AFFILIATE SERVICE REQUESTS

QWEST CORPORATION/ QWEST COMMUNICATIONS CORPORATION (QCC)
PROCESS FLOW FOR PRODUCTS/SERVICE/INFORMATION REQUESTS
09/28/01



* *Same process used by 3rd party requests for Products/Services/Information*

Note: This process does not apply to telecommunications services, which are provided to QCC employees via the Qwest Corporation retail sales office.

Chart 1

The BOC Services Purchased from Qwest Services Corporation

Executive Management
Corporate Finance and Accounting
Marketing, Sales & Service
Human Resources
Legal Services
Network Planning
Marketing Intelligence
Product Planning
Public Policy
Public Relations
Treasury Services
Trust Management
Risk Management
Corporate Environmental Health & Safety
Corporate Library
Records Management
Lease Management
Insurance Staff
Compliance

Docket No. TC 01-
Qwest Corporation
Exhibits to the Affidavit of Marie E. Schwartz
Section 272
Exhibit MES-272-14
October 24, 2001

BIENNIAL AUDIT PROCEDURES

JOINT FEDERAL/STATE OVERSIGHT GROUP

GENERAL STANDARD PROCEDURES
FOR
BIENNIAL AUDITS
REQUIRED UNDER SECTION 272
OF THE
COMMUNICATIONS ACT OF 1934, AS AMENDED

As of December 16, 1998

CONFIDENTIAL/PROPRIETARY INFORMATION
CLASSIFICATION RATIONALE

Description/Title of Information: METHODS FOR AFFILIATE TRANSACTIONS

Confidential/Proprietary Designation Rationale:

This exhibit is a confidential, Company developed procedures document, which describes internal company operations. The Company has invested significant labor hours in its development. Because this information would be valuable to Qwest Corporation's competitors, it is proprietary.

JOINT FEDERAL/STATE OVERSIGHT GROUP

GENERAL STANDARD PROCEDURES
FOR
BIENNIAL AUDITS
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TABLE OF CONTENTS

TABLE OF CONTENTS

PROCEDURES

BIENNIAL ENGAGEMENT PROCEDURES

INTRODUCTION

Background

1. Section 272(a) of the Communications Act of 1934, as amended, requires that a Bell Operating Company (BOC) set up one or more separate affiliates before engaging in manufacturing activities, in-region interLATA services, and interLATA information services. Also, before engaging in the provision of in-region interLATA services, a BOC or an affiliate of the BOC must meet the requirements of Section 271 of the Communications Act of 1934 and must receive approval by the Federal Communications Commission (FCC). A BOC required to operate a separate affiliate under Section 272 must obtain and pay for a joint Federal/State audit every two years.[1]

2. After having considered all types of audits and engagements performed by certified public accountants (CPAs) and the FCC staff's past experience in the Cost Allocation Manual (CAM) audits, we believe that it would be in the best interest of all the parties concerned that this audit be an Agreed-Upon Procedures (AUP) Engagement. The American Institute of Certified Public Accountants (AICPA) defines an AUP engagement as, "one in which a practitioner is engaged by a client to issue a report of findings based on specific procedures performed on the subject matter of an assertion."[2] The objective of an AUP engagement is to present specific findings to assist users in evaluating an entity's compliance with specified requirements. The users include the federal and state regulators as well as the companies responsible for obtaining and paying for the biennial audits.

3. As the primary users of the joint Federal/State biennial audit, the Federal/State Biennial Oversight Group (Oversight Group), which is comprised of staff members from state regulatory agencies and the FCC, is responsible for the nature, timing and extent of the AUP. The Oversight Group will be subdivided into Regional Oversight Teams (Oversight Teams), one for each Regional Bell Operating Company (RBOC). Each team will be comprised of two members from the FCC and members of the State

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[1] 47 U.S.C. § 272(d)

[2] AT § 600.03 Codification of Statements on Standards for Attestation Engagements, published by the American Institute of Certified Public Accountants.

Commissions who have chosen to participate in this project and who have jurisdiction over that RBOC. Each team is responsible for reviewing the conduct of the engagement and, after discussion with the BOC and its Section 272 affiliate, for directing the practitioner to take such action as the team finds necessary to achieve each objective. The text below provides the requirements for the engagement as listed in Section 53.209(b) of the FCC Rules and indicates the nature, timing and extent of the AUP for each requirement. It should be noted that AUP engagements are not based on the concept of materiality; therefore, the practitioner must report all errors or discrepancies discovered while performing the AUP engagement.

COMPLIANCE REQUIREMENTS

4. The requirements for the biennial audits are contained in 47 U.S.C. Section 272(b), (c), and (e) of the Communications Act of 1934, as amended, and in 47 C.F.R. Section 53.209(b) of the FCC Rules and Regulations. Below is a listing of those requirements:

Structural Requirements

The separate affiliate required under Section 272 of the Act:

I. Shall operate independently from the Bell operating company;

II. Shall maintain books, records, and accounts in the manner prescribed by the Commission that are separate from the books, records, and accounts maintained by the Bell operating company;

III. Shall have officers, directors, and employees that are separate from those of the Bell operating company;

IV. May not obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Bell operating company;

Accounting Requirements

The separate affiliate required under Section 272 of the Act:

V. Shall conduct all transactions with the Bell operating

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Accounting Requirements

The separate affiliate required under Section 272 of the Act:

V. Shall conduct all transactions with the Bell operating company on an arm's length basis with the transactions reduced to writing and available for public inspection.

The Bell operating company:

VI. Shall account for all transactions with the separate affiliate in accordance with the accounting principles and rules approved by the Commission.

Nondiscriminatory Requirements

The Bell operating company:

VII. May not discriminate between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards;

VIII. Shall fulfill any requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates;

IX. Shall not provide any facilities, services, or information concerning its provision of exchange access to the Section 272 affiliate unless such facilities, services, or information are made available to other providers of interLATA services in that market on the same terms and conditions;

X. Shall charge its separate affiliate under Section 272, or impute to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service;

XI. May provide any interLATA or intraLATA facilities or services to its interLATA affiliate if such services or facilities are made available to all carriers at the same rates and on the same terms and conditions, and so long as the costs are appropriately allocated.

Related FCC Dockets

5. These requirements have been clarified and expanded upon in several FCC proceedings. These proceedings are subject to further modification in subsequent FCC orders, or in orders on

reconsideration. Below is a list of orders related to the above requirements issued by the FCC:

CC Docket No. 96-149, In the Matter of Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended; *First Report and Order and Further Notice of Proposed Rulemaking*; Released December 24, 1996

CC Docket No. 96-150, In the Matter of Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996; *Report and Order*; Released December 24, 1996

CC Docket No. 96-98, In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; *First Report and Order*; Released August 8, 1996 (First Interconnection Order); *Second Report and Order and Memorandum Opinion and Order*; Released August 8, 1996 (Second Interconnection Order)

CC Docket No. 96-115, In the Matter of Implementation of the Telecommunications Act of 1996: Telecommunications Carriers' Use of Customer Proprietary Network Information and Other Customer Information; *Second Report and Order and Further Notice of Proposed Rulemaking*; Released February 26, 1998

6. In addition, the FCC has opened the following pending dockets which may, if applicable to the activities of the BOC, result in additional regulations surrounding the Nondiscriminatory Requirements:

CC Docket No. 96-254, In the Matter of Implementation of Section 273 of the Communications Act of 1934, as amended by the Telecommunications Act of 1996; *Notice of Proposed Rulemaking*; Released December 11, 1996 (to examine manufacturing by BOCs - "Manufacturing NPRM")

CC Docket No. 98-56, RM-9101, In the Matter of Performance Measurements and Reporting Requirements for Operations Support Systems, Interconnection, and Operator Services and Directory Assistance; *Notice of Proposed Rulemaking*; Released April 17, 1998 (to examine a proposed methodology by which access to incumbent LEC operations support systems is measured and reported to ensure nondiscriminatory, just, and reasonable treatment of new local telephone service providers - "OSS NPRM")

ENGAGEMENT PLAN

Engagement Period

7. In order to facilitate meaningful data collection, the AUP engagement shall cover the first 12 months of operations commencing on the date the first Section 271 approval is obtained to provide in-region interLATA services, or at such time a Bell operating company first commences manufacturing operations, or begins providing interLATA information services. The engagement will also cover all assets since the date of inception of the Section 272 affiliate, which shall be the date when it, or its predecessor, was incorporated or the date when it first had assets. In the case of in-region interLATA services, if Section 271 approval is obtained, for example, on May 1 and operations begin on June 10, the engagement will cover the 12-month period of operations beginning May 1 through April 30. The planning and preliminary work for the engagement may commence prior to the end of the 12-month period of operations. The first biennial audit will cover all services for which a separate affiliate is required under Section 272(a)(2) and includes all states in which Section 271 approval has been obtained.

Sampling

8. The sampling sizes and methodologies will be determined after the initial survey of the Section 272 affiliate. Where indicated and appropriate, the practitioner will select a statistically valid sample using random and stratified sampling techniques with the following parameters: a desired confidence level equal to 95% and a desired upper precision limit equal to 5% with an expected error rate of 1%. The Oversight Team will approve the sampling plan, after consulting with the BOC, when reviewing the detailed procedures written by the practitioner.

9. Generally, the practitioner should consider all data and information falling within the engagement period; however, unless otherwise stated in this document or accepted by the Oversight Team, the practitioner should obtain data and information as of the latest period available during the engagement period.

Definitions

10. Throughout this document the BOC is mentioned as being one of the entities being analyzed. If the BOC transfers or assigns to an affiliated entity ownership of any network elements

that must be provided on an unbundled basis per Section 251(c)(3), such entity will be subject to all of the requirements of the BOC. For purposes of this audit, in the event that the BOC retails or wholesales any exchange and/or exchange access services exclusively through one or more of its subsidiaries or affiliates, or through one or more other subsidiaries, divisions, etc., of the parent Regional Holding Company, and the same services cannot be purchased directly from the BOC, then these entities will also be subject to all of the relevant nondiscriminatory requirements of objectives VII through XI of this document. Affiliates that merely resell the BOC's exchange services and/or exchange access services or lease unbundled elements from the BOC, or engage in permissible joint marketing activities (see Section 272(g)(1) of the Act), are excluded from these requirements.

11. The term "affiliate" means a person that (directly or indirectly) owns or controls, is owned or controlled by, or is under common ownership or control with, another person. For this purpose, the term "own" means to own an equity interest (or the equivalent thereof) of more than 10 percent. (Section 3 of the Communications Act of 1934, as amended)

Conditions of Engagement

12. The practitioner leading this engagement must be a licensed CPA. He/she and his/her team performing the engagement must be familiar with the guidelines established for agreed-upon procedures, the requirements for this engagement, and its objectives. The team performing the engagement should also be independent as defined in the Statements on Standards for Attestation Engagements at "AT §100.23, .24". All members of the team performing the engagement must have read, understood, and be familiar with all of the requirements contained in the following documents:

- Sections 271 and 272 of the Communications Act of 1934, as Amended;
- Section 32.27, Transactions with Affiliates, of the FCC's Uniform System of Accounts for Telecommunications Companies (USOA);
- The following FCC Dockets:

  a. CC Docket No. 86-111 dealing with the allocation of joint costs between the regulated and nonregulated activities of the telephone company;

  b. CC Docket No. 96-149 dealing with the implementation of the non-accounting safeguards of Sections 271 and 272 of the Act;

c. CC Docket No. 96-150 dealing with the implementation of the accounting safeguards of Sections 271 and 272 of the Act;

d. CC Docket No. 96-98 dealing with the implementation of the local competition provisions of the Act (the interconnection orders);

e. CC Docket No. 96-115 dealing with the use of customer proprietary network information;

f. Pending and/or initiated proceedings, such as CC Docket No. 96-254 dealing with manufacturing operations; CC Docket No. 98-56 dealing with standards for measuring operations support systems (OSS);

- BOC's Section 271 application and related FCC approval;
- State Commissions' orders approving those interconnection agreements tested within the engagement;
- Petitions for arbitration with the BOC for those agreements tested within the engagement.

13. In addition, the practitioner has an affirmative obligation to first advise the Joint Federal/State Oversight Team, where he/she deems appropriate, of the need to expand the scope of the engagement and its procedures in order to provide to the users all of the information which they need to determine compliance or noncompliance with the various requirements, including any additional fees that will be charged the BOC for the expanded scope. However, after discussion with the BOC and its Section 272 affiliates, the Oversight Team will make the final decision where additional procedures are warranted.

14. The practitioner may use the services of a specialist for assistance in highly technical areas. The specialist must not be affiliated in any form with the BOC or any of its affiliates.

15. Use of internal auditors must be limited to the provision of general assistance and the preparation of schedules and gathering of data for use in the engagement. Under no circumstances shall the internal auditors perform any of the procedures contained in this document. All procedures contained

in this document must be performed by the independent practitioner and his/her staff.

16. No part of the BOC cost allocation manual (CAM) annual audit can be used to satisfy any of these biennial audit requirements.

Representation Letters

17. The practitioner shall obtain three representation (assertion) letters. One representation letter should address all items related to operations. Another representation letter should address all items of a financial nature. And another representation letter should address that all Section 272 affiliates have been disclosed. Below are details of each representation letter.

18. The representation letter related to operations issues shall be signed by the Chief Operating Officer of the BOC and each Section 272 affiliate and shall include the following:

a. acknowledgement of management responsibility for complying with specified requirements;

b. acknowledgement of management responsibility for establishing and maintaining an effective internal control structure over compliance;

c. statement that management has disclosed or will disclose to the practitioner all known noncompliance up to the date of the draft report;

d. statement that management has made available all documentation related to compliance and noncompliance with the specified requirements;

e. statement that management has disclosed any communications from regulatory agencies, internal auditors, external auditors, external parties (including competitors), and other practitioners concerning possible noncompliance with the specified requirements, including communications received between the end of the period addressed in management's assertion and the date of the practitioner's report;

f. statement that each Section 272 affiliate operates independently from the BOC, that the BOC does not own any facilities jointly with the affiliates, that the BOC does not provide any operations, installation, and maintenance functions over the facilities owned by the affiliates, or leased by the affiliates from unaffiliated entities and that it is not providing and did not provide any research and development activities on behalf of the affiliates;

g. statement that each Section 272 affiliate has separate officers, directors, and employees from those of the BOC;

h. statement that the BOC has not discriminated between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards; (On the BOC's representation letter only)

i. statement that the BOC subject to Section 271(c) of the Act has fulfilled requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates; and (On the BOC's representation letter only)

j. statement that the BOC subject to Section 251(c) of the Act has made available facilities, services, or information concerning its provision of exchange access to other providers of interLATA services on the same terms and conditions as it has made available to its Section 272 affiliates that operate in the same market. (On the BOC's representation letter only)

19. The representation letter related to financial issues shall be signed by the Chief Financial Officer of the BOC and each Section 272 affiliate and shall include the following:

a. statement that each Section 272 affiliate maintains separate books, separate records, and separate accounts from those of the BOC and that all such books, records, and accounts are maintained in accordance with GAAP;

b. statement that each Section 272 affiliate has not obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the BOC;

c. statement that management has identified to the practitioner all assets transferred or sold and services rendered, (i) by the BOC to each Section 272 affiliate, (ii) by all central services organizations to each Section 272 affiliate, and (iii) by each Section 272 affiliate to the BOC; and that these transactions have been accounted for in the required manner;

d. statement that the BOC subject to Section 251(c) of the Act has charged its Section 272 affiliates, or imputed to itself, if using the access for its provision of its own services, an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service; (On the BOC's representation letter only)

e. Statement that, if the BOC and an affiliate subject to Section 251(c) of the Act make available and/or have provided any interLATA facilities or services to its interLATA affiliate, such facilities or services are made available to all carriers at the same rates and on the same terms and conditions, and the associated costs are appropriately allocated; (On the BOC's representation letter only)

f. Statement that management has not changed any of the BOC processes or procedures (as they relate to transactions of any kind with the Section 272 affiliate), since the execution of these agreed-upon procedures without apprising the practitioner, before the date of the draft report. (On the BOC's representation letter only)

20. The representation letter related to the disclosure of all Section 272 affiliates shall be signed by the Chief Financial Officer of the BOC's corporate holding company and shall state that each Section 272 affiliate has been identified, accounted for in the required manner, and disclosed in the required manner.

Engagement Process

21. The general standard procedures contained in this document are intended to provide general areas of audit work coverage and uniformity of audit work among all regions, to the extent possible considering state regulatory and corporate differences. They will be used by the BOCs as a guide for drafting the preliminary audit requirements, including the proposed scope of the audit, as prescribed in Section 53.211(a) and (b) of the FCC's Rules and Regulations. Under these rules, the BOCs subject to these audits must submit the preliminary audit requirements, including the proposed scope and extent of testing to the Oversight Team before engaging an independent accounting firm to conduct the biennial audit. The Oversight Team then has 30 days to review the preliminary requirements to determine whether they are adequate to meet the audit requirements in Section 53.209. We expect the preliminary requirements and scope of the audit to be similar to this document and to cover all of the areas described in this model. The BOC shall not engage any practitioner who has been instrumental during the past two years in designing any of the

systems under review in the biennial audit. After the BOC has engaged a practitioner to perform the biennial audit, the process for drafting detailed procedures is as follows:

- The Oversight Team and the practitioner will perform a joint survey of the affiliate. The purpose of this survey is to become acquainted with the company's structure, procedures, recordkeeping process, extent of affiliate transactions, and process followed by the BOC to process orders for services received from affiliates, nonaffiliates, and its own end-user customers. This survey will be conducted between four to six months after the affiliate has received approval to begin operations, or four to six months after the affiliate has begun operations where approval is not necessary.

- The practitioner will draft detailed procedures following the guidelines set forth by these general standard procedures and will submit them for review concurrently to all users.

- The Oversight Team will review the detailed procedures for consistency and adequacy of audit coverage and will approve them within a period of 30 days.

22. Access to companies' proprietary data and discussions of findings and facts related to the biennial audit is restricted to: (a) FCC staff members, (b) state staff members who by statute protect companies' proprietary data, (c) state staff members who have signed a protective agreement with the companies over which they have jurisdiction, (d) all state staff members of any participating state that has confidentiality procedures in effect covering all staff and that has the Chairman or designee sign the protective agreement on behalf of the entire Commission including Commission staff, and, (e) state staff members who have not signed the protective agreement, but that the company does not object to provide verbal information or written data, provided that they do not take possession of such data. Section 272(d)(3)(C) of the Communications Act of 1934, as amended, requires that State Commissions implement appropriate procedures to ensure the protection of any proprietary information obtained in connection with these biennial audits.

23. The detailed examination of the transactions may begin at such time as the practitioner deems appropriate to complete the engagement in accordance with the time schedule set forth in the FCC Rules and Regulations of Section 53.211 and Section 53.213.

24. During the course of the biennial audit, the

practitioner will inform the Oversight Team well in advance, but not less than 10 days, of plans to meet with the representatives of the BOC and the affiliate to discuss plans and procedures for the engagement, to survey the companies' operations, to overview the companies' procedures for maintaining books and records, and to discuss problems and findings encountered during the engagement. It is not necessary to inform the Oversight Team of meetings with the client to ask for clarification and explanation of certain items and/or to explore what other records exist and for requests of data. The practitioner shall also inform the Oversight Team and explain any deviation and or revisions necessary to the final detailed procedures immediately after having done so. The practitioner shall also submit to the Chief, Common Carrier Bureau, and shall copy the Oversight Team, any accounting or rule interpretations necessary to complete the engagement. The practitioner shall advise the Oversight Team of the need for more time to complete the engagement in the event additional procedures are requested by the Oversight Team (see 25c. below).

Timetables

25. In order to complete this engagement in a timely manner, below are time schedules to complete certain tasks:

a. Within 60 days after the end of the engagement period, but prior to discussing the findings with the BOC or the affiliate, the practitioner shall submit a draft of the report to the Oversight Team.

b. The Oversight Team shall have 45 days to review the findings and working papers and offer its recommendations, comments, and exceptions concerning the conduct of the engagement to the practitioner.

c. If additional procedures are recommended by the Oversight Team, the practitioner will advise the Oversight Team of any need for additional time to perform such procedures. Otherwise, after receiving the Oversight Team's recommendations, the practitioner has 15 days to make the appropriate revisions to the report and submit the report to the BOC for its comments on the findings, and to the Oversight Team.

d. The BOC shall have 30 days after receipt of the report to comment on the findings and send a copy of its comments to both the practitioner and the Oversight Team. At this time, the BOC will also indicate what information in the report it deems proprietary and why it should not be released to the public.

g. A statement that the practitioner was not engaged to, and did not, perform an examination of the assertion, a disclaimer of opinion on the assertion, and a statement that if the practitioner had performed additional procedures, other matters might have come to his or her attention that would have been reported.

h. This report becomes a matter of public record via the practitioner's filing the final report with the FCC and the state regulatory agencies participating in the audit for the region.

i. A description of any limitations imposed on the practitioner by the BOC or any other affiliate, or other circumstances that might affect the practitioner's findings.

j. A description of the nature of the assistance provided by specialists and internal auditors.

PROCEDURES

Procedures for Structural Requirements

OBJECTIVE I. Determine whether the separate affiliate required under Section 272 of the Act has operated independently of the Bell operating company.

STANDARDS

The FCC has issued rules and regulations in CC No. Docket 96-149, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended. Some of those rules require that,

- A BOC and its Section 272 affiliate cannot jointly own transmission and switching facilities, broadly defined as local exchange and exchange access facilities, or the land and buildings where those facilities are located. (47 C.F.R. Section 53.203(a)(1) and First Report and Order, para. 15, 158, 160)

- A Section 272 affiliate shall not perform operating, installation or maintenance functions associated with the BOC's facilities. Likewise, a BOC or any BOC affiliate, other than the Section 272 affiliate itself, shall not perform operating, installation or maintenance functions associated with the facilities that each Section 272 affiliate owns or leases from a provider other than the BOC with which it is affiliated. (47 C.F.R. Section 53.203(a)(2), (3) and First Report and Order, para. 15, 158, 163)

- To the extent that research and development is a part of manufacturing, it must be conducted through a Section 272 affiliate. If a BOC seeks to develop services for or with its Section 272 affiliate, the BOC must develop services on a nondiscriminatory basis for or with other entities pursuant to Section 272(c)(1). (First Report and Order, para. 169)

PROCEDURES

1. Inspect the certificate of incorporation, bylaws, and articles of incorporation of each Section 272 affiliate to determine whether the affiliates were established as

corporations separate from the BOC. Note the results of this procedure.

2. Obtain and inspect corporate entities' organizational chart(s) and confirm with legal representatives of the BOC and Section 272 affiliates the legal, reporting, and operational corporate structure of the Section 272 affiliates. Document who owns the Section 272 affiliates and to whom do they report to determine the independence of the affiliate.

3. Obtain functional organizational chart for each Section 272 affiliate as of the end of the ninth month of the engagement period and document for each department,

   - Number of employees

   - Street address(es) where employees are located

   - Description of functions performed by location.

4. Obtain from each Section 272 affiliate a list and description of services rendered to each Section 272 affiliate,

   - By the BOC (all services)

   - By other affiliates (all services)

   - By unaffiliated companies (operations, installation and maintenance only).

   This list should include the location of both the providing and receiving entity for all services involving operations, installation and maintenance.

5. From the data obtained in Procedures 3 and 4, identify and document which entity performs operations, installation, and maintenance functions over transmission and switching facilities either owned or leased by each Section 272 affiliate. Also, identify the street address location where these facilities are located and identify whether these facilities are owned or leased by each Section 272 affiliate, and, if leased, from whom they are leased.

6. Obtain descriptions of research and development (R&D) activities of the BOC for the first nine months of the engagement period and note any R&D related to the activities of each Section 272 affiliate. For R&D related to

activities of each Section 272 affiliate ask BOC personnel for more details, such as extent of R&D provided, progress reports, cost, and whether the Section 272 affiliate has been billed and has paid for this service. Inquire, and provide details, as to whether R&D service is offered and/or has been performed when requested by unaffiliated entities.

7. Obtain as of the end of the ninth month of the engagement period the balance sheet of each Section 272 affiliate and a detailed listing of all fixed assets which agrees with the amount shown in the balance sheet. If the list does not agree, inquire and document why. This detailed listing should include a full description of each item, date of purchase, price paid and recorded, and from whom purchased or transferred. Inspect title and other documents, which reveal ownership, of a statistically valid sample of transmission and switching facilities and the land and buildings where those facilities are located. Look for and make a note of any facilities which are owned jointly with the BOC. The balance sheet information obtained in this procedure should also be used to perform Procedure 13 under Objectives V and VI.

OBJECTIVE II. Determine whether the separate affiliate required under Section 272 of the Act has maintained books, records, and accounts in the manner prescribed by the Commission that are separate from the books, records, and accounts maintained by the Bell operating company.

STANDARDS

In CC Docket No. 96-150, Implementation of the Accounting Safeguards Under the Telecommunications Act of 1996, the FCC requires that each Section 272 affiliate maintain books, records, and accounts, in accordance with generally accepted accounting principles (GAAP), and separate from those of the BOC. (Report and Order, para. 170)

PROCEDURES

1. Obtain the general ledger (G/L) of each Section 272 affiliate and match the title on the G/L with the name of the affiliate on the certificate of incorporation to determine that a separate G/L is maintained. Look for special codes, if any, which may link this G/L to the G/L of the BOC and provide documentation. Note: Linkage at corporate headquarters for consolidations is an accepted practice.

2. Obtain each Section 272 affiliate's written accounting procedures and policies and identify the process for recording financial transactions of the Section 272 affiliate in the G/L; document such transaction flows along with key control points. In addition, identify the controls related to the proper identification and recording of Section 272 affiliate transactions in its separate books of account.

3. Obtain the cash receipts and cash disbursement journals and related ledgers for the ninth month of the engagement period. By random selection trace ten (10) cash receipt and ten (10) cash disbursement (including at least 5 payroll) transactions to the Section 272 affiliate bank account(s). Note name of affiliate on the bank account and whether these transactions cleared through this bank account. Compare account numbers indicated in the journals to those in the general ledger and note any differences.

4. Obtain each Section 272 affiliate's financial statements and lease agreements, as of the end of the ninth month of the

engagement period. Identify leases for which the annual obligation is $500,000 or more. Determine whether these leases have been accounted for in accordance with GAAP. Determine whether client lease accounting policies are in accordance with GAAP.

OBJECTIVE III. Determine whether the separate affiliate required under Section 272 of the Act has officers, directors, and employees that are separate from those of the Bell operating company.

STANDARDS

The FCC in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, interprets the above requirement further by stating the following:

- Separate officers, directors, and employees simply dictates that the same person may not simultaneously serve as an officer, director, or employee of both a BOC and its Section 272 affiliate. (First Report and Order, para. 178).

PROCEDURES

1. Obtain the BOC's and Section 272 affiliates' policies and procedures for transfers, sharing, and loan of employees between each other. Identify and document the types of internal controls that are in place that would prevent one from being an officer, or director, or employee of both the BOC and Section 272 affiliate at the same time.

2. Inquire and document as to whether each Section 272 affiliate and the BOC maintain separate boards of directors and separate officers. Obtain list of officers and of board of directors' names of the BOC and Section 272 affiliate(s) for the engagement period and compare and document the names appearing on both lists, respectively. Obtain the minutes of the meetings of the board of directors for both the BOC and Section 272 affiliate(s) for the engagement period and compare and document the names appearing on the minutes of the BOC and each Section 272 affiliate.

3. Obtain the functional organizational chart of each Section 272 affiliate as of the end of the ninth month of the engagement period (see Objective I, Procedure 3) and inspect it to determine whether any departments report either functionally or administratively (directly or indirectly) to an officer of the BOC.

4. Obtain payroll registers for the BOC and each Section 272 affiliate that include the social security numbers of all the directors, officers and employees for the ninth month of

the engagement period. Compare social security numbers of directors, officers, and employees appearing on both lists; document those names and/or social security numbers appearing on both lists, and inquire and document why.

5. Obtain a list of officers and employees who transferred from the BOC at any time to each Section 272 affiliate, and by the use of a statistically valid sample, determine whether the company's internal controls inspected in Procedure 1 have been implemented. Also, interview these employees to determine whether they used any proprietary information (e.g., customer proprietary network information (CPNI), Network Planning Manuals, Plant Traffic Practices, Operation, Installation and Maintenance (OI&M) Practices) obtained while they were employees of the BOC or whether any of the above information is made available to them through friends and acquaintances still employed by the BOC.

6. Obtain a list of all employees of each Section 272 affiliate since February 8, 1996, the date of the Act. By the use of a statistically valid sample, inspect company's files which indicate employees' employment history within the BOC family of companies and document whether they were employees of the BOC or any of its affiliates at any time. Also, document number of employees, number of times, and dates each employee transferred back and forth between the BOC or any other affiliate and the Section 272 affiliate since February 8, 1996.

OBJECTIVE IV. Determine that the separate affiliate required under Section 272 of the Act has not obtained credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the Bell operating company.

STANDARDS

The FCC in 47 C.F.R. Section 53.203(d) indicates that a Section 272 affiliate shall not obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the BOC of which it is an affiliate.

The FCC also expands on this premise in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended. In this docket the Commission states that,

- A BOC cannot co-sign a contract or any other instrument with a Section 272 affiliate that would allow each Section 272 affiliate to obtain credit granting recourse to the BOC's assets. (First Report and Order, para. 189)

- The BOC parent, or any other non-272 affiliate, cannot sign or co-sign a contract or any arrangement with a Section 272 affiliate that would allow the creditor to have recourse to the BOC assets. (First Report and Order, para. 189)

- A Section 272 affiliate cannot enter any arrangement with any party that would permit the lender to have recourse to the BOC in the event of a default. (First Report and Order, para. 189)

PROCEDURES

1. Document each Section 272 affiliate's debt agreements/instruments and credit arrangements with lenders and major suppliers of goods and services; look for guarantees of recourse to the BOC's assets, either directly or indirectly through another affiliate, and document those instances. Major suppliers are those having $500,000 or more in annual sales to the Section 272 affiliate.

2. Using the lease agreements obtained in Objective II, Procedure 4, document any instances in which each Section 272 affiliate's lease agreements (where the annual

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obligation is $500,000 or more) have recourse to the BOC's assets, either directly, or indirectly through another affiliate.

3. For all debt instruments, leases, and credit arrangements maintained by each Section 272 affiliate, obtain (positive) confirmations from loan institutions, major suppliers, and lessors (as defined in Procedures 1 and 2 above) to attest lack of recourse to the BOC assets.

4. Document from each Section 272 affiliate the balance of the accounts payable to and/or advances from the BOC as of the end of the ninth month of the engagement period.

Procedures for Accounting Requirements

OBJECTIVE V. Determine whether the separate affiliate required under Section 272 of the Act has conducted all transactions with the Bell operating company on an arm's length basis with the transactions reduced to writing and available for public inspection.

OBJECTIVE VI. Determine whether or not the Bell operating company has accounted for all transactions with the separate affiliate in accordance with the accounting principles and rules approved by the Commission.

STANDARDS

The FCC in CC Docket 96-150, Implementation of the Accounting Safeguards Under the Telecommunications Act of 1996, interprets the above requirements further by stating:

- A Section 272 affiliate shall conduct all transactions with the BOC of which it is an affiliate on an arm's length basis, pursuant to the accounting rules described in 47 C.F.R. Section 32.27, Transactions with Affiliates, of the FCC Rules and Regulations, with any such transactions reduced to writing and available for public inspection. (47 C.F.R. Section 53.203(e)). Section 32.27 requires the following:

  For transactions involving the sale or transfer of assets or products between the carrier and affiliates:

  a. assets sold to or by the carrier under tariff must be recorded at tariffed rate in the books of the carrier;

  b. nontariffed assets sold to or by the carrier that qualify for prevailing price must be recorded at prevailing price in the books of the carrier. In order to qualify for prevailing price valuation, sales of a particular asset must encompass greater than 50 percent of the total quantity of such product sold by an entity; 50% threshold is applied on an asset by asset basis rather than on a product line basis;

  c. all other assets sold by or transferred from a carrier to affiliates must be recorded in the books of the carrier at the higher of fair market value or net book cost; (Note: carriers are required to make a good faith estimate of fair market value.)

d. all other assets purchased by or transferred to a carrier from affiliates must be recorded in the books of the carrier at the lower of fair market value or net book cost; (Note: carriers are required to make a good faith estimate of fair market value.)

For transactions involving the provision of services between the carrier and affiliates:

a. services provided to or by the carrier at tariff must be recorded at tariffed rate in the books of the carrier;

b. nontariffed services provided to or by the carrier pursuant to publicly filed agreements submitted to a state commission must be recorded in the books of the carrier at the rate appearing in publicly filed agreements;

c. nontariffed services provided to or by the carrier that qualify for prevailing price must be recorded in the books of the carrier at prevailing price. In order to qualify for prevailing price valuation, sales of a particular service must encompass greater than 50 percent of the total quantity of such service sold by an entity; 50% threshold is applied on a service by service basis rather than on a service line basis;

d. all other services provided to a carrier by an affiliate must be recorded in the books of the carrier at the lower of fair market value or fully distributed cost. (Note: carriers are required to make a good faith estimate of fair market value.) *Exception* -- services received by a carrier from an affiliate that exists *solely* to provide services to members of the carrier's corporate family must be recorded in the books of the carrier at fully distributed cost.

e. all other services provided by the carrier to an affiliate must be recorded in the books of the carrier at the higher of fair market value or fully distributed cost; (Note: carriers are required to make a good faith estimate of fair market value.)

f. Fully distributed cost is determined by following the standards contained in 47 C.F.R. Section 64.901, Allocation of Costs, of the FCC Rules and Regulations. These rules emphasize direct assignment and cost causation. First, costs are to be directly assigned either to regulated or nonregulated activities to the maximum extent possible. Then, costs which cannot be directly assigned are to be grouped into homogeneous cost pools and allocated in accordance with direct or indirect measures of cost causation. Residual costs which cannot be apportioned on any cost-causative basis will be apportioned using the general allocator. The general allocator is the ratio of all expenses directly assigned or attributed to nonregulated activities, to the total of all (regulated and nonregulated) directly assigned or attributed expenses.

- A BOC and a Section 272 affiliate may provide in-house services to one another, except for operating, installation, or maintenance services. These in-house services, however, must be provided on an arm's length basis, and must be in writing. (CC Docket No. 96-149, First Report and Order, para 180)

- Provision of exchange and exchange access services and unbundled network elements constitute transactions requiring disclosure (CC Docket No. 96-150, Report and Order, para. 124). These transactions include the provision of transmission and switching facilities by the BOC and its affiliate to one another. (CC Docket No. 96-149, First Report and Order, para. 193)

- The separate affiliate must provide a detailed written description of the asset or service transferred, together with the specific price and the terms and conditions of the transaction on the Internet within 10 days of the transaction through the company's home page. These descriptions should be sufficiently detailed to allow evaluation of compliance with accounting rules. This information must also be made available for public inspection at the principal place of business of the BOC and must contain a certification statement identical to that included in the ARMIS Reports. This certification statement declares that an officer of the BOC has represented that to the best of his knowledge all statements of fact contained in the submission are true and the submission is an accurate statement of the affairs of the BOC for the relevant period. (Report and Order, para. 122)

- Affiliate transaction rules apply to transactions between the BOC and each Section 272 affiliate; between each Section 272 affiliate and a nonregulated affiliate, that ultimately result in an asset or service being provided to the BOC, i.e., chained transactions. (Report and Order, para. 183)

- Products and services made available to the Section 272 affiliate and to unaffiliated companies need not meet the 50 percent threshold in order for a BOC to record the transaction involving such products and services at prevailing price. (Report and Order, para. 137)

- Nondiscrimination requirements extend to any good, service, facility, or information that a BOC provides to its Section 272 affiliate(s) with the exception of joint marketing, which is covered in Section 272(g)(1) and (2) of the Act. Unaffiliated entities must have equal opportunity to acquire any such good, service, facility, or information. In particular, if a BOC were to decide to transfer ownership of a unique facility, such as its Official Services network, to a Section 272 affiliate, it must ensure that the Section 272 affiliate and unaffiliated entities have an equal opportunity to obtain ownership of this facility. (CC Docket 96-149, First Report and Order, para. 218)

- Interstate rate base, revenue requirements, and price cap indices of the BOC must be reduced by the costs related to any regulated facilities transferred to each Section 272 affiliate. (CC Docket No. 96-150, Report and Order, para. 265)

PROCEDURES

1. Obtain from the BOC a list of all complaints from competitors related to the provision or procurement of goods, services, facilities, and information, or in the establishment of standards which were filed during the first nine months of the engagement period. This list should group the complaints in the following categories:

   - allegations of cross-subsidies (for Objectives V and VI);

   - allegations of discriminatory provision or procurement of goods, services, facilities, customer network services information (excludes customer proprietary network information (CPNI)), or the establishment of standards (for Objective VII);

- allegations of discriminatory processing of orders for, and provisioning of, exchange access and exchange services and unbundled network elements, and discriminatory resolution of network problems (for Objective VIII);

- allegations of discriminatory availability of exchange access facilities (for Objective IX);

- allegations of discriminatory availability of interLATA facilities or services not at the same rates and not on the same terms and conditions as the interLATA affiliate (for Objective XI).

For each group of complaints, determine by inquiry and documentation how many of these complaints were under investigation, how many complaints had been resolved and in what time frame they had been resolved, if feasible. For those complaints that had been resolved, document how those allegations were concluded and, if the complaint was upheld, inquire and document what steps the company has taken to prevent those practices from recurring.

2. Obtain from the BOC and each Section 272 affiliate current written procedures for transactions with affiliates. Compare these procedures with the FCC Rules and Regulations indicated as "standards" above. Note and describe any differences.

3. Inquire and describe how the BOC and each Section 272 affiliate disseminate the FCC Rules and Regulations and raise awareness among employees for compliance with the affiliate transactions rules. For this purpose, describe type and frequency of training, if any, literature distributed, company's policy, and document the supervision employees responsible for affiliate transactions received. Interview employees responsible for the development and recording of affiliate transactions costs in the books of record of the carrier to determine awareness of these rules.

4. Inquire and describe the process that a Section 272 affiliate must follow to request any type of service from the BOC. Describe the approval process within the BOC to fulfill a request for service from a Section 272 affiliate.

Does the Section 272 affiliate request services directly from the department that provides the service?

5. Obtain all written agreements for services and for interLATA and exchange access facilities between the BOC and each Section 272 affiliate which were in effect during the first nine months of the engagement period. Summarize these agreements, if feasible, otherwise include copies of relevant pages, and note names of parties, type of service, price, terms, and conditions. Compare these agreements with the list of services provided by the BOC to the Section 272 affiliate in Objective I, Procedure 4 and note any discrepancies. In addition, note which agreements are still in effect. For those agreements no longer in effect, indicate termination date; identify agreements terminated prematurely and document why. Inquire and document the provisioning of any service without a written agreement.

6. At the end of the ninth month of the engagement period, view each company's home page on the Internet and compare the prices and terms and conditions of services and assets shown on this site to the agreements provided in Procedure 5 above. By physical inspection, determine whether the same information is made available for public inspection at the principal place of business of the BOC. Describe any differences and inquire why such differences exist. If the company makes any claim of confidentiality for nondisclosure, obtain details. It should be noted that these transactions should be posted for public inspection within 10 days of their occurrence. Document the procedures that the company has in place for posting these transactions on a timely basis. The information provided on the Internet should be in sufficient detail to allow evaluation for compliance with accounting rules (see Docket No. 96-150, Report and Order, para. 122). Obtain copies of these public postings and include in the working papers.

7. For nontariffed services and for services for which a prevailing market price (PMP) has not been established, or are not subject to publicly filed agreements, document the BOC's and the Section 272 affiliate's process for developing fully distributed cost (FDC). Document and identify the type of costs included in FDC. Document the actual development of FDC for two services, at each company, to be identified by the Oversight Team after the survey of the affiliate.

8. For nontariffed services for which a PMP has not been established, or are not subject to publicly filed

agreements, document the process the BOC and the Section 272 affiliate follow to make a good faith estimate of fair market value (FMV). Document the actual development of a good faith estimate of FMV for two services, at each company, to be identified by the Oversight Team after the survey of the affiliate.

9. Obtain a listing and amounts of all services rendered by month by the BOC to each Section 272 affiliate during the first nine months of the engagement period (see Objective I, Procedure 4). For those services made available to the Section 272 affiliate that are not made available to third parties, using a statistically valid sample, compare unit charges to PMP, or FDC, or FMV, as appropriate, to determine whether these amounts were recorded in the books of the BOC in accordance with the affiliate transactions standards. When differences exist, note the number of instances and the amounts involved. Inquire and make a note of reasons for these occurrences. Document the amount the Section 272 affiliate has recorded for the service in its books of record. Also, document the amount the Section 272 affiliate has paid for the service to the BOC.

10. Obtain a listing and amounts of all services rendered by month to the BOC by each Section 272 affiliate during the first nine months of the engagement period. Using a statistically valid sample, compare unit charges to tariff rates, or PMP, or FDC, or FMV, as appropriate, to determine whether these services were recorded in the books of the BOC in accordance with the affiliate transactions standards. When differences exist, note the number of instances and the amounts involved. Inquire and make a note of reasons for these occurrences. Document the amount the BOC has recorded for the service in its books of record. Also, document the amount the BOC has paid for the service to the Section 272 affiliate.

11. Inquire and note how and who maintains each Section 272 affiliate's employee benefits plans (such as life insurance, health insurance, retirements plans). Determine by inquiry who pays or funds these benefits plans and whether the costs for administering these plans are allocated or assigned to the Section 272 affiliates.

12. Inquire whether any central services organization (such as the services company, the parent company, the data processing company, etc.) of the BOC renders services to each Section 272 affiliate. If so, obtain a listing (see Objective I, Procedure 4) and amounts of services rendered

by month by each central services organization to each Section 272 affiliate during the first nine months of the engagement period. Note the methodology used to identify and cost these services and, for a statistically valid sample, obtain evidence that services are being billed to each Section 272 affiliate and that such affiliates are paying for these services. If not, identify and document the process these organizations have to ensure that these costs are not recovered from the BOC.

13. Obtain as of the end of the ninth month of the engagement period the balance sheet of each Section 272 affiliate and a detailed listing of all fixed assets which agrees with the amount shown in the balance sheet. If the list does not agree, inquire and document why. This detailed listing should include a full description of each item, date of purchase, price paid and recorded, and from whom purchased or transferred. The balance sheet information obtained in this procedure should also be used to perform Procedure 7 under Objective I. Other specific steps to be performed follow:

    a. For those items purchased or transferred from the BOC, obtain net book cost and fair market value. Inquire and document how the fair market value was determined. Inspect these transactions to determine whether they were recorded in the books of the BOC at the higher of FMV or net book cost, as required.

    b. For those items purchased or transferred from another affiliate, identify and document whether they were originally transferred from the BOC to other affiliates.

    c. For those items purchased or transferred from the BOC, either directly or through another affiliate, since February 8, 1996, also inquire and obtain details as to how the BOC made an equal opportunity available to unaffiliated entities to obtain ownership of the facilities. Describe how and upon what basis the BOC decided to transfer/sell the facilities to a Section 272 affiliate instead of an unaffiliated entity.

14. Where assets are priced pursuant to Section 252(e) (i.e., as approved by the regulatory commissions) or statements of generally available terms pursuant to Section 252(f), compare such charges to the publicly-filed agreements or statements and document any differences.

15. Inquire and obtain details as to whether any part of the

BOC's Official Services network was transferred or sold to a Section 272 affiliate at any time. In addition to the requirements for Procedure 13, for any transfer or sale of assets on or after February 8, 1996, inquire and obtain details as to how the BOC made an equal opportunity available to unaffiliated entities to obtain ownership of the facilities. Describe how and upon what basis the BOC decided to transfer/sell the facilities to a Section 272 affiliate instead of an unaffiliated entity.

16. If any facilities were either sold or transferred to a Section 272 affiliate, obtain the interstate price cap indices to determine whether, (i) the rate base had been reduced by the net book cost of the assets sold or transferred, (ii) the revenue requirement had been adjusted to reflect the gain from the sale or transfer of the assets and, (iii) the revenue requirement had been adjusted permanently to reflect the reduced operating costs related to the assets sold or transferred. Document this procedure. If the BOC had not made these adjustments, inquire and explain.

17. Inquire and obtain details on construction to reconfigure the telephone network of the BOC to connect to that of the Section 272 affiliate. Describe the extent of the reconfiguration construction, who was the contractor, when did it take place, how much did it cost, who paid for it, and on which books and accounts was it recorded.

Procedures for Nondiscriminatory Requirements

OBJECTIVE VII. Determine whether or not the Bell operating company has discriminated between the separate affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or the establishment of standards.

STANDARDS

The FCC in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, establishes some non-discriminatory rules and regulations. These rules and regulations do not permit a Bell operating company (BOC) to discriminate in the following manner:

- by giving preference to a Section 272 affiliate's equipment in the procurement process. (First Report and Order, para. 16)

- in awarding contracts for telecommunications equipment directly to their affiliate. (First Report and Order, para. 234)

- by failing to provide advance information about network changes to its competitors. (First Report and Order, para. 16)

- by not offering third parties the same goods, services, facilities and information (excludes customer proprietary network information (CPNI) and joint marketing) that it provides to its Section 272 affiliate at the same rates, terms, and conditions. (First Report and Order, para. 202)

NOTES:
(i) BOCs are not required under the nondiscrimination rules and regulations to provide to third parties Customer Proprietary Network Information (CPNI) that is shared with affiliates (see *Second Report and Order*, CC Docket No. 96-115, Released February 26, 1998, para. 169). The provision of "information" referenced in the nondiscriminatory rules and regulations excludes CPNI. CPNI is defined in Section 222(f)(1) of the Act and includes information that is personal to customers as well as commercially valuable to carriers, such as to whom, where and when a customer places a call, as well

as the types of service offerings to which the customer subscribes and the extent the service is used.

(ii) BOCs are allowed to jointly market and sell affiliate-provided interLATA services without offering comparable joint marketing opportunities to other providers of interLATA services (see Section 272(g)(2) of the Act, and CC Docket No. 96-149, First Report and Order, Paragraphs 291-292). However, if BOCs market or sell their telephone exchange services through joint marketing conducted by the Section 272 affiliate, then the BOCs must also permit third parties to market and sell its telephone exchange services (see Section 272(g)(1) of the Act).

- in establishing or adopting any standards that favor its Section 272 affiliate over third parties. (First Report and Order, para. 208 and 229)
- in developing new services solely for its Section 272 affiliate. (First Report and Order, para. 210)
- in purposely delaying the implementation of an innovative new service by denying a competitor's reasonable request for interstate exchange access until its Section 272 affiliate was ready to provide competing service. (First Report and Order, para. 211)
- in marketing its affiliate's interLATA services to inbound callers without informing them of their right to select the interLATA carrier of their choice. (First Report and Order, para. 292)

In addition, a Section 272 affiliate may not market or sell information services and BOC telephone exchange services together, unless the BOC permits other information service providers to market and sell telephone exchange services. (First Report and Order, para. 287)

Another FCC Docket, in which orders have not yet been released, which may impact this objective is CC Docket No. 96-254 dealing with manufacturing activities.

PROCEDURES

1. Obtain from the BOC a list of all complaints from competitors related to the provision or procurement of

goods, services, facilities, and information, or in the establishment of standards which were filed during the first nine months of the engagement period. This list should group the complaints in the following categories:

- allegations of cross-subsidies (for Objectives V and VI);

- allegations of discriminatory provision or procurement of goods, services, facilities, customer network services information (excludes customer proprietary network information (CPNI)), or the establishment of standards (for Objective VII);

- allegations of discriminatory processing of orders for, and provisioning of, exchange access and exchange services and unbundled network elements, and discriminatory resolution of network problems (for Objective VIII);

- allegations of discriminatory availability of exchange access facilities (for Objective IX);

- allegations of discriminatory availability of interLATA facilities or services not at the same rates and not on the same terms and conditions as the interLATA affiliate (for Objective XI).

For each group of complaints, determine by inquiry and documentation how many of these complaints were under investigation, how many complaints had been resolved and in what time frame they had been resolved, if feasible. For those complaints that had been resolved, document how those allegations were concluded and, if the complaint was upheld, inquire and document what steps the company has taken to prevent those practices from recurring.

2. Obtain the BOC's written procurement procedures, practices, and policies for services and goods provided by each Section 272 affiliate. Make a note of any stated purchasing preferences contained in the BOC's procedures, if any, and provide details of the BOC's bidding process, the selection process, and how the BOC disseminates requests for proposals (RFPs) to affiliates and third parties.

3. Obtain and inspect the BOC's procurement awards to each Section 272 affiliate during the first nine months of the engagement period and inspect bids submitted by each Section 272 affiliate and third party, note terms, and discuss with

BOC representatives how the selection was made. Compare this practice with the BOC written procurement procedures and note any differences.

4. Obtain a list of all goods (including software), services, facilities, and customer network services information, excluding CPNI, other than those related to exchange access services and facilities inspected in Objective IX, made available to each Section 272 affiliate by the BOC. For a statistically valid sample, inquire and obtain copies of the media used by the BOC to inform unaffiliated entities of the availability of the same goods, services, facilities, and information at the same price, terms, and conditions.

5. Obtain a list from the BOC of all unaffiliated entities who have purchased the same goods (including software), services, facilities, and customer network services information (excludes CPNI) from the BOC. If any, describe what goods, services, facilities, and customer network services information and the extent of purchases made. Select a statistically valid sample and compare the rates, terms and conditions of the sampled items to the rates, terms and conditions offered to each Section 272 affiliate. Note any differences. Document the amount each Section 272 affiliate has paid for the same items purchased from the BOC.

6. Document how the BOC disseminates information about network changes, the establishment or adoption of new network standards, and the availability of new network services to each Section 272 affiliate and to unaffiliated entities. Note any differences.

7. Obtain and inspect customer service representatives' scripts for inbound calls establishing new service, adding a second line, moving to a new location, changing selected interLATA service provider, or any other situation where the BOC or BOC affiliated sales agents attempt to market its Section 272 affiliate's interLATA service. These marketing attempts may either be related to interLATA service only or following the sale of a BOC product or service.

8. Observe (listen in, for one half hour each, to at least five) customer service representatives, as defined in Procedure 7, responding to inbound callers to whom the sales representatives attempt to market the Section 272 affiliate's interLATA service. Labor union concurrence may be needed for this procedure. Note messages conveyed during observation. Make a note of any instances where the caller

was referred to the Section 272 affiliate and was not informed of other providers of interLATA services and was not informed of his right to make the selection.

9. Interview 10 sales managers of each Section 272 affiliate and inspect any available printed materials to determine whether any Section 272 affiliates market information services and exchange services, as an agent of the BOC or as a reseller. If yes, interview 10 sales managers of the BOC and inspect printed materials of the BOC to determine whether unaffiliated entities have the same opportunity.

OBJECTIVE VIII. Determine whether or not the Bell operating company and an affiliate subject to Section 251(c) of the Act have fulfilled requests from unaffiliated entities for telephone exchange service and exchange access within a period no longer than the period in which it provides such telephone exchange service and exchange access to itself or its affiliates.

STANDARDS

The FCC in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, provides some preliminary rules and regulations. A further proceeding in this matter, currently underway, will provide additional guidelines. We will revise these procedures to conform to the new guidelines when available. Current FCC rules and regulations require that,

- for equivalent requests the response time a BOC provides to unaffiliated entities should be no greater than the response time it provides to itself or its affiliate. (First Report and Order, para 240)

- a BOC must make available to unaffiliated entities information regarding the service intervals in which the BOC provides service to itself or its affiliates. (First Report and Order, para. 242)

- a BOC must not provide a lower quality service to competing interLATA service providers than the service it provides to its Section 272 affiliate at a given price. (First Report and Order, para. 16)

PROCEDURES

1. Obtain from the BOC a list of all complaints from competitors related to the provision or procurement of goods, services, facilities, and information, or in the establishment of standards which were filed during the first nine months of the engagement period. This list should group the complaints in the following categories:

   - allegations of cross-subsidies (for Objectives V and VI);

   - allegations of discriminatory provision or procurement of goods, services, facilities, customer network services information (excludes customer proprietary network information (CPNI)), or the establishment of standards (for Objective VII);

- allegations of discriminatory processing of orders for, and provisioning of, exchange access and exchange services and unbundled network elements, and discriminatory resolution of network problems (for Objective VIII);

- allegations of discriminatory availability of exchange access facilities (for Objective IX);

- allegations of discriminatory availability of interLATA facilities or services not at the same rates and not on the same terms and conditions as the interLATA affiliate (for Objective XI).

For each group of complaints, determine by inquiry and documentation how many of these complaints were under investigation, how many complaints had been resolved and in what time frame they had been resolved, if feasible. For those complaints that had been resolved, document how those allegations were concluded and, if the complaint was upheld, inquire and document what steps the company has taken to prevent those practices from recurring.

2. Obtain BOC's reports during the first nine months of the engagement period, if available, indicating time intervals for processing orders, provisioning of service, performing repair and maintenance services **for end user customers** of the BOC, affiliate, and nonaffiliates for the following services:

- Exchange telephone services

- Exchange access services

- Unbundled network elements

Make a note of differences in time in fulfilling each type of request for the same services from end user customers of the BOC, affiliates, nonaffiliates.

3. Obtain BOC's reports during the first nine months of the engagement period, if available, indicating time intervals for processing orders, provisioning of service, and performing repair and maintenance services **for the affiliate and for nonaffiliates, as customers,** for the following

services:

- Exchange access services
- Unbundled network elements

Make a note of differences in time in fulfilling each type of request for the same services from the affiliate and nonaffiliates.

4. Inspect a statistically valid sample of the underlying data used to prepare the reports obtained in Procedure 2 and 3 above and determine agreement with data in the report and document any differences.

5. If no reports are available, obtain from the BOC a statistically valid sample of all orders requesting exchange telephone services, exchange access services, and/or unbundled network services for end user customers for the period of one month and for one state (to be selected by the Oversight Team). Prepare worksheet indicating the date of the order, the address, the type of services ordered, the date when the order was executed and the service was provided and note the time interval to process requests for end user customers of the BOC, affiliates, nonaffiliates.

6. Repeat Procedure 5 for services requested by the affiliate and nonaffiliates as the users of those services (see Procedure 3 above).

7. Determine by inquiry, first, and then by inspection how and where the BOC makes available to unaffiliated entities information regarding service intervals in providing any service to end user customers of itself, of the affiliates, and of unaffiliated entities. Document the results.

OBJECTIVE IX. Determine whether or not the Bell operating company and an affiliate subject to Section 251(c) of the Act have made available facilities, services, or information concerning its provision of exchange access to other providers of interLATA services on the same terms and conditions as it has to its affiliate required under Section 272 that operates in the same market.

STANDARDS

The FCC in CC Docket No 96-149, Implementation of the Non-Accounting Safeguards of Section 271 and 272 of the Communications Act of 1934, as amended, indicates that a BOC may not discriminate in favor of its Section 272 affiliate in the following manner:

- by providing exchange access services to competing interLATA service providers at a higher rate than the rate offered to its Section 272 affiliate. (First Report and Order, para. 16)

- by not making available facilities and services to others on the same terms, conditions and prices that it provides to its Section 272 affiliate. (First Report and Order, para. 316)

PROCEDURES: This objective is closely related to Objective XI which contains procedures for the provision by the BOC of interLATA facilities and services. Therefore, these procedures may be performed in conjunction with the procedures for Objective XI.

1. Obtain from the BOC a list of all complaints from competitors related to the provision or procurement of goods, services, facilities, and information, or in the establishment of standards which were filed during the first nine months of the engagement period. This list should group the complaints in the following categories:

   - allegations of cross-subsidies (for Objectives V and VI);

   - allegations of discriminatory provision or procurement of goods, services, facilities, customer network services information (excludes customer proprietary network information (CPNI)), or the establishment of standards (for Objective VII);

- allegations of discriminatory processing of orders for, and provisioning of, exchange access and exchange services and unbundled network elements, and discriminatory resolution of network problems (for Objective VIII);

- allegations of discriminatory availability of exchange access facilities (for Objective IX);

- allegations of discriminatory availability of interLATA facilities or services not at the same rates and not on the same terms and conditions as the interLATA affiliate (for Objective XI).

For each group of complaints, determine by inquiry and documentation how many of these complaints were under investigation, how many complaints had been resolved and in what time frame they had been resolved, if feasible. For those complaints that had been resolved, document how those allegations were concluded and, if the complaint was upheld, inquire and document what steps the company has taken to prevent those practices from recurring.

2. Obtain list of exchange access services and facilities with their related rates offered to each Section 272 affiliate and inspect to determine whether the BOC makes these services and facilities available at the same rates, terms, and conditions to all carriers. For this purpose, inspect brochures, advertisements of any kind, bill inserts, correspondence, or any other media used to inform carriers of the availability of these services. Using a statistically valid sample of the informational media identified above, compare rates, terms, and conditions offered each Section 272 affiliate with those offered unaffiliated carriers.

3. Obtain invoices for exchange access services and facilities for one month (to be determined by the Oversight Team) rendered by the BOC to the Section 272 affiliate, and other interexchange carriers (IXCs). Using a statistically valid sample of billed items, inspect underlying details of invoice and compare rates, terms, and conditions charged each Section 272 affiliate with those charged IXCs for the same services and note any differences. If differences are noted, pursue the matter further through inquiry of appropriate personnel and note why they occurred.

4. Using the invoices obtained in Procedure 3 above, trace the

amount invoiced for exchange access services to each Section 272 affiliate and determine whether the amount invoiced was the amount recorded by the BOC and paid by each Section 272 affiliate. For this purpose, identify and inspect method of payment such as cancelled checks, wire transfers, and, if needed, summaries of invoiced amounts corresponding to the amount paid. Note any differences and inquire as to why they occurred.

OBJECTIVE X. Determine whether or not the Bell operating company and an affiliate subject to Section 251(c) of the Act have charged its separate affiliate under Section 272, or imputed to itself (if using the access for its provision of its own services), an amount for access to its telephone exchange service and exchange access that is no less than the amount charged to any unaffiliated interexchange carriers for such service.

STANDARDS

The FCC has issued rules and regulations in CC Docket No. 96-149, Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended. These rules require that,

- A BOC may not discriminate in favor of its Section 272 affiliate by providing exchange access services to competing interLATA service providers at a higher rate than the rate offered to its Section 272 affiliate (First Report and Order, para. 16). This requirement is met,

  - If the affiliate purchases exchange service and exchange access service at tariffed rates. (First Report and Order, para. 256)

  - If the affiliate acquires services or unbundled elements from a BOC at prices that are available on a nondiscriminatory basis under Section 251. (First Report and Order, para. 256)

  - If the BOC files with the State Commission a statement of generally available terms pursuant to Section 271(c)(1)(B) which would include prices that are available on a nondiscriminatory basis in a manner similar to tariffing, and a BOC's Section 272 affiliate obtains access or interconnection at a price set forth in the statement. (First Report and Order, para. 256)

  - If a BOC makes volume and term discounts available on a nondiscriminatory basis to all unaffiliated interexchange carriers. (First Report and Order, para. 257)

- BOCs are required to charge nondiscriminatory prices, and to allocate properly the costs of exchange access according to the affiliate transactions and joint cost rules. (First

Report and Order, para. 258)

* For integrated operations (for operations performed within the company and not under a separate affiliate), a BOC must impute to itself an amount for access to its telephone exchange service and exchange access that represents tariffed rates (First Report and Order, para. 256). This tariffed rate must be the highest rate paid for access by unaffiliated carriers. The BOC may consider the comparability of the service provided. (CC Docket No. 96-150 Report and Order, para. 87)

PROCEDURES

1. Obtain agreements that each Section 272 affiliate and other interexchange carriers (IXCs) have with the BOC for exchange access services.

2. Determine and fully document in which LATAs the BOC has access price flexibility for interLATA interstate and interLATA intrastate access services.

3. From the agreements obtained in Procedure 1, use a statistically valid sample to compare volumes, discounts, and rates negotiated with each Section 272 affiliate with those negotiated by other IXCs for the same services. Note and discuss any differences with management.

4. Obtain list of interLATA services offered by the BOC and discuss list with appropriate BOC employees to determine whether the list is comprehensive. Compare services appearing on the list with interLATA services disclosed in the BOC's Cost Allocation Manual (CAM) and note any differences. Compare the nonregulated interLATA services listed in the BOC's CAM with those defined as incidental in Section 271(g) of the Act and those interLATA services allowed under FCC order (for example E911) and note any differences.

5. Obtain a statement of revenue, by month, from interLATA services provided by the BOC itself, for the first nine months of the engagement period, and perform a trend analysis. If increases of more than 10% are noted from month to month, inquire and note reasons for such increase.

6. From the list of services obtained in Procedure 4 above, by using a statistically valid sample of interLATA services offered by the BOC and not through an affiliate, determine whether the BOC is imputing (charging) to itself an amount

for access, switching, and transport. Obtain usage details and tariffed rates for each of the above elements. Match rates used in calculations with the tariffed rates or those rates charged other interexchange carriers (IXCs) and note any differences. Trace amount to the journal entry and to the general ledger of the BOC. The entry should be a debit to nonregulated operating revenues (decrease) and a credit to regulated revenues (increase). If the process followed by the BOC is different from the one described above, please describe it in detail and obtain full documentation.

7. For each of the following categories of services, viz., exchange access services, local exchange services, and unbundled network elements, provided by the BOC to the Section 272 affiliate during the first nine months of operations, document the total amount the affiliate has recorded for those services in its books and reconcile with the amount the affiliate paid to the BOC and the amount of revenue reflected in the BOC's books for those services.

OBJECTIVE XI. Determine whether or not the Bell operating company and an affiliate subject to Section 251(c) of the Act have provided any interLATA facilities or services to its interLATA affiliate and made available such services or facilities to all carriers at the same rates and on the same terms and conditions, and allocated the associated costs appropriately.

STANDARDS

Valuation and recording procedures for sales or transfers of any interLATA or intraLATA facilities to each Section 272 affiliate, leasing of any unbundled network elements, or provision of any service by the BOC to each Section 272 affiliate are covered in Objectives V and VI of this program, under the affiliate transactions rules.

BOC network services and unbundled network elements made available under Section 251 to each Section 272 affiliate must also be made available at the same price to unaffiliated companies. (CC Docket No. 96-149, First Report and Order, para. 256)

PROCEDURES: This objective is closely related to Objective IX which contains procedures for the provision by the BOC of exchange access services. Therefore, these procedures may be performed in conjunction with the procedures for Objective IX.

1. Obtain from the BOC a list of all complaints from competitors related to the provision or procurement of goods, services, facilities, and information, or in the establishment of standards which were filed during the first nine months of the engagement period. This list should group the complaints in the following categories:

   - allegations of cross-subsidies (for Objectives V and VI);

   - allegations of discriminatory provision or procurement of goods, services, facilities, customer network services information (excludes customer proprietary network information (CPNI)), or the establishment of standards (for Objective VII);

   - allegations of discriminatory processing of orders for, and provisioning of, exchange access and exchange services and unbundled network elements, and discriminatory resolution of network problems (for Objective VIII);

- allegations of discriminatory availability of exchange access facilities (for Objective IX);

- allegations of discriminatory availability of interLATA facilities or services not at the same rates and not on the same terms and conditions as the interLATA affiliate (for Objective XI).

For each group of complaints, determine by inquiry and documentation how many of these complaints were under investigation, how many complaints had been resolved and in what time frame they had been resolved, if feasible. For those complaints that had been resolved, document how those allegations were concluded and, if the complaint was upheld, inquire and document what steps the company has taken to prevent those practices from recurring.

2. Obtain list of interLATA network services and facilities with their related rates offered by the BOC to each Section 272 affiliate to determine whether the BOC makes these services and facilities available at the same rates, terms, and conditions to all carriers. For this purpose, inspect brochures, advertisements of any kind, bill inserts, correspondence, or any other media used to inform carriers of the availability of these services. Using a statistically valid sample compare rates, terms, and conditions offered each Section 272 affiliate with the rates offered unaffiliated carriers.

3. Obtain invoices for interLATA network services and facilities for one month (to be determined by the Oversight Team) rendered by the BOC to the Section 272 affiliate and other interexchange carriers (IXCs) that receive these services from the BOC. Using a statistically valid sample of billed items, inspect underlying details of invoice and compare rates, terms, and conditions charged each Section 272 affiliate with those charged other IXCs for the same services and note any differences. If differences are noted, pursue the matter further through inquiry of appropriate personnel and note why they occurred.

4. Using the invoices obtained in Procedure 3 above, trace the amount invoiced to each Section 272 affiliate for interLATA facilities and services and determine whether the amount invoiced was the amount recorded by the BOC and paid by each Section 272 affiliate. For this purpose, identify and inspect method of payment such as cancelled checks, wire transfers, and, if needed, summaries of invoiced amounts

corresponding to the amount paid. Note any differences and inquire as to why they occurred.

ANNUAL CODE OF CONDUCT TRAINING

1801 California Street
Denver, Colorado 80202

ride the light
Qwest

Code of Conduct

6/30/00

The issuance of this Code does not represent an employment contract and creates no contractual rights between Qwest and employees. Unless covered by a collective bargaining agreement, employment with Qwest is at-will which means that either the employee or Qwest may terminate the relationship at any time, with or without cause.

Nothing in this Code, any Corporate Policies, or other communications by Qwest creates an employment contract or term of employment or any promise of specific treatment upon which an employee can rely.

Qwest reserves the right to change or modify this Code and associated policies for any reason, at any time, with or without advance notice.

Contents

Dear Colleague:

As we work together at Qwest to change the way the world communicates, we have exciting new opportunities in a dynamic and competitive global marketplace. Amidst the change, one thing that must remain constant is our uncompromising commitment to act with integrity and to conduct business according to the highest ethical standards.

The trust and confidence of our customers, shareowners and employees remain our most valued assets and our reputation for honesty and integrity depends on the individual decisions we make every day.

That is why this Code of Conduct is so important.

- The Code emphasizes our commitment to executing work with excellence.

- It links our vision, business priorities and standards of conduct.

- The Code recognizes that we are faced with difficult decisions in a rapidly changing industry, and provides a framework and resources to help us make the right legal and ethical choices.

Please review this booklet carefully, ask questions to clarify how the Code relates to your job and report known or suspected violations. Let the Code serve as a guide to your conduct in meeting customer and shareowner expectations.

Sincerely,

Joseph P. Nacchio
CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Our Vision and Character

Our vision is to build shareowner value by becoming the market leader for worldwide broadband Internet communications and application services.

- We put the customer first. At Qwest, customer service is our top priority. We are measured by customer standards.
- We are committed to creating shareowner value through growth, continued execution with excellence and speed to market.
- We are a team of innovators, demonstrated by our leading-edge technologies and our visionary approach to serving customers. We are results driven and accountable for our performance.
- We work hard, smart and fast to deliver innovative products and services.
- We demonstrate teamwork, flexibility, commitment, discipline and professionalism, leading by example through our words and actions.
- We are committed to open, honest and candid communication with all employees.
- We act with integrity. We conduct business safely and according to the highest standards of legal and ethical conduct, believing our reputation is key to our success.

About the Code of Conduct

You must read and use the Code to help ensure that business decisions follow our commitment to ethics, our policies, and the law. Adherence to the Code and policies is essential to enhancing our ethical reputation among customers, shareowners, and employees.

The Code and policies are a guide to legal and ethical conduct at Qwest.

- Review this entire booklet. Think about how the Code and policies relate to your job and consider how you might handle situations to avoid illegal, improper, or unethical actions.

- If you have questions, ask your supervisor, Human Resources representative, Legal Affairs or the Corporate Compliance Advice Line (800-333-8938).

- The Code applies worldwide to all employees and others who represent or act on our behalf.

- Review the corporate policies that are applicable to you and your job. Understand what they require of you and where to ask for assistance.

Employees who violate this Code and corporate policies may be subject to disciplinary action – up to and including termination of employment.

Make Ethical Decisions

A law or policy will sometimes dictate the required conduct to make an appropriate decision. More often, you must interpret the situation, seek advice and make ethical choices.

When facing a situation, ask these questions:

- Are there laws and regulations to consider?

- Does the decision comply with Qwest policy and this Code?

- How does this decision affect you and others (customers, shareowners, suppliers, partners, competitors, Qwest, and other employees)?

- How does the decision look to others? Even an innocent action can have the appearance of wrongdoing.

- How would it look if this decision were made public? Could it be explained?

- What implications will arise from this decision? Would additional advice be helpful? Your supervisor is usually in the best position to help. Contact the Corporate Compliance Advice Line if you need additional assistance.

Report Violations

You are expected to recognize and report actual or potential problems and seek advice when you have a question. If you observe or suspect a violation of the law, the Code or Qwest policies, report it to your manager, or to the Corporate Compliance Advice Line (800-333-8938). Qwest investigates reports of suspected violations. Employees who, in good faith, report suspected violations, will not be subject to disciplinary action.

You may make anonymous reports. We will attempt to keep your name confidential if you make anonymous reports. However, if we determine that we should reveal an employee's identity to enforce this Code or to comply with applicable law or judicial process, we will do so.

You must cooperate in investigations of alleged violations of this Code and other corporate policies.

You are responsible if you violate the Code even if you report the violations

We may discipline managers who condone, permit, or fail to take appropriate action against the illegal, unethical or improper conduct of others

Maintain a Professional Work Environment

Qwest values the unique contributions of each individual employee. We trust that as valuable members of the Qwest team everyone will treat one another with courtesy, respect and dignity. Managers at Qwest maintain an "open door" policy regarding employee questions. You are responsible for maintaining a professional and productive work environment and should bring questions and concerns to your manager.

NON-DISCRIMINATION

Qwest supports equal employment opportunity and complies with affirmative action requirements. Do not discriminate or harass on the basis of race, gender, age, sexual orientation, religion, national origin, disability or covered veteran status. You are responsible for promoting a workplace free of unlawful discrimination and harassment.

SEXUAL HARASSMENT

Sexual harassment is illegal and strictly prohibited. Sexual harassment can include unwelcome sexual advances, requests for sexual favors, unsolicited physical contact, unwelcome flirtations, offensive verbal, visual or physical conduct of a sexual nature, suggestive or lewd remarks, unwanted hugs or touches, offensive jokes or visuals, pornography and sexually explicit material.

Sexual harassment can manifest itself in subtle ways. Actions made without any intention to harass may upset or offend others. Even conduct that does not rise to the level of unlawful sexual harassment may violate Qwest policy and be grounds for discipline.

Keep in Mind

- *Call Human Resources/EEO with questions [illegible] harassment. Report alleged violations of policy or law to the [illegible] Advice Line (800-333-8938).*

- *We will not tolerate harassment in any form — [illegible] photos, cartoons, or electronic mail.*

- *Managers must report and take appropriate action on suspected violations of our non-discrimination and sexual harassment policies.*

- *You violate the law and this Code if you retaliate against an employee for making a good faith report or participating in the investigation of discrimination or harassment.*

Avoid Conflicts of Interest

Always act in the best interests of Qwest and safeguard our reputation from any conflicts of interest or even the appearance of a conflict. Avoid any investment, interest, association, or activity that may cause others to doubt your judgment or integrity, or that interferes with your ability to perform job duties objectively and effectively.

EMPLOYMENT OF RELATIVES

You may not supervise relatives or exercise direct or indirect influence over other employment decisions involving your relatives.

OUTSIDE INTERESTS

If you or members of your family have financial interests in a competitor's or supplier's firm, you must not allow those interests to impact your ability to make impartial decisions on behalf of Qwest.

You must obtain advance approval from Legal Affairs if you plan to serve on an outside board (for-profit, non-profit, technical advisory). Report all time spent on outside board activities as personal or vacation.

If you hold a job outside of Qwest, it must not interfere with your ability to make decisions in the company's best interest or to perform your duties on behalf of Qwest during required business hours. Employment by a supplier or competitor is a conflict of interest and is not allowed unless approved by Corporate Compliance.

An employee's direct investment in stock, warrants or options issued by any other company may create a conflict of interest if the other company has a commercial or equity relationship with Qwest. To avoid a conflict of interest, Legal Affairs must approve, in advance, all direct investments, including "friends and family" programs.

You must notify your supervisor and Corporate Compliance prior to seeking or being appointed to public office.

Keep in Mind

- *Do not use company time, materials, information or other assets in connection with outside employment or other personal interests*
- *Disclose any potential or actual conflict of interest to Corporate Compliance*
- *Consult with your manager or Corporate Compliance if you are uncertain whether a conflict exists*

Giving and Accepting Business Courtesies

Your interests conflict with those of Qwest when you use your position (directly or indirectly) for private gain, to advance personal interests or to obtain favors. If you are in a position to make or influence a decision regarding a business transaction between Qwest and a third party, you must not accept anything of substantial value from that party.

Avoid giving or accepting any item, including cash or its equivalent, that could be construed as a bribe or kickback, or that could give the impression of trying to influence business judgment.

The reasonable and infrequent offer or acceptance of refreshments, meals or entertainment in connection with business discussions is an acceptable business practice (if consistent with departmental procedures, business expense guidelines, and if properly approved).

Unique laws apply to government officials and employees. Understand applicable regulations when doing business with government agents or employees. Exercise good judgment in offering meals and other courtesies to public officials. In some instances, this is prohibited by law. For more information, contact Policy and Law or Corporate Compliance. If you conduct business internationally, understand and obey all applicable laws and regulations, including the Foreign Corrupt Practices Act.

INSIDER TRADING

Federal law prohibits all employees and others from buying or selling Qwest securities (and those of other companies under certain conditions) based on information not publicly available that could affect the price of the securities. Do not disclose or use for your personal gain non-public information acquired by reason of your relationship with Qwest.

Such information includes: financial forecasts or results; product information; contracts; marketing plans; proposed acquisitions or divestitures; and strategic plans or information about significant changes or developments of Qwest or a company that does or has done business with Qwest.

Do not trade Qwest stock during "no trade periods" if you have been notified that you are subject to this restriction.

Keep in Mind

- *Insider trading also includes "tipping" or telling others about insider information. If another person buys or sells securities based on your tip, you could be guilty of insider trading even if you yourself do not trade.*

- *Observe the "no trade periods" if you have been notified that you are subject to this restriction.*

Safeguard Our Employees and Our Assets

You must protect Qwest's assets, safeguarding them against loss, damage, misuse or theft. Failure to do so has a direct impact on Qwest's profitability and ultimately on all of our jobs.

Assets include, but are not limited to: employees, facilities, property, equipment, computers, furnishings, tools, supplies, funds, time, communication systems, records (regardless of format — paper and electronic), information, trademarks, copyrights, patents, trade secrets and other intellectual property.

Use Qwest assets only for legitimate business purposes. Do not access company information or use Qwest assets for personal reasons. Qwest may inspect, disclose and exercise control over any and all of its documents, communications systems, equipment, facilities and other property at any time, with or without notice

ENVIRONMENTAL HEALTH AND SAFETY

Environmental Protection Qwest commits to protect the environment through initiatives to reduce the demands/impacts of our business on natural resources and the environment. We also promote various customer services that offer environmentally friendly alternatives to transporting people and goods.

You share the responsibility for making environmentally responsible decisions. Our environmental policies help you perform your job in an environmentally responsible manner and in compliance with applicable laws/regulations. You must report environmental hazards to your manager, who will take corrective action as necessary, after consulting with Environmental Health and Safety (EHS).

Safety and Health Qwest commits to providing you with a safe and healthful workplace free of recognized hazards. Meeting this commitment is a responsibility shared by Qwest and each of its employees.

We provide job-specific training, tools and resources to facilitate compliance with workplace safety and health laws/regulations and we expect employees to follow applicable safety practices. Managers are responsible for ensuring employees receive required safety training and for enforcing all applicable safety policies and procedures in the workplace.

We are required to report and record all work-related accidents. Accordingly, you must report work-related accidents immediately to your manager. Work-related accidents must also be reported to UNIcall (800-654-2525). Managers are also required to investigate all accidents. EHS is available to assist with accident investigations. In all cases, managers must contact EHS prior to beginning an investigation involving a fatality or serious third party liability.

Unsafe conditions must also be reported to your manager. If an unsafe condition exists, managers must provide necessary warnings or correct the situation as soon as possible. EHS is available to assist in the evaluation of these situations and to provide guidance in correcting unsafe conditions.

Keep in Mind

- *Qwest attempts to anticipate and create management plans for crisis situations involving its assets and personnel. In the event of a crisis, corporate and state-level emergency response teams can be activated by calling the Qwest Disaster Recovery Hotline at 800-204-6540*

- *Maintain a safe work environment. Know the hazards of all materials and equipment you work with and use the appropriate personal protective equipment and precautions.*

- *Report work-related accidents, hazardous situations, spills, and other incidents with environmental impacts to UNIcall (800-654-2525).*

- *Request that EHS evaluate the impact of real estate transactions and new products and services.*

- *Contact EHS immediately about environmental complaints, safety concerns, notices of inspection, subpoenas or search warrants and requests for access to company facilities by a government agency (e.g., OSHA, EPA).* ***Do NOT allow access before contacting EHS.***

- *Smoke only in designated exterior smoking areas during authorized meal and break periods.*

Workplace Violence To preserve employee safety and security, we forbid weapons, firearms, ammunition, explosives, incendiary devices, and cases/holsters/ sheaths for weapons on company property, in company vehicles, in the workplace or while acting in a business capacity. Additionally, we will not tolerate acts or threats of violence (e.g., threatening language — verbal, written or visual — gestures, and behavior).

Report behavior that threatens the safety of employees or property or has the potential to become violent to Security (888-879-7328), your supervisor, Human Resources representative or the Corporate Compliance Advice Line (800-333-8938).

Off-Duty Misconduct Off-duty misconduct may adversely affect workplace safety, your fitness for duty, or Qwest's corporate image. Managers must report any known arrest or conviction of any employee for a felony, misdemeanor or any other criminal offense to the Corporate Compliance Advice Line (800-333-8938). Employees who are in safety sensitive positions or who operate motor vehicles or aircraft must immediately report certain traffic tickets and violations to their supervisors.

Background Verification Qwest may conduct background verifications for any reason, at any time. Depending on the circumstances, employment, transfer or promotion may be terminated based on the infomation obtained.

Drug and Alcohol Use The trust and confidence of our customers and shareowners, as well as the health and safety of our employees, depend on a workplace free from the effects of substance abuse. The misuse of drugs or alcohol negatively affects productivity, attendance and on-the-job safety. You are forbidden to sell, distribute, manufacture, dispense, possess, transfer or use illegal drugs or controlled substances during the work day, on company time, or on Qwest premises. You must not possess or use alcohol when working in a safety sensitive position. Illegal drugs, controlled substances and alcohol are prohibited in company vehicles. Alcohol may not be served or consumed on company premises without pre-approval from a company officer. When alcohol is served at social events attended in the course and scope of employment, employees who choose to consume alcohol must do so responsibly.

Employees unfit to work due to the effects of alcohol or drugs are subject to disciplinary action up to and including termination from employment. We reserve the right to conduct drug and alcohol search and screening procedures consistent with applicable laws. Breathalyzers or any other alcohol or substance abuse monitoring or ignition interlock device shall not be installed in any vehicle used for company business.

PHYSICAL PROPERTY AND SECURITY

Access Control You must comply with the level of access control (including display of ID badges) implemented in the facility or building where you work. Allow only authorized visitors in the workplace and escort visitors throughout Qwest facilities.

Personal Belongings You are responsible for any personal belongings or valuables brought to the workplace. We assume no responsibility or liability for the loss of personal belongings. Qwest reserves the right to inspect any items of personal property brought to the workplace including bags, cases, parcels, or automobiles.

Communication Systems Our communication systems are provided for business use. Exceptions for personal use require supervisory approval and must be consistent with company policies. Communication systems include but are not limited to: computers, telephones, video conference equipment and facilities, faxes, voice mail systems, Internet, intranet, e-mail, hard drives, disks and mail delivery systems.

You must prevent misuse of Qwest equipment and systems and must take precautions to protect them. (e.g., password protection and anti-virus software).

Do not install or use unauthorized software with Qwest computer equipment. Duplication of licensed software is prohibited unless specifically authorized in a written vendor licensing agreement. Violations may lead to action against individuals and the company.

We will report to authorities any individual access, transmission, or known receipt of illegal information through a Qwest communication system.

Qwest communication systems are Qwest property and are not private. You do not have a personal privacy right in any material created, stored, received or sent through a Qwest communication system (including computers, telephones, hard drives, disks, etc.).

By using Qwest communication systems, you consent to Qwest's monitoring these systems and acknowledge and agree to Qwest's right to conduct such monitoring. Qwest in its sole discretion reserves the right to access, monitor, copy, transcribe, forward, download, delete, capture and/or disclose all communications sent via any Qwest communication system, at any time, with or without prior notice.

Keep in Mind

- *Use Qwest communication systems in a professional manner. Do not [illegible] that is disruptive, illegal, offensive or harmful to morale or Qwest's reputation.*

- *Unacceptable personal use includes, but is not limited to: transmission of threatening or sexually explicit material, chain letters, jokes, personal/unauthorized solicitations, invitations, and expressions of social or political causes, as well as participation in games or chat sessions.*

INTELLECTUAL PROPERTY AND INFORMATION

Intellectual Property Our trade secrets often result from a significant investment of Qwest resources. Intellectual property is an important asset that helps with our competitive advantage and, therefore, must be protected. Examples of intellectual property include: the Qwest name, logo, trademarks, copyrights, patents, software, confidential information, ideas, inventions, discoveries, research, plans and strategies.

You must take measures to protect Qwest's intellectual property and to avoid infringing on the intellectual property rights of others. Refer any misuse or infringement of Qwest intellectual property to Legal Affairs.

Copyrightable works by Qwest must contain appropriate copyright notices and be protected against unauthorized copying or distribution.

Provide to Legal Affairs new product names and other trademarks or new product ideas that may be patentable.

Confidential Information You must safeguard all confidential information. Use the information for Qwest business only. Disclose it only to those people with a legitimate need to know. Do not discuss it with people outside Qwest, including family, and do not use it for personal gain. Do not leave confidential records out where they can be easily read by others.

Improper disclosure or receipt of confidential information can expose Qwest to liability and the loss of intellectual property rights. In conducting business, do not ask for information to which you are not entitled and do not disclose information that must remain private. Make sure that you understand and comply with the special rules regarding customer proprietary network information.

Company Records The law requires Qwest's books and records to accurately reflect transactions. Falsifying company records, including financial records, inventories, equipment installation and maintenance reports, sales transactions, product tests, permits/licenses, contracts, expense records, service records, payroll and time reports, approvals and authorizations is a serious offense that can lead to termination

Personnel Records Access to personnel records is limited and must be obtained through Human Resources. Employee information is the exclusive property of Qwest and is confidential.

Keep in Mind

- *Refrain from using any report or record to mislead or conceal any impropriety*
- *Only reasonable, accurate, ordinary and necessary expenses incurred in conjunction with Qwest business may be submitted or approved for reimbursement*
- *Qwest-provided credit cards may only be used for legitimate business purposes*
- *You must manage, protect, maintain and dispose of records in an appropriate manner and in accordance with the records retention schedule. Records include all recorded information (e.g., paper, CD, disk, electronic, microfiche, e-mail, microfilm, etc.). All records, in any form including e-mail, and computers are subject to audit and inspection for compliance with Qwest policies and record maintenance requirements*

Disclosing Information to the Public To conform with securities laws and antifraud requirements and to make accurate and timely disclosures about the company, Qwest has designated spokespersons who are the only personnel authorized to disclose information about Qwest to the public. Any contact with the media or the financial and investment communities must be directed to Corporate Communications. Any invitation to speak to outside groups must be forwarded to Corporate Communications for review and approval. The posting of any information to an Internet chat room is a violation of Qwest policy.

Our Relationships with Others

OUR CUSTOMERS

Qwest provides services that reach into the personal and professional lives of our customers. They have entrusted us with their account information and communications data. Maintaining the privacy of customer information and communications is a serious responsibility. Our ability to attract and retain customers hinges on the manner in which we protect their information and communications. You must comply with the standards that have been developed for the care and safeguarding of customer information. Questions should be directed to FCC/Regulatory Compliance.

- Accessing Customer Records — Access customer accounts, records and reports only for authorized business purposes.

- Customer Communications — Customer communications (data and voice) are confidential. Never tamper with, record, listen to or divulge any customer communications, except when required in the proper management of the business or when required by law.

- Customer Information — We possess certain customer information that is subject to special protection under federal law/regulations (Telecommunications Act, Cable Act, FCC and Customer Proprietary Network Information requirements). Our customers may request that we restrict our use of the information. Also, customers have the right to direct us to provide information to other parties, including our competitors. We are obligated to comply with these requests to the extent required by law.

- Sales and Marketing — While we intend to aggressively market and sell our products and services, we must do so within the confines of the law. You must not engage in illegal or unethical activities to obtain business. You must accurately represent Qwest products and services.

- Unlawful Use of Qwest Services — If you suspect a customer is using Qwest services for unlawful purposes, you should report it immediately to Security.

OUR COMPETITORS

Compliance with antitrust and unfair competition laws is very important to us. Because of the complexity of these laws, you should seek advice from Legal Affairs if you have questions.

The following guidelines will help you avoid violations of antitrust and unfair competition laws:

- Do not directly or indirectly enter into agreements that might limit competition or restrain trade. This would include price fixing, bid rigging, allocating markets or customers and boycotting. Never discuss or even listen to discussions of this nature with competitors

- Do not make false, misleading or disparaging remarks about individuals, their organizations or their products and services. Instead, focus on the quality and value of our products and services.

- Customers who are also competitors (e.g., carriers and interconnectors) must not be disadvantaged in the levels of service we provide to them. For example, Qwest may not improperly use wholesale customers' customer proprietary network information.

Gather information about the marketplace and our competition using only lawful and ethical methods (e.g., publicly available information, industry gatherings, research, surveys and product analysis).

Never steal or unlawfully use information, material, products, intellectual property or proprietary and confidential information of others. Doing so could constitute unethical or even illegal industrial espionage.

Likewise, you must always take steps to protect our operations from espionage or sabotage. Any attempt by others to gather or secure competitive information owned by Qwest must be immediately reported to Security or Legal Affairs.

Keep in Mind

Never use the following improper means to gather information about competitors:

- *Criminal acts such as burglary, wiretapping, stealing and bribery*
- *Misrepresentation or deception*
- *Dumpster diving or searching a competitor's trash for valuable information*
- *Hiring or surveying employees for the purpose of obtaining proprietary information belonging to their former employer*

OUR SUPPLIERS

We do business with suppliers, contractors and consultants who demonstrate high principles of ethical business behavior and provide the best overall value for us.

We have detailed guidelines for the procurement of products and services. You must become familiar with and adhere to these guidelines (including the established approval and authority levels).

If you have a personal or family relationship or a financial interest in a supplier, you must take steps to ensure that decisions affecting those suppliers are based solely on objective input and judgment.

Do not accept gifts or business courtesies of substantial value from suppliers. Reasonable and infrequent acceptance of meals, refreshments or entertainment in connection with business may be appropriate. For additional information contact Procurement.

Government Relations

Our interactions with government personnel are important to our continued success, whether they are customers to us or serving in other official capacities. We have a special obligation to know the laws, regulations and ethical standards of the various branches of federal, state and local governments.

GOVERNMENT RELATIONS AND BUSINESS DEALINGS

Contracting with a federal, state or local government is a unique part of our business. When we contract with a government, we are in effect contracting with the public. This places us in a position of trust, with special opportunities and special responsibilities. Always avoid activities that may be perceived as attempts to improperly influence government agencies, officials and employees.

You must not authorize, offer, provide, accept, deliver or solicit any payments, gratuities or favors (either directly or indirectly) for purposes of influencing any government official or employee. This may be illegal. Additional rules may apply internationally.

As a supplier to the government, we sometimes have responsibility for working with highly sensitive information. This information is often classified and essential to our national security. Proper treatment and protection of such information must be a high priority. In certain situations, security clearances are required to obtain information or provide services on a government contract.

Federal and state laws govern the hiring of former government employees and procurement officials. Legal Affairs must approve any discussions of employment with government employees.

We regularly provide information and share opinions with government officials and candidates for elective office. If you represent Qwest in this capacity, you must do so within all appropriate business conduct and legal boundaries. Policy and Law is responsible for retaining and managing consultants performing legal work, lobbying services, legislative/regulatory consulting or witness services on behalf of Qwest. All information and reports provided to the government must be accurate and complete. It is absolutely essential that proper procedures be followed in recording costs and charges to the government.

Keep in Mind

- *Any prospective government proposal or contract (including subsequent modifications) must be approved by Legal Affairs.*

- *Contact Policy and Law for information on the [illegible] compliance requirements for dealing with government employees and public officials.*

POLITICAL CONTRIBUTIONS AND ACTIVITIES

We encourage employees to participate in the political affairs of their communities and country on an individual basis, on their own time and at their own expense.

You are not authorized to make direct or indirect political contributions of any kind on behalf of Qwest.

Qwest has established various Political Action Committees (PACs). PACs are voluntary, non-profit, independent organizations which may accept contributions and make expenditures for electing candidates for public office, consistent with applicable laws and regulations. You may, where eligible, make contributions to a Qwest-sponsored PAC. We will make contributions only from accounts and through procedures that are allowed by law.

When you speak out on public issues, make sure you do so as an individual, unless specifically authorized to do otherwise. When speaking as an individual, you must not give the impression you are speaking or acting on Qwest's behalf.

If you run for public office, serve as a public official or campaign for a political candidate, you cannot be paid by Qwest for any time spent in these activities, unless otherwise approved and allowed by law.

GOVERNMENT INVESTIGATIONS

We cooperate with appropriate government investigations into possible violations of the law. In this context, however, it is important to protect Qwest's property and legal rights.

If served with a subpoena or search warrant, immediately contact Legal Affairs or EHS (for safety or environmental issues).

Any time you are approached by someone claiming to be a government investigator, you should contact Legal Affairs before answering any questions or providing any information or records. Non-supervisory employees are not required to make these contacts before speaking with government investigators about employment, labor or safety issues, but are invited to do so since we have internal mechanisms to deal with such concerns.

Records are the property of Qwest regardless of who creates, keeps or updates them and must not be produced for government investigations without contacting Legal Affairs.

AFFILIATE RELATIONSHIPS

State and federal regulatory requirements govern the relationship and business transactions between the various affiliates of Qwest.

These requirements cover

- Asset transfers
- Provision of products and services
- Allocation of costs between regulated and unregulated entities
- Information flow between entities
- Technology compensation
- Affiliate restructuring

The rules are often complex and may create special requirements for record keeping, reporting and regulatory approvals.

Contact Legal Affairs or Regulatory Accounting for questions regarding the relationships or business dealings between Qwest affiliates.

SERVICE OF LEGAL DOCUMENTS

We must respond to properly served legal documents in a timely manner. Failure to respond appropriately can have severe negative consequences. If you receive an inquiry regarding the service of a legal document, you must advise the server that you are not authorized to accept the legal document, and then you must refer the server to Legal Affairs. Legal Affairs is responsible for authorizing receipt of service of legal documents and retaining outside legal counsel. If you are served at home, on the job or in the mail with legal documents relating to Qwest activity immediately contact and forward the documents to Legal Affairs.

International Business

As a responsible member of the international business community, we provide quality products and services at fair prices and we compete on the merits of our products and services, not on favors. Our commitment to fair competition includes avoiding corrupt business practices and keeping accurate business records that help prevent such practices.

We recognize that in some international markets we will encounter laws, customs and cultural practices that differ from those of the U.S. We will comply with all applicable U.S. regulations and restrictions in dealing with other countries, as well as foreign laws and restrictions that apply in those countries.

The laws governing international business are comprehensive and involve corrupt business practice prohibitions, export controls, trade sanctions and anti-boycott requirements. These laws are often complex and subject to change. Consult with Legal Affairs for questions on international business dealings.

FOREIGN CORRUPT PRACTICES ACT

Under the Foreign Corrupt Practices Act (FCPA), our status as a publicly held corporation requires that we establish internal accounting controls and conform to generally accepted accounting principles in all operations worldwide. All payments, transactions and accounts must be accurately and truthfully recorded and reported.

The Foreign Corrupt Practices Act also prohibits us (and our employees and agents) from directly or indirectly offering, promising to pay, or authorizing the payment of money or anything of value to foreign government officials, political parties or candidates for the purpose of influencing their acts or decisions.

Failure to comply with the FCPA can result in substantial penalties for both individuals and corporations. This can include fines, imprisonment and loss of government supplier privileges.

EXPORT CONTROLS AND INTERNATIONAL BOYCOTTS

Several U.S. laws restrict trade with certain countries. Other laws restrict export of certain technologies (including products, services, data and knowledge). Our operations worldwide must comply with U.S. export restrictions. Employees who are uncertain of the legal trade status of any country or technology should contact Legal Affairs.

You may not cooperate in any way with unsanctioned foreign boycotts of countries friendly to the U.S. Any request for information or action that seems to be related to any illegal boycott must be reported immediately to Legal Affairs.

Resources

Corporate Compliance has overall responsibility for the implementation of the Code of Conduct and all corporate policies. Employees are accountable for knowing and abiding by the corporate policies and this Code. You are expected to review and become familiar with the corporate policies.

The Code and policies may be found at the Corporate Compliance intranet site on The Q under departments.

The following resources are also available if you have questions about Qwest standards and policies:

Corporate Compliance Advice Line	**1-800-333-8938**
Conflict of Interest Issues	1-800-333-8938
Corporate Communications - Media Inquiries	303-992-2155
Public Speaking Requests	303-965-3007
Disaster Recovery Hotline	1-800-204-6540
Environmental Health and Safety Issues	303-672-2925
FCC/Regulatory Compliance	402-422-7689
Human Resources	303-992-3184
Legal Affairs	303-672-2756
Policy and Law	303-896-3040
Procurement	1-877-311-5141
Records Management	303-672-2802
Regulatory Accounting	303-896-5997
Security	1-888-879-7329
UNIcall (Reporting claims and EHS assistance)	1-800-654-2525

Index and References

NOTE: THE CODE OF CONDUCT AND ALL THE POLICIES LISTED BELOW CAN BE FOUND AT THE CORPORATE COMPLIANCE INTRANET SITE.

SECTION 272 EMPLOYEE TRAINING

CONTINUATION

3 -

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Conducting Business After Long Distance Re-Entry

Section 272 Compliance

Employee Obligations and the Telecommunications Act

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Employee Obligations

- Every Qwest employee is expected to understand Section 272 requirements
- What should you do if you have questions about Section 272?
  - Refer them to your supervisor, or
  - Contact your FCC/Regulatory Compliance Manager
    FCC/Regulatory Compliance Managers may be found at:

Telecommunications Act of 1996

- Prior to 1996, the Regional Bell Operating Companies (RBOC) like Qwest Corporation (QC) were prohibited from providing interLATA services within their service territories
- The 1996 Telecommunications Act (Act) allows an RBOC to provide interLATA services within its region once certain requirements are met
- Requirements are primarily outlined in Section 271 and Section 272 of the Act

Definitions

- Qwest Communications International Inc.: the publicly-traded parent company of all Qwest affiliates

- Qwest Corporation (QC): formerly known as U S WEST Communications, Inc., QC is the"pre-merger U S WEST" incumbent local exchange carrier and Regional Bell Operating Company (RBOC)

- Qwest Communications Corporation (QCC): the "pre-merger Qwest" operating company and separate 272 affiliate of QC through which Qwest will ultimately provide in-region, interLATA services upon receipt of 271 relief

Section 271 Overview

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- Defines requirements QC must meet to show that the local market is open to competition so that it can enter the in-region, interLATA long distance market

- Contains 4 key provisions plus audit requirements

  1. Competitive checklist - also know as the "14-point checklist"
  2. Interconnection agreements or Statement of Generally Available Terms and Conditions (SGAT)
  3. Section 272 affiliate to provide in-region, interLATA long distance service
  4. Public interest showing that demonstrates QC has opened its local markets to competition

Section 272 Requirements

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- Qwest Communications International Inc. must create a separate affiliate and properly operate the separate affiliate in order to be permitted to offer in-region, interLATA long distance service:

  – Section 272 (a) - Separate Affiliate
  – Section 272 (b) - Structural and Transactional
  – Section 272 (c) - Nondiscrimination
  – Section 272 (d) - Biennial Audit
  – Section 272 (e) - Fulfillment of Certain Requests
  – Section 272 (f) - Sunset Rules
  – Section 272 (g) - Joint Marketing Provisions

- Section 272 defines the separate affiliate structure and business relationship between QC and QCC, which is known as the Section 272 or long distance subsidiary

Section 272 Requirements

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272(a) - Separate Affiliate

- QC may only offer in-region, interLATA long distance service through a separate affiliate

272(b) - Structural and Transactional

- This section is a critical component of Section 272
  - Assures competitors that QC and QCC are operating independently and QCC is not receiving preferential treatment that would give it an unfair advantage in the market

- 5 key provisions must be demonstrated to show separateness
  - Operate independently
  - Separate books, records, and accounts
  - Separate officers, directors, and employees
  - Creditors of QCC may not have recourse to QC assets
  - Transactions at arm's length, reduced to writing, and posted on the Internet

Section 272 Requirements

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272(b)(1) - Operate Independently

- QC and QCC cannot jointly own network facilities, or the land or buildings where those facilities are placed
  - No transfer of any network facilities from QC to QCC
  - No operation, installation, or maintenance (OI&M) of QC's facilities by QCC
  - No OI&M on QCC facilities by QC or any other Qwest affiliate
- QC cannot provide discriminatory access to network service

272(b)(2) - Separate Books, Records, and Accounts

- QCC must maintain books, records, and accounts separate from the books, records, and accounts of QC

Section 272 Requirements

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272(b)(3) - Separate Officers, Directors, and Employees

- QC and QCC cannot share officers, directors, or employees
- Employees who perform functions supporting QCC are required to report their time so that QCC can be billed appropriately

272(b)(4) - Creditors of QCC may not have recourse to QC Assets

- QCC cannot obtain credit under any arrangement that would permit a creditor to have recourse to QC's assets

- QCC's obligations are not co-signed by QC; nor are they co-signed by Qwest Communications International Inc. in a manner that would allow recourse to the assets of QC

Section 272 Requirements

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272 (b)(5) - Transactions at Arm's Length, Reduced to Writing, and Posted on the Internet

- All transactions between QC and QCC must be reduced to writing
  - Transactions are documented by tariff, stand-alone agreement, or service agreements
- All transactions between QC and QCC must be posted to the Internet within 10 days by Regulatory Accounting
- Rates, terms, and conditions of every transaction must be publicly available to ensure accounting safeguards are maintained

If you are a QC employee providing service to QCC,
or a QCC employee providing service to QC,
make sure Regulatory Accounting is involved.

Section 272 Requirements

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272(c) - Nondiscrimination

- QC must provide the goods, services, facilities, and information it provides to QCC to other long distance carriers at the same rates, terms, and conditions
- How does QC and QCC demonstrate compliance with Section 272(c)?
  - QCC must obtain information and services through the same QC processes as other interexchange carriers
  - QCC must obtain other services through a QC carrier account team in the same manner as other interexchange carriers
  - QC must post transactions between QC and QCC on its Internet site

Generally, QC employees must treat Qwest Communications Corp like any other long distance carrier.

Section 272 Requirements

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272(d) - Biennial Audit

- Section 272 requirements will be audited every two years beginning twelve months after Section 271 authority is obtained and QCC is providing in-region, interLATA long distance services

272(e) - Fulfillment of Certain Requests

- QC is prohibited from providing any facilities, services, or information concerning its provision of exchange access to QCC unless such facilities, services, or information are made available to other providers of interLATA services under the same terms and conditions

Section 272 Requirements

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272 (f) Sunset Provision

- The provisions of Section 272 (other than subsection (e)) shall cease to apply three years after the date that QC or QCC is authorized to provide interLATA services, unless the FCC provides an extension

272(g) - Joint Marketing Provisions

- Provides one clear exception to Section 272(c) nondiscrimination requirements
  - Once Section 271 authority is secured, QC may jointly market in-region, interLATA long distance services with QCC
- Like all transactions, QC must document joint marketing agreements and post them to the Internet within 10 days

What does Section 272 mean to me?

ride the light Qwest

- You must understand which legal entity you work for. Is it QC, QCC or another Qwest affiliate?
- If you are providing service to another entity, you must make sure Regulatory Accounting is involved so the transaction can be recorded under FCC rules
- If you are a QC employee, you must generally treat QCC like any other long distance carrier
- If you are a network employee, you must understand joint network and OI&M restrictions
- If you have questions, contact your supervisor or FCC/Regulatory Compliance Manager
- If you still have have questions after talking to your supervisor or FCC/Regulatory Compliance Manager, you may:
  - Send email questions to " "
  - Section 272 Affiliate Transactions web site at
  - Corporate Compliance Advice Line 800-333-8938

TARGETED WHOLESALE DEPARTMENT TRAINING

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Conducting Business with Qwest Communications Corporation

Section 272 Compliance for Qwest Corporation Wholesale Employees

Employee Obligations

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Employee Obligations

- Please ensure that you have first read the 272 overview package, Conducting Business after Long Distance Re-Entry, found at: http://theq.qwest.net/Departments/legal/training/272training.pdf

What does all this mean to me as a Qwest Corporation Wholesale employee?

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- Qwest Corporation (QC) is prohibited from discriminating between Qwest Communications Corporation (QCC) and any other entity in the provision or procurement of goods, services, facilities, and information, or in the establishment of standards. With the exception of joint marketing activities, all permitted services provided to QCC must be made available to any other non-Qwest entity under the same terms, conditions and price as provided to QCC.
  - When QCC identifies a need for products, services and information from QC, QCC must submit that request via a formal review process to ensure compliance with the nondiscrimination obligations
  - When other carriers request goods, services, facilities, or information from QC, those requests must be submitted via another review process to determine if similar requests have been granted to QCC. If so, these same goods, services, facilities, and information must be made available to other carriers under the same terms and conditions.

Qwest Communications Corporation Request Process

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1. QCC will complete a "Qwest Communications Corporation Request for Affiliate Provided Products/Services/Information" form detailing their business needs. This form can be found at http://theq.qwest.net/departments/legal/training/requestforservices.doc

2. Any request for standard tariff offerings will continue to go through the QC Wholesale Carrier Account Team for QCC.

3. QCC will submit the form to their QC Wholesale Senior Account Manager for review and consideration.

   - if the service is not offered by QC - QCC will contact the party directly.

   - if the request is for a service currently offered under the Master Services Agreement the Senior Account Manager will forward the request to the Business Unit Affiliate Manager to prepare a work order.

Qwest Communications Corporation Request Process

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4. The form is forwarded to the Compliance Team. If this is a new request, the Compliance Team will discuss the request with Legal and the associated business unit to determine the risks to the corporation and the business units willingness to provide the product/service/information to QCC and if necessary, to others, if asked.

5. After a determination is made, the QC, Wholesale Senior Account Manager is notified of the outcome of the request.

6. The Senior Account Manager notifies QCC of the "yes" or "no" answer.

    - if the answer is "no" - QCC can appeal the decision to QC officer level.
    - if the answer is "yes" - the QCC Senior Account Manager sends the request to FCC Regulatory Accounting at Qwest.

Qwest Communications Corporation Request Process

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7. FCC Regulatory Accounting will check to see if an existing Master Services Agreement exhibit covers this new request.

   - if it does, the QC, Wholesale Senior Account Manager forwards the request to the Business Unit Affiliate Manager (BUAM) to prepare a work order.

   - if it is not covered under an existing Master Services Agreement, the Agreement is amended and approved by QC and QCC. In addition, a new work order is prepared, priced, and approved.

8. New work orders must be approved before the service/product requested can commence.

9. The approved documents (work order/Master Service Agreement Amendment) must be posted on the Internet within 10 days.

Requests Made by Other Interexchange Carriers

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If the Wholesale Carrier Account Team receives a request for non-standard goods, services, facilities or information (other than FCC 5 products) from other interexchange carriers, the Account Manager must:

1. Forward the request to FCC Regulatory Accounting.

2. FCC Regulatory Accounting will verify if the service is being offered to QCC.

3. If it is, FCC Regulatory Accounting will contact the business unit offering the service.

4. The business unit will work out the details of the service with the interexchange carrier.

Requests Made by Other Interexchange Carriers

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5. An agreement is drawn up between QC and the interexchange carrier.

6. The business unit will forward the agreement to FCC Regulatory Accounting who verifies the pricing is consistent with the QCC terms.

7. FCC Regulatory Accounting will notify the business unit to proceed with the service.

8. The business unit will begin to provide the service.

9. The services are billed to the interexchange carrier via the Billing and Accounts Receivable Tracking (BART) system.

Where can I go for more information?

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- FCC/Regulatory Compliance Manager - Debi Adams, 503 242-4617
- Send email questions to "ask272@qwest.com"
- Corporate Compliance Advice Line - 1-800 333-8938
- Carrier Wholesale Organization – www.qwest.com/wholesale
- Qwest Corporation Effective Tariffs – http://tariffs.uswest.com:8000/iiop/WAImap?objectid=0-2826
- Section 272 Affiliate Transactions Web site www.qwest.com/about/policy/docs/long_distance.html

CONTINUATION

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CONFIDENTIAL

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End bandwidth deprivation...Gain amazing productivity...Experience proven reliability and responsiveness...In one great offer.

QWEST DEDICATED INTERNET ACCESS

Dear Telecommunications Manager:

Piecing together "best-of-breed" solutions to get dedicated Internet access can make you crazy. And you still may not get the bandwidth you need. ***What you need is the simple, cost effective, comprehensive solution that you get with Qwest Dedicated Internet Access.***

Qwest's Dedicated Internet Access (DIA) provides the productivity that was only a promise before. Get highly reliable, high-speed Internet connectivity. All from a leading source of Internet broadband technology. All in one great offer.

Now, for only $799.00 per month,* you can receive a Qwest Dedicated Internet Access T1 port, a Cisco® 1720 router, on-site installation, and 24 x 7 hardware maintenance agreement, when you sign up for a Qwest Dedicated Internet Access Package. That helps you to:

- **> Increase productivity**
- **> Reduce overhead**
- **> Gain exceptional peace-of-mind**
- **> *...all for one great price.***

Qwest DIA provides secure, Internet connectivity over one of the world's most advanced OC-192 broadband IP backbones. Which means you'll get the bandwidth and the scalability you need to become more efficient. And you'll gain even more efficiencies from dealing with a single company who can arrange for everything from network connectivity, to web hosting, to web-centric consulting.

So end the madness of bandwidth deprivation and management. Sign up for Qwest Dedicated Internet Access for ***only $799 a month.*** Simply contact your Qwest representative, Qwest Business Partner, or call ***1.800.RIDE.QWEST*** (1-800-743-3793).

Then drive your competition crazy.

Sincerely,

S. Daly
Marketing Director
Qwest Communications, Inc.

P.S. Don't let this limited time offer pass you by. Offer ends 5/31/01.
Call 1.800.RIDE.QWEST (1-800-743-3793) or visit www.qwest.com for more information.

MIDCO 15

*Three-year service agreement required to obtain this special promotional pricing. Internet Service Provider cost is additional. Internet Access Service availability objective is 99.9%. Please refer to the Service Agreement for more information. Customers in the states of AZ, CO, ID, IA, MN, MT, NE, NM, ND, OR, SD, UT, WA and WY will have their Qwest Internet services provided in conjunction with a separate Global Service Provider (GSP). This provider will supply customers with connectivity to the global Internet in these states. Services not available in all areas. Some restrictions apply. Call Qwest for details.

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End bandwidth deprivation...Gain amazing productivity...Experience proven reliability and responsiveness...In one great offer.

QWEST
DEDICATED INTERNET ACCESS

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BEFORE THE
PUBLIC UTILITIES COMMISSION
STATE OF SOUTH DAKOTA

IN THE MATTER OF THE INVESTIGATION INTO QWEST CORPORATION'S COMPLIANCE WITH SECTION 271(C) OF THE TELECOMMUNICATION ACT OF 1996	))))))	DOCKET TC 01-

QWEST CORPORATION'S

AFFIDAVIT

OF

MARIE E. SCHWARTZ

SECTION 272

OCTOBER 24, 2001

EXHIBIT
Qwest
59

TABLE OF CONTENTS

AFFIDAVIT

OF

MARIE E. SCHWARTZ

Section 272

Marie E. Schwartz states as follows:

My name is Marie E. Schwartz. My business address is 1314 Douglas-On-The-Mall, Floor 10, Omaha, Nebraska 68102. I am a Director in FCC Regulatory Accounting at Qwest Corporation ("the BOC") and am responsible for ensuring Qwest Corporation's regulatory accounting compliance with Section 272 of the Telecommunications Act of 1996 ("the Act").[1]

I. PURPOSE OF AFFIDAVIT

The purpose of my affidavit is to demonstrate that Qwest Corporation is prepared to satisfy all of the relevant requirements of Section 272 of the Act, and related FCC rules, following Qwest Corporation's receipt of in-region, interLATA authority in South Dakota.

My affidavit addresses each of the requirements in Section 272 and how Qwest Corporation's Section 271 authorization will be carried out in compliance with Section

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1 Professional experience, education and other biographical information is set forth in Exhibit MES-272-1.

272, and therefore satisfy the statutory requirement for grant of Section 271 authority.[2] I also review the employee training and awareness efforts that the BOC has undertaken to ensure that the requirements of Section 272 continue to be followed.

Throughout my affidavit, I refer to several different companies within the Qwest Corporate family. Four companies, however, are discussed repeatedly: (1) Qwest Services Corporation ("QSC"), which is the parent corporation to many Qwest subsidiaries and provides corporate services to the Qwest family of companies; (2) Qwest Communications Corporation ("QCC"), which is the 272 Affiliate, (3) Qwest Corporation ("QC"), formerly known as U S WEST Communications, Inc., which is the BOC, and (4) Qwest Long Distance Inc. ("QLD"), formerly named U S WEST Long Distance, Inc., which was the 272 affiliate under U S WEST before the merger with Qwest and will be dissolved during fourth quarter 2001. For ease of reference, throughout the affidavit I may refer to QSC, the parent of QC and QCC, as the "Services Company", QCC as the "272 Affiliate" and QC as the "BOC." Exhibit MES-272-2 illustrates these current relationships.

The BOC has recently received two decisions approving its compliance with Section 272. The Nebraska Commission entered an order on September 19, 2001 that stated that "Qwest Corporation has satisfied the requirements of 47 U.S.C. Section 272

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2 *See* 47 U.S.C. § 271(d)(3)(B) ("The Commission shall not approve the authorization requested ... unless it finds that — ... the requested authorization will be carried out in accordance with the requirements of section 272.").

of the Telecommunications Act of 1996 as set forth above".[3] Also, in the multi-state proceedings, a report was issued on September 21, 2001 which stated that, "The record demonstrates that Qwest has met each of the separate affiliate requirements established by section 272 of the Telecommunications Act of 1996".[4]

II. EXECUTIVE SUMMARY

The specific provisions of Section 272 include:

- Section 272(a), Separate Affiliate Requirement
- Section 272(b), Structural and Transactional Requirements
- Section 272(c), Nondiscrimination Safeguards
- Section 272(d), Biennial Audit Requirement
- Section 272(e), Fulfillment of Requests for Telephone Exchange Service
- Section 272(f), Sunset Provisions
- Section 272(g), Joint Marketing
- Section 272(h), Transition Provisions

Section 272(a) requires the BOC to provide in-region, interLATA long distance services through a separate long distance affiliate. The BOC will offer such long

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3 In the Matter of U S WEST Communications, Inc., Denver, Colorado, filing its notice of intention to file its Section 271(c) application with the FCC and request for the Commission to verify U S WEST compliance with Section 271(c), Application No. C-1830, Section 272 Satisfied, ¶ 35. (Entered Sept. 19, 2001).

4 Report issued by The Liberty Consulting Group, September 21, 2001, General Terms and Conditions, Section 272 & Track A Report, p. 7.

distance services, upon Section 271 approval, through its long distance affiliate, Qwest Communications Corporation ("the 272 Affiliate").

Section 272(b) requires that the BOC and Section 272 Affiliate operate independently; maintain separate books, records, and accounts; have their own directors, officers, and employees; and, conduct all transactions on an arm's length basis, with all such transactions reduced to writing and available for public inspection. Moreover, the 272 Affiliate cannot obtain credit that will provide recourse to the assets of the BOC. The BOC is prepared to satisfy these requirements of the Act.

Section 272(c) prohibits the BOC from discriminating between the 272 Affiliate and any other entity in the provision or procurement of goods, services, facilities, and information, or in the establishment of standards. The BOC is prepared to satisfy this requirement of the Act.

Section 272(d) requires that, once the BOC obtains Section 271 authority, it must obtain and pay for a joint Federal/State audit every two years to determine whether the company has complied with the requirements of Section 272 and the regulations promulgated under Section 272. In particular, the audit will determine whether the company has complied with the separate accounting requirements of Section 272(b). The BOC will adhere to this provision of the Act.

Section 272(e) requires the BOC to fulfill requests from unaffiliated entities for telephone exchange service and exchange access within the same period, under the same terms and conditions, and at an amount that is no more than that for which it provides such services to its 272 Affiliate, or imputes exchange access services to itself (if the BOC is using the access for the provision of its own services). The BOC will satisfy these requirements of the Act.

Section 272(f) contains sunset provisions, which state that the separate affiliate requirements on manufacturing and long distance will end three years after entry in a given state unless extended by FCC rule or order. In addition, Section 272(f) preserves the existing authority of the FCC to prescribe safeguards consistent with the public interest, convenience, and necessity. The BOC will adhere to this section to the extent required by the FCC.

Section 272(g) permits the BOC to join in the marketing and sale of the 272 Affiliate's in-region, interLATA service once the 272 Affiliate is authorized to provide in-region, interLATA services under Section 271(d). The joint marketing of services will be exempt from the nondiscrimination provisions of Section 272(c). Section 272(g) also provides that the 272 Affiliate may not market or sell the BOC's telephone exchange services unless other similar entities are permitted to do the same. The BOC will adhere to these provisions of the Act.

Finally, Section 272(h) gives the BOC one year to conform to the requirements of Section 272 to the extent that it had already engaged in any interLATA long distance or interLATA information services in February 1996. Because the BOC was not engaged in any such activities, this transitional period did not apply to the BOC.

II. TRANSITION TO NEW SECTION 272 AFFILIATE

On June 30, 2000, U S WEST, Inc. merged with Qwest Communications International, Inc. Prior to the merger, U S WEST, Inc. had planned to offer in-region, interLATA services as a reseller, through U S WEST Long Distance, later named Qwest Long Distance. Following the merger, Qwest undertook a comprehensive reorganization that entailed a number of changes to the corporate structure. As part of that process, in August 2000, Qwest decided to reevaluate its plans regarding how it would offer long-distance service in-region following its receipt of Section 271 approval, including the decision about which entity should serve as its Section 272 affiliate.

In January 2001, Qwest Communications International, Inc. decided that the same entity should offer long-distance service both in-region and out-of-region, and that that entity should offer in-region, interLATA services predominately as a facilities-based provider, instead of as a reseller. QCC fit this strategy because it was the Qwest long-distance operating company nationwide prior to the merger, it had interLATA expertise, and it owned network facilities. Therefore, in January 2001, a decision was made to designate QCC as the new 272 Affiliate. On March 26, 2001, after a three-month period of intense transition activity, QCC became a compliant Section 272 Affiliate.

From January through March 2001, the Qwest family of companies worked at transitioning QCC to be Section 272 compliant so that it could serve as its new Section

272 subsidiary as stated above. These activities included such things as realigning employees from the BOC and the 272 Affiliate to the Services Company. The Services Company employees would be providing governance and administrative services to the family of Qwest companies. Other transition activities included writing contractual arrangements between the BOC and the 272 Affiliate, evaluating transactions, reviewing pricing, ensuring posting, training employees about the 272 affiliate rules, and meeting all other requirements of Section 272 as soon as possible. QCC became operational as a 272 Affiliate on March 26, 2001. The BOC now has processes in place to meet all of the requirements of Section 272 for QCC, the 272 Affiliate.

QLD, the previous 272 Affiliate, is no longer operational and will be dissolved during fourth quarter 2001. Until its dissolution, however, QLD is a subsidiary of QSC and maintains the 272 requirements. QLD became a 272 affiliate in 1998, but all transactions with QLD had been identified and posted back to 1996. Therefore, QLD has been 272 compliant for several years. In fact, the Nebraska Public Utilities Commission held that QLD was 272 compliant back in 1999.[5]

QLD was compliant with all Section 272 rules throughout the merger transition, which is discussed below, and will continue to be compliant until its dissolution is completed. Therefore, the BOC has had a compliant 272 Affiliate for many years which

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[5] *See* U S WEST Communications, Inc., Application No. C-1830, Nebraska Public Service Commission, April 9, 1999. Nebraska is the only state that issued an order regarding QLD's compliance with Section 272.

can be used to examine past behavior of the BOC regarding Section 272 compliance. QLD was a separate entity from the BOC with separate officers, employees and directors; all transactions with QLD were documented and posted to an Internet web-site within the 10 day posting requirement (this web-site is still available at http://www.qwest.com/about/policy/docs/long_distance.html); creditors of QLD had no recourse to BOC assets, and other controls were in place to ensure that all activities and transactions with QLD were conducted in accordance with the Section 272 rules. The processes and controls that were in place for QLD were duplicated, enhanced with additional controls, and overlaid onto QCC in order to make QCC 272 compliant as of March 26, 2001.

During the merger transition timeframe from July through December 2000, and the transition from QLD as the designated 272 Affiliate to QCC (the "272 transition") from January through March 2001, the BOC and QCC experienced delays in identifying and billing transactions. The merger resulted in strategic changes as well as conducting major activities associated with consolidating operations, eliminating duplicate functions, employee turnover, realignment of responsibilities and other merger related impacts. When the merger transition triggered a decision to change the designated 272 Affiliate from QLD to QCC, it created additional activities as described above. As a result of the merger transition and 272 transition, the identification of affiliate transactions was hampered, which impacted recording accruals and billing. However, interest charges have been recorded for all instances of delayed billing between the BOC and the 272 Affiliate.

The merger transition and 272 transition periods were one-time, unprecedented events. However, this brief period of billing and accounting delays is not an indication of how the BOC will comply with Section 272 now that the controls and processes are in place and working. In fact, paragraph (h) of Section 272 allowed a one-year transition period for a BOC and 272 affiliate to become 272 compliant regarding services provided, thereby recognizing that 272 compliance takes some period of time to put into place.[5]

III. QWEST CORPORATION, THE BOC, WILL COMPLY WITH THE REQUIREMENTS OF SECTION 272

A. The BOC Complies with Section 272(a) – Separate Affiliate Requirement

Section 272(a) of the Act states that any interLATA long distance service originating in a state within a BOC's region shall be provided through an affiliate separate from any entity that is subject to Section 251(c). The BOC complies with the separate affiliate requirement of Section 272(a).

The BOC is an incumbent local exchange carrier subject to Section 251(c). The BOC will not itself provide in-region, interLATA services originating within its 14-state region as long as the structural separation obligation of Section 272 applies to this activity.

When the BOC receives Section 271 approval from the FCC, interLATA long distance service originating from within South Dakota will be offered exclusively through

[5] I am not advocating that Section 272(h) applies to the transitions discussed above, but it is a recognition by Congress that it takes time for a transition to occur.

the 272 Affiliate, QCC. The 272 Affiliate, a wholly owned subsidiary of the Services Company, is fully separate from the BOC. In fact, the 272 Affiliate is already one of the top five interLATA providers nationwide despite the fact that, because of the merger with U S WEST, Inc., Qwest Communications International Inc. and its subsidiaries were required to divest themselves of all in-region, interLATA business.[7]

The Services Company is a wholly owned subsidiary of Qwest Communications International Inc. The BOC owns no stock in the 272 Affiliate; nor does the 272 Affiliate own any stock in the BOC. The affidavit of Judith L. Brunsting contains further explanation of the structure and organization of the 272 Affiliate.

B. The BOC Is Prepared to Comply with Section 272(b) – Structural and Transactional Requirements

Section 272(b) places five structural and transactional requirements on the interactions between the BOC and 272 Affiliate. These separate affiliate requirements are addressed in further detail in CC Docket 96-149, the Non-Accounting Safeguards Order, and CC Docket 96-150, the Accounting Safeguards Order.[8] Specifically, Section 272(b) requires that the 272 Affiliate:

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7 See Qwest Communications International Inc. and U S WEST, Inc., Applications for Transfer of Control of Domestic and International Section 214 and 310 Authorizations and Applications to Transfer Control of Submarine Cable Landing License, Memorandum Opinion and Order, CC Docket No. 99-272, FCC 00-231, 15 FCC Rcd 11909 (rel. June 26, 2000) ("Divestiture Order").

8 See Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended, First Report and Order and Further Notice of Proposed Rulemaking, CC Docket No. 96-149, FCC 96-489, 11 FCC Rcd 21905 (rel. Dec. 24, 1996) (subsequent history omitted) ("Non-Accounting Safeguards Order"); Implementation of the Telecommunications Act of 1996:

1) operate independently from the BOC;

2) maintain books, records, and accounts in the manner prescribed by the FCC that shall be separate from the books, records, and accounts maintained by the BOC;

3) have separate officers, directors, and employees from the BOC;

4) not obtain credit under any arrangement that would permit a creditor, upon default, to have recourse to the assets of the BOC; and,

5) conduct all transactions with the BOC on an arm's length basis, with all such transactions reduced to writing and available for public inspection.

The BOC and the 272 Affiliate have processes in place to satisfy these five provisions of Section 272(b) as discussed below.

1. Section 272(b)(1) - Operate Independently

Section 272(b)(1) provides that the BOC and 272 Affiliate shall operate independently. The BOC and the 272 Affiliate currently operate independently and in compliance with the requirements of *the Non-Accounting Safeguards Order*, and will remain in compliance for as long as this requirement is in effect. The BOC and the 272 Affiliate do not and will not jointly own telecommunications switching or transmission facilities, or the land or buildings where those facilities are located for so long as such a restriction applies under the rules.

Accounting Safeguards Under the Telecommunications Act of 1996, Accounting Safeguards Under the Telecommunication Act, Errata, CC Docket No. 96-150, DA-366, 12 FCC Rcd 2993 (rel. Feb. 19, 1996) ("Accounting Safeguards Order").

Not only is there no joint ownership of network facilities, but no switching and transmission facilities have been transferred from the BOC to the 272 Affiliate. Moreover, the BOC is monitoring asset transfers on an ongoing, quarterly basis to ensure compliance with Section 272(b)(1).

Section 272(b)(1)'s requirements include additional rules associated with the performance of operation, installation and maintenance ("OI&M") functions. Neither the BOC nor any other Qwest affiliate performs any OI&M functions associated with the 272 Affiliate's switching and transmission facilities. Similarly, the 272 Affiliate does not perform such functions associated with the BOC facilities. To ensure Qwest continues to meet this requirement, the Services Company conducted extensive one-on-one training with approximately fifty Network department leaders.

2. Section 272(b)(2) - Separate Books, Records, and Accounts

Section 272(b)(2) requires that the BOC maintain separate books, records, and accounts from the 272 Affiliate in the manner prescribed by the FCC. The BOC and the 272 Affiliate are separate legal entities and as such the accounting records of the two entities are not commingled.

The BOC and the 272 Affiliate maintain separate Charts of Accounts. The BOC Chart of Accounts, which is based on the FCC's Uniform System of Accounts for Telecommunications Companies ("USOA"), is attached as Confidential Exhibit MES-272-3C. See Judith Brunsting's affidavit for a copy of the 272 Affiliate's Chart of Accounts.

The BOC's and the 272 Affiliate's general ledgers are completely separate; they were never combined following the merger. The BOC continues to use the same general ledger software that it used before the merger. The system is located in Denver, Colorado. The 272 Affiliate also continues to use its pre-merger accounting system and general ledger, which is located in Arlington, Virginia. In addition, the feeder systems for the two companies are separate. Thus, the 272 Affiliate and the BOC use separate accounting software maintained in separate locations.

System controls are in place to ensure separation between BOC employees and 272 Affiliate employees, and to make sure that employees of each entity cannot obtain access to the other's information systems. Specifically, each employee of the Qwest family of companies is required to be assigned a unique User ID. Once a User ID is assigned, the employee submits a request form, signed by his or her supervisor, for approval by the system control group before access is granted to any specific financial systems. If the employee has a job requiring access to specific systems, the control group enables the employee's User ID to access the particular data sets or applications needed. System edits are entity-specific, requiring that, when accessed, a system displays data only if the correct combinations of User ID, entity code, and account and responsibility code are entered. Additional system edits are designed to provide meaningful controls based on the information and reporting needs of the entity; therefore, data fields that are valid and have meaning for one entity may not be valid for another entity.

The combination of system security, controls and procedures ensures separateness by requiring each company to have its own books, keep its own records, and have its own Chart of Accounts. At the same time, processing on common consolidating financial systems permits consolidated reporting at the Qwest Communications International Inc. level as required for Federal and State tax and Securities and Exchange Commission ("SEC") purposes and is an acceptable practice under Section 272.[9]

The BOC follows Generally Accepted Accounting Principles ("GAAP"), including accrual accounting, to properly record expenses in the period incurred. The audit opinion of Qwest's external auditors, Arthur Andersen, confirms that the BOC follows GAAP in all material respects. See Exhibit MES-272-4, the Report of Independent Public Accountants filed with the Qwest Corporation Annual Report 10K for year 2000. The BOC also follows regulatory accounting rules as required by the FCC. The BOC's books, records, and accounts are maintained in accordance with USOA, Part 32.27, and Part 64.901, Allocation of Costs. In the past, the FCC's Part 64 and CAM audits have never reported a finding that the BOC was not following GAAP. Biennial reports are filed publicly via the FCC's Automated Reporting Management Information System ("ARMIS") and are accompanied by the report of independent accountants, Arthur Andersen, L.L.P. ("Arthur Andersen"), which also has found no material departures from

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9 See General Standard Procedures for Biennial Audits Required Under Section 272 of the Communications Act of 1934, As Amended, As of December 16, 1998. ("Biennial Audit Procedures") at Objective II, Procedure 1.

GAAP.[10] The Report of Independent Public Accountants that was filed with the FCC ARMIS 43-03 report for 1999 is attached as Exhibit MES-272-5.

The BOC had difficulty identifying QCC affiliate transactions in 2000 due to the merger transition. The BOC did accrue $1.5M of receivables from QCC for 2000. No accruals were made for payables to QCC in 2000 as they had not yet been identified. In order to facilitate identifying all transactions, the BOC hired Arthur Andersen (AA) as loaned staff in January, 2001 to work under the direction of BOC management[11] to assist in conducting over 140 interviews. These interviews identified transactions between the BOC and the 272 Affiliate back to the merger date, and the transactions identified were then billed with interest in 2001.

The affidavit of Judith L. Brunsting describes the accounting practices of the 272 Affiliate, its Chart of Accounts, and other evidence that establishes that the 272 Affiliate's books, records, and accounts are separate from those of the BOC.

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[10] In Comprehensive Review of the Accounting Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase I, Report and Order, CC Docket No. 99-253, FCC 00-78, 15 FCC Rcd 8690 (rel. Mar. 8, 2000), the FCC gave carriers the option of choosing an attest examination or financial audit every two years covering the prior two-year period. The rules became effective September 28, 2000. See 65 Fed. Reg. 58661 (2000). Thus, the audit engagement for the year 2000 will be combined with 2001 and the report will be issued in 2002.

[11] AA applied no testing procedures, but simply acted as additional professional accounting staff to assist in identifying transactions between the BOC and the 272 Affiliate.

The BOC will continue to maintain books, records, and accounts that are separate from the 272 Affiliate and will comply with Part 32, Part 64, and the Accounting Safeguards Order for as long as these requirements are in effect.

3. Section 272(b)(3) - Separate Officers, Directors, and Employees

Section 272(b)(3) requires that the BOC and the 272 Affiliate have separate officers, directors, and employees. The 272 Affiliate's officers, directors or employees are not officers, directors or employees of the BOC, nor is any BOC officer, director, or employee also an officer, director, or employee of the 272 Affiliate. As long as this requirement of Section 272 applies, no officer, director, or employee of the BOC will simultaneously be an officer, director, or employee of the 272 Affiliate. See Exhibit MES-272-6 for the officer list of the BOC and Judith L. Brunsting's affidavit for the officer list for the 272 Affiliate. Previous Section 271 orders support the view that having officers or directors that report to a common parent does not violate Section 272(b)(3).[illegible]

The BOC and the 272 Affiliate's employees are paid from separate payrolls. I have overseen a comparison of the BOC and the 272 Affiliate payroll registers conducted in March 2001 by the payroll organization, to ensure no employee appears

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[illegible] Application of BellSouth Corporation, BellSouth Telecommunications, Inc. and BellSouth Long Distance, Inc., for Provision of In-Region, InterLATA Services in Louisiana, Memorandum Opinion and Order, CC Docket No. 98-121, FCC 98-271, 13 FCC Rcd 20599, ¶ 330 (rel. Oct. 13, 1998) ("BellSouth Louisiana II Order"); Application of Ameritech Michigan Pursuant to Section 271 of the Communications Act of 1934, as Amended, To Provide In-Region, InterLATA Services in Michigan, Memorandum Opinion and Order, CC Docket No. 97-137, FCC 97-298, 12 FCC Rcd 20543, ¶ 362 (rel. Aug. 18, 1997) ("Ameritech Michigan Order").

on both payrolls. A comparison of the BOC and the 272 Affiliate officer lists, and a payroll comparison, satisfies the FCC's test for Section 272(b)(3) compliance.[13]

When moving from one organization to another, or from one company to another, employees of the Qwest family of companies apply for jobs through a process that is similar to an external hiring process. In order for an employee to transfer from one affiliate to another, the employee must be terminated and re-hired. Prior to resignation, a departing employee must return any assets such as pagers, cell phones, etc. and then obtain such equipment in accordance with the hiring company's practices.

The FCC does not prohibit employees transferring between the BOC and the 272 Affiliate. As the FCC noted in the Non-Accounting Safeguards Order, Section 272(b)(3) prohibits "simultaneously" serving as an employee of both companies.[14]

For employees who do transfer, numerous controls are in place to help ensure that no unauthorized information sharing takes place between the BOC and the 272 Affiliate. These controls include: (1) the Code of Conduct, which prohibits the sharing of confidential information; (2) Qwest's policy to physically separate the BOC and the 272

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13 Application by Bell Atlantic New York for Authorization Under Section 271 of the Communications Act to provide In-region, interLATA Service in the State of New York, Memorandum Opinion and Order, CC Docket No. 99-295, FCC 99-404, 15 FCC Rcd 3953, ¶ 409 (rel. Dec. 22, 1999) ("Bell Atlantic New York Order"); Application by SBC Communications Inc., Southwestern Bell Telephone Company, and Southwestern Bell Communications Services Inc. d/b/a/Southwestern Long Distance Pursuant to Section 271 of the Telecommunications Act of 1996 to Provide In-Region Inter-LATA Services in Texas, Memorandum Opinion and Order, CC Docket No. 00-65, FCC 00-238, 15 FCC Rcd 18354, ¶ 401 (rel. June 30, 2000) ("SBC Texas Order").

14 Non-Accounting Safeguards Order, ¶178.

Affiliate employees; (3) the extensive efforts undertaken to educate employees on Section 272's requirements; and (4) the color-coded dots on company badges and office nameplates that indicate for which company an employee works. Any disregard for these company policies can result in disciplinary action up to and including employee dismissal.

BOC employees who provide services to the 272 Affiliate, and vice versa, do not violate Section 272(b)(3). The FCC specifically allows the provision of services between the affiliates.[15] The BOC employees who provide services to the 272 Affiliate do so under contract. These transactions under contract are conducted at "arm's length," reduced to writing, and available for public inspection consistent with Section 272(b)(5). The Master Services Agreement ("MSA") constitutes the general agreement for services provided by the BOC to the 272 Affiliate. The MSA requires the BOC to perform its obligations as an independent contractor and not as an agent or employee of the 272 Affiliate. See Article 6 of the MSA, which is included as Exhibit MES-272-7. The MSA is available on Qwest's Web-site as required by the Accounting Safeguards Order.[16]

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15 *See* Non-Accounting Safeguards Order, ¶179 ("We also decline to impose a prohibition on the sharing of services other than operating, installation, and maintenance services, on policy grounds. We find that, if we were to prohibit the sharing of services, other than those restricted pursuant to section 272(b)(1), a BOC and a section 272 affiliate would be unable to achieve the economies of scale and scope inherent in offering an array of services.").

16 *See* http://www.qwest.com/about/policy/docs/qcc/MSA_qcc.html.

4. Section 272(b)(4) - No Recourse to the BOC's Assets

Section 272(b)(4) prohibits the 272 Affiliate from obtaining credit under any arrangement that would permit a creditor, upon default, to have recourse to BOC assets. The BOC employs three mechanisms to comply with this requirement. First, the BOC is capitalized separately from other Qwest affiliates.

Second, the BOC issues its own direct financial obligations, principally commercial paper, notes, and bonds, to fund its operations. The BOC's commercial paper and long-term debt are rated separately from the other financial obligations of Qwest Communications International Inc. by the rating agencies, further evidencing the separation between the BOC's funding and that of the rest of Qwest Communications International Inc.'s operations. Funding for all Qwest entities other than the BOC, including the 272 Affiliate, is provided by financial obligations issued by Qwest Capital Funding, Inc. ("QCFI"), a separate subsidiary of Qwest Communications International Inc., which guarantees the debt issued by QCFI. Neither the debt obligations issued by QCFI nor the guarantee by Qwest Communications International Inc. provides creditors recourse to the assets of the BOC. The BOC does not obtain financing from QCFI.

Third, neither Qwest Communications International Inc. nor the BOC has co-signed a contract or any other instrument that would allow the 272 Affiliate to obtain credit in a manner that grants the creditor recourse to the BOC's assets in the event of a default by the 272 Affiliate. The BOC will continue to satisfy this Section 272 requirement for as long as it applies.

5. Section 272(b)(5) - Transactions at Arm's Length, in Writing and Publicly Available

Section 272(b)(5) requires that all transactions between the BOC and the 272 Affiliate be conducted at arm's length, reduced to writing, and available for public inspection. All services provided by the BOC to the 272 Affiliate are either tariffed services or services provided under separate contract. Tariffed services have always been a matter of public record. Contracted services between the BOC and the 272 Affiliate have been identified and priced according to FCC rules. These services were initially identified through the company's affiliate transaction processes. These processes were supplemented during the transition from QLD to the 272 affiliate, by engaging Arthur Andersen as loaned staff. Arthur Andersen met with key personnel and conducted over 140 interviews to ensure that all transactions had been identified, as I mentioned earlier in my affidavit.

Processes have been established for the 272 Affiliate to purchase non-tariffed products, services, facilities and information under contract. Such transactions are documented in the form of MSAs and work orders. The MSA, attached as Exhibit MES-272-7, contains the general articles governing the way the BOC and the 272 Affiliate conduct business when the BOC provides services to the 272 Affiliate. Work orders are the mechanisms used to document the specific transactions provided under these contracts and contain details regarding each service provided.

Similarly, the Services Agreement ("SA") contains the general articles governing the way in which the 272 Affiliate provides services to the BOC. Task orders are the mechanisms used to document the specific transactions provided under these contracts and contain detailed information. Business unit affiliate managers are responsible for administration and billing of services contained in these work orders and task orders. All agreements are subject to FCC Part 32.27 Affiliate Transaction rules.

Additionally, the BOC established a Compliance Oversight Team to review all services between the BOC and the 272 Affiliate. This team, of which I am a member, is made up of regulatory accounting, legal and public policy experts. The Compliance Oversight Team reviews newly requested services to ensure compliance with Section 272(b)(5) and the nondiscrimination safeguards included in Section 272(c). The charter of the Compliance Oversight Team, which describes its responsibilities, is included in Exhibit MES-272-8. QCC is not a member of, and is not represented on, the Compliance Oversight Team.

The BOC posts its Section 272 transactions on the Internet[17] within ten days of being executed by both parties, in accordance with the rules of Section 272(b)(5) and the Accounting Safeguards Order. Exhibit MES-272-9 includes a sample of the contents of that site.

The transactions posted consist of agreements, work orders, and task orders, which collectively contain all of the information required by FCC orders, including a description of the rates, terms, and conditions of all transactions, as well as the frequency of recurring transactions and the approximate date of completed transactions. For asset transfers, the agreements contain the appropriate quantity and, if relevant, the quality of the transferred assets. For affiliate transactions involving services, the

[17] *See* http://www.qwest.com/about/policy/docs/qcc/overview.html.

agreements contain "the number and type of personnel assigned to the project, the level of expertise of such personnel, any special equipment used to provide the service, and the length of time required to complete the transaction."[18] Currently, the BOC and the 272 Affiliate have two agreements, fifteen work orders, and two task orders executed to document the arm's length relationship. All existing work orders and task orders are available for public inspection and posted on the Web site, as required. Complete descriptions of past transactions are also posted on the Web site.

Any third party can view the transactions, evaluate the rates, terms and conditions of the offering, and has the option to obtain the same goods or services from the BOC. In addition to contracts, the section labeled "tariff rated services" provides a description of the services that the 272 Affiliate purchases out of the BOC's tariffs. This section also contains a hyperlink to another Web-site where the tariffs themselves can be found.

In addition, posted in the section labeled "Terminated Transactions" is a reference to prior-year or expired transactions. Terminated contracts will remain listed in this section under the link labeled "Expired Agreements" for one year after the date of termination.

The BOC keeps non-public detailed billing information between the BOC and the 272 Affiliate available for viewing at its principal place of business. This billing information is back-up detail calculating the predetermined rates with the basis for pricing, i.e., hours, headcount, level of employee expertise providing the service, etc.

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[18] Bell Atlantic New York Order, ¶ 413.

and the actual volume of service used during the billing period. This detailed billing information is available for both current and expired transactions and may be viewed under confidential agreement.

It is important to note that the BOC has taken a conservative approach concerning transactions with the 272 Affiliate. Although QCC was not identified as the Section 272 affiliate of the future until January 2001, and was not operational as a 272 Affiliate until March 26, 2001, the BOC has identified and posted any transactions identified with QCC back to the Qwest–U S WEST merger date of June 30, 2000. This process took considerable effort, but was accomplished in less than three months, from January to March, 2001, under Ms. Brunsting's leadership and with the assistance of loaned staff from Arthur Andersen. All such transactions were identified by March 26, 2001, and the Web-page posting the QCC/BOC transactions was turned up that same day. These postings should eliminate any concerns regarding the types of services being provided between the BOC and QCC before QCC became the 272 Affiliate in March 2001. Postings for transactions with QLD, the previous 272 Affiliate, began in 1996 and have continued without disruption. This is further evidence of the BOC's commitment to Section 272 compliance.

The FCC evaluates the sufficiency of a BOC's Internet disclosures by referring to its ARMIS filings, Cost Accounting Manual ("CAM"), and its CAM Audit workpapers.[19] The BOC performed these reconciliations for QLD for the year ended December 31, 2000, to ensure that they agreed. Reconciliations to ARMIS will be performed on an

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[19] Bell Atlantic New York Order, ¶ 411; SBC Texas Order, ¶ 403.

annual basis for the 272 Affiliate. In addition, the FCC notes that postings will undergo "a thorough and systematic review in the section 272(d) biennial audit, which will ensure that any failure[s] to post sufficient detail are identified in time for appropriate remedial action." [20]

Paper copies of Section 272 transactions are accompanied by an officer affidavit stating that the BOC complies with the Section 272(b)(5) requirement to post and make public all transactions between the 272 Affiliate and the BOC, as required in the Accounting Safeguards Order. In March 2001, the BOC erroneously had an officer certification signed by a financial officer of QSC because the BOC had no controller appointed; that document was subsequently replaced by a new certification signed by the BOC's controller, Mark Schumacher, in May 2001. This new officer certification is attached as Exhibit MES-272-10.

In addition, the BOC has undertaken a monthly reconciliation process whereby it compares the billing between itself and QCC each month to the work orders and task orders posted on the Internet. This ensures that the actual billing that is occurring matches the Internet postings. No discrepancies have occurred since the initial billing month of March 2001, when the BOC found and corrected several posting discrepancies. Exhibit MES-272-11 shows the reconciliation results by month.

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[20] SBC Texas Order, ¶ 405; *see also* Bell Atlantic New York Order, ¶ 412; *see also* Joint Application by SBC Communications Inc., Southwestern Bell Telephone Company, and Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance for Provision of In-Region InterLATA Services in Kansas and Oklahoma, Memorandum Opinion and Order, CC Docket No. 00-217, FCC 01-29, 16 FCC Rcd 6237, ¶ 260 (rel. January 22, 2001) ("SBC Kansas Oklahoma Order").

To meet the "arm's length" requirement, the 272 Affiliate will place orders for tariffed services in the same manner as other interexchange carriers ("IXCs"), and those orders will be processed by an IXC Sales Executive Team account representative in a nondiscriminatory manner. For example, the 272 Affiliate is required to contact a Sales Executive on its Sales Executive Team to obtain access services. Sales Executives ensure that all IXCs have equal access to the BOC's goods, services, facilities, and information. The BOC's Sales Executive then contacts the BOC business unit who will be providing the requested service.

In summary, the BOC and the 272 Affiliate have processes in place to satisfy the provisions of Section 272(b). They operate independently in compliance with the *Non-Accounting Safeguards Order*; maintain separate books and records; have separate officers, directors, and employees; and obtain debt financing independently. The BOC also satisfies the FCC's requirements for affiliate transactions. Transactions between the BOC and the 272 Affiliate are tariffed and/or represented by contracts made publicly available and posted on the Internet. These transactions are accounted for in compliance with FCC rules as described in Section 32.27 and the Accounting Safeguards Order. Thus, the BOC and the 272 Affiliate have met the FCC's requirement for "internal control mechanisms reasonably designed to prevent, as well as detect and correct, any noncompliance with Section 272."[21]

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21 Bell Atlantic New York Order, ¶ 405; SBC Texas Order, ¶ 398.

C. The BOC Has Processes in Place to Satisfy Section 272(c) – Nondiscrimination Safeguards

Section 272(c) requires the BOC to treat the 272 Affiliate in the same manner it treats other IXCs. Section 272(c)(1) prohibits the BOC from discriminating between the 272 Affiliate and any other IXC in the provision or procurement of goods, services, facilities, and information, or in the establishment of standards.

The BOC is committed to providing its services to all of its IXC customers, including the 272 Affiliate, on a nondiscriminatory basis. The BOC requires the 272 Affiliate to contact its IXC Sales Executive Team representative to obtain services in the same manner as other IXCs. Standard offerings provided to the 272 Affiliate will be extended to unaffiliated IXCs under the same terms and conditions and at the same rates. Non-standard services and services that have not previously been offered outside the corporate family undergo a review by the Compliance Oversight Team to assess the BOC's nondiscrimination obligation concerning the requested service and its willingness to offer the service to the 272 Affiliate on a nondiscriminatory basis. This rigorous review is depicted in the flowchart attached as Exhibit MES-272-12, which ensures that the BOC satisfies the requirement to provide services to the 272 Affiliate on a nondiscriminatory basis as required under Section 272(c)(1). This process further ensures that all services provided to the 272 Affiliate are submitted such that a work order can be written and priced accordingly, fulfilling the requirement under Section 272(b)(5).

The 272 Affiliate does not currently have access to the BOC's Operation Support Systems ("OSS"). These systems are used to support local retail efforts (such as ordering and pre-ordering interfaces, repair and maintenance, etc.) related to local exchange services, and are available only to Competitive Local Exchange Carriers ("CLECs"). If the 272 Affiliate were to obtain CLEC status at some time in the future, the BOC would require it to access OSS interfaces in the same manner as other CLECs. This would be in keeping with the BOC's current practice, which requires the 272 Affiliate to access services through its IXC Sales Executive Team representative.

Each non-tariffed service available to the 272 Affiliate is reduced to writing either in a stand-alone contract, or in a work order associated with the MSA, as described earlier in my affidavit. With the exception of joint marketing-related services, which will not be subject to a nondiscrimination requirement, these services will also be made available to unaffiliated entities under the same terms and conditions and at the same rates. All future transactions between the BOC and the 272 Affiliate will also be reduced to writing and made available on the Internet.

The BOC and the 272 Affiliate also purchase services from their common parent company, the Services Company, which provides services to the Qwest family of companies. See Exhibit MES-272-13 for a current list of shared services provided to the BOC. These services satisfy the FCC's requirements by being accounted for under the appropriate non-structural safeguards. [22]

Section 272(c)(2) requires the BOC to account for all transactions with the 272 Affiliate in accordance with accounting principles designated or approved by the FCC. The BOC satisfies this requirement for transactions with the 272 Affiliate.

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[22] SBC Texas Order, ¶ 408; SBC Kansas Oklahoma Order, ¶ 261.

The BOC follows the FCC's affiliate transactions rules, as amended in the Accounting Safeguards Order, and applies the appropriate valuation to the BOC's transactions with the 272 Affiliate. Those valuations are based on either tariffed rates, Prevailing Company Price, Fully Distributed Cost or Fair Market Value.

The BOC files reports publicly via the FCC's Automated Reporting Management Information System ("ARMIS") each year. The audit opinion of the BOC's auditor, Arthur Andersen, which is filed with the ARMIS Report 43-03 (also known as the Joint Cost Report), certifies that the BOC complies with GAAP and specified FCC accounting rules (See Exhibit MES-272-5). While this audit, known as the Joint Cost Audit, does not focus specifically on the relationship between the BOC and the 272 Affiliate, the sample base of affiliate transactions includes a review of general administrative type services that are provided between the two companies. Therefore, the statement of compliance rendered by Arthur Andersen as part of that audit is general in nature and concludes, based on the sample, that the BOC complies with the affiliate transactions rules in all material respects. As I indicated earlier in this affidavit, the FCC has considered historical results of the Joint Cost Audit in order to assess Section 272 compliance in Section 271 applications.[23] Neither the FCC's review of the BOC's accounting information nor the audits conducted by independent auditors have revealed any material discrepancies with the BOC's corporate accounting procedures for affiliate transactions in the last three reports.

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[23] Bell Atlantic New York Order, ¶ 411; SBC Texas Order, ¶ 406.

Additionally, the BOC files an Annual Report Form 10K ("10K") with the Securities and Exchange Commission each year. The 10K includes an auditor's opinion stating that the BOC's financial statements are prepared in compliance with GAAP (See Exhibit MES-272-4). The BOC also files its CAM with the FCC annually. These filings and the Joint Cost audit provide assurance that the BOC accounts for all transactions in accordance with the accounting principles approved by the FCC.

In summary, the BOC is prepared to comply with Section 272(c). The 272 Affiliate must obtain services like any other IXC. These services are documented, priced, and posted according to the requirements set out in Section 272(b)(5). Therefore, the BOC has implemented the proper internal controls and processes to satisfy the requirements of Section 272(c).[24]

D. The BOC Will Satisfy Section 272(d) - Biennial Audit

Section 272(d) requires that, once the BOC receives Section 271 authority, it must obtain and pay for a joint Federal/State audit every two years. An independent auditor must determine whether the company has complied with the requirements of Section 272 and the regulations promulgated under Section 272. In particular, the audit is designed to determine whether the company has complied with the separate accounting requirements of Section 272(b). The FCC has chosen to fulfill the audit requirement by selecting a type of audit known in the accounting industry as an "agreed-upon-procedures" audit. A joint Federal/State biennial audit oversight team will

[24] SBC Texas Order, ¶ 410.

determine the scope of each audit. The biennial audit is required in addition to the Joint Cost audit. The Draft Biennial Audit procedures are attached as Exhibit MES-272-14. These procedures will serve as a template or starting point for the Federal/State biennial audit oversight team and the independent auditor.

The FCC has established that the first biennial audit will be conducted 12 months after the BOC receives its first Section 271 approval.[25] The BOC will engage an independent auditor to conduct the biennial audit according to the audit requirements agreed upon by the Federal/State biennial audit oversight team. The BOC will cooperate to the fullest extent possible in providing any data necessary to assist the auditor in accomplishing its objective. The results of these audits will be provided to the FCC and state regulatory commissions as required.

The auditor will have access to the financial accounts and records of the BOC and the 272 Affiliate, as necessary, to verify that all transactions conducted between them are appropriate under the specific requirements of Section 272. The FCC will have access to the working papers and supporting materials of the auditor who performs the audit with appropriate protection for proprietary information.

The biennial audit acts as an additional control to ensure the BOC complies with the requirements in Section 272. The FCC has placed reliance on the existance of the biennial audit in consideration of Section 271 applications.[26]

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[25] Accounting Safeguards Order, ¶ 203.

[26] Bell Atlantic New York Order, ¶ 412; SBC Texas Order, ¶ 406; SBC Kansas Oklahoma Order, ¶ 260.

E. The BOC Complies with Section 272(e) - Fulfillment of Certain Requests

Section 272(e) contains four express requirements ensuring that the BOC treats the 272 Affiliate similarly to other IXCs with respect to special and switched access. Specifically,

- Section 272(e)(1) provides for nondiscriminatory provision of telephone exchange service and exchange access for unaffiliated entities;
- Section 272(e)(2) prohibits the BOC from providing any facilities, services, or information concerning its provision of exchange access to the 272 Affiliate unless such facilities, services, or information are made available to other providers of interLATA services under the same terms and conditions;
- Section 272(e)(3) requires the BOC to charge the 272 Affiliate, or impute to itself, rates for telephone exchange service and exchange access that are no less than the amount that would be charged to any unaffiliated IXC for such service; and
- Section 272(e)(4) allows the BOC to provide in-region interLATA or intraLATA facilities or service to the 272 Affiliate only if such services or facilities are made available to all carriers at the same rate and under the same terms and conditions.

The BOC does not and will not discriminate in favor of the 272 Affiliate in the provision of telephone exchange service or exchange access. Upon obtaining Section 271 approval, the 272 Affiliate will obtain such services from the BOC under the same tariffed terms and conditions as are available to unaffiliated IXCs. The 272 Affiliate will contact its Sales Executive Team representative at the BOC to obtain services through the same procedures that are available to other IXCs. The BOC's sales representatives will process orders in a nondiscriminatory manner. While Section 272 is in force, the

BOC will actually bill the 272 Affiliate, and the 272 Affiliate will be required to pay for access charges under the same rates, terms and conditions that any other IXC would be charged. Therefore, there is no unfair advantage.

F. The BOC Is Prepared to Comply with Section 272(g) - Joint Marketing

Section 272(g)(1) prohibits the 272 Affiliate from marketing or selling telephone exchange services of the BOC except under the same conditions as are available to other similarly situated entities. If the 272 Affiliate markets the BOC's telephone exchange services, the BOC will permit other entities offering services that are the same as or similar to the 272 Affiliate's services (including information services) to market and sell its telephone exchange services.

Section 272(g)(2) prohibits the BOC from marketing or selling in-region interLATA services provided by the 272 Affiliate within a state until the 272 Affiliate is authorized to provide in-region interLATA services in that state. However, once the BOC obtains Section 271 approval, the BOC and the 272 Affiliate may jointly market services without regard to the nondiscrimination provisions of Section 272(c).

In compliance with the statute and with the terms of the divestiture plan as approved by the FCC on June 26, 2000, the BOC does not currently market or sell in-region, interLATA services, and will not do so until the 272 Affiliate is authorized to provide such services under Section 271. When permitted, the BOC and the 272 Affiliate will market and sell in-region, interLATA services pursuant to arm's length agreements, reduced to writing, available for public inspection, and accounted for in accordance with the then-effective rules of the FCC.

The BOC understands the requirements of Section 272(g) and will comply with these provisions. The BOC also understands that the joint marketing exclusions do not apply to product design, planning, or development. Therefore, if the BOC offers those services to the 272 affiliate, it will be prepared to offer those same services to other entities as well. Currently these services are provided to the 272 Affiliate by the Services Company and therefore are not subject to Section 272 requirements.

IV. THE BOC HAS UNDERTAKEN EDUCATION AND TRAINING EFFORTS TO ENSURE COMPLIANCE

In 1998, the BOC began implementing an education plan specifically targeted at increasing employee awareness and understanding of Section 272 requirements, and this education effort is ongoing. The BOC has instituted process changes to ensure that it conducts business subject to the provisions of Section 272. The BOC has also continued to inform and educate employees about those process changes, as well as the Act and related FCC Orders.

Employees in the Qwest family of companies are required to undergo annual corporate Code of Conduct training and to certify their understanding of and compliance with company policies including regulatory requirements. This annual compliance training includes coverage on affiliate transactions as well as other requirements concerning appropriate employee behavior to ensure Section 272 compliance. See Exhibit MES-272-15.

Annual Code of Conduct training was supplemented with specific Section 272 requirements and delivered to the BOC, the 272 Affiliate, and Services Company management employees via email with a link to the company's internal Web-site and is attached as Exhibit MES-272-16. This training emphasizes the Section 272 transaction and nondiscrimination requirements and provides an email mailbox specifically for Section 272 related questions called ask272@qwest.com.

The BOC also conducts targeted training to employees who conduct business with the 272 Affiliate, specifically the Sales Executive Team representatives. See Exhibit MES-272-17. This training reinforces the process the 272 Affiliate must go through to order service from the BOC as detailed earlier in my affidavit.

To ensure Qwest continues to meet the OI&M requirements, the Services Company conducted extensive one-on-one training with over fifty Network department leaders.

BOC employees must treat the 272 Affiliate like any other IXC. To reinforce employee awareness and facilitate nondiscrimination, the BOC employees and 272 Affiliate employees have been physically separated. This separation was accomplished by using separate buildings, separate floors, or floors with restricted access. In addition, the Services Company has deployed a color coding scheme such that BOC, 272 Affiliate, and Services Company employees display different colors on employee badges and office name plates to indicate the company they work for. The blue dot on my badge and nameplate distinguishes me as a BOC employee.

Qwest Communications International Inc. also offers a Corporate Compliance Advice line for reporting all compliance issues, including any suspected violations of Section 272. The hotline number is 1-800-333-8938. Any employee can call this number for answers to corporate compliance questions or to report suspected violations.

For employees involved in processing affiliate transactions, the Methods for Affiliate Transactions ("MAT") training manual includes Section 272–specific instructions. The MAT is attached as Confidential Exhibit MES-272-18C. The Services Company, the BOC, and the 272 Affiliate continue to hold one-on-one training sessions as needed to focus specifically on the compliance requirements related to Section 272 and the Accounting Safeguards Order.

The BOC will continue to ensure that once Section 271 approval is obtained, business with the 272 Affiliate will be conducted in compliance with Section 272.

V. SUMMARY AND CONCLUSION

My affidavit has shown that past and present 272 compliance practices prove that the BOC is prepared to carry out the requirements of Section 272. Past practices with QLD and present practices with QCC, as described in my affidavit, demonstrate that the BOC's relationship with the 272 Affiliate will be consistent with Section 272 requirements. The BOC has satisfied the FCC's test for Section 272 approval by providing sufficient evidence that it is prepared to conduct business subject to the rules of Section 272.

The BOC understands its obligations under Section 272. This affidavit has demonstrated that the BOC has established sufficient controls to comply with each specific requirement of Section 272 upon approval for the 272 Affiliate to offer originating interLATA services in South Dakota.

Being first duly sworn upon oath, I declare under penalty of perjury under the laws of the United States of America that the foregoing is true and correct to the best of my knowledge, information, and belief.

Executed on this 16 day of October, 2001.

Marie E. Schwartz

STATE OF NEBRASKA

COUNTY OF DOUGLAS

Subscribed and sworn to before me this 16 day of October, 2001.

Notary Public

GENERAL NOTARY-State of Nebraska
TERESA M. PEATROWSKY
My Comm. Exp. March 17, 2004

BEFORE THE
PUBLIC UTILITIES COMMISSION
STATE OF SOUTH DAKOTA

IN THE MATTER OF THE INVESTIGATION INTO QWEST CORPORATION'S COMPLIANCE WITH SECTION 271(C) OF THE TELECOMMUNICATIONS ACT OF 1996	)))))	DOCKET TC 01-

QWEST CORPORATION'S

EXHIBITS TO THE AFFIDAVIT

OF

MARIE E. SCHWARTZ

SECTION 272

OCTOBER 24, 2001

INDEX OF EXHIBITS

QUALIFICATIONS OF MARIE E. SCHWARTZ

Marie E. Schwartz is a director in FCC Regulatory Accounting at Qwest Corporation ("the BOC") and is responsible for ensuring Qwest Corporation's regulatory accounting compliance with Section 272 of the Telecommunications Act of 1996 ("the Act").

Ms. Schwartz holds a Bachelors Degree in Business Administration from the University of Nebraska at Omaha as well as a Certified Management Accountant certificate from the Institute of Management Accountants.

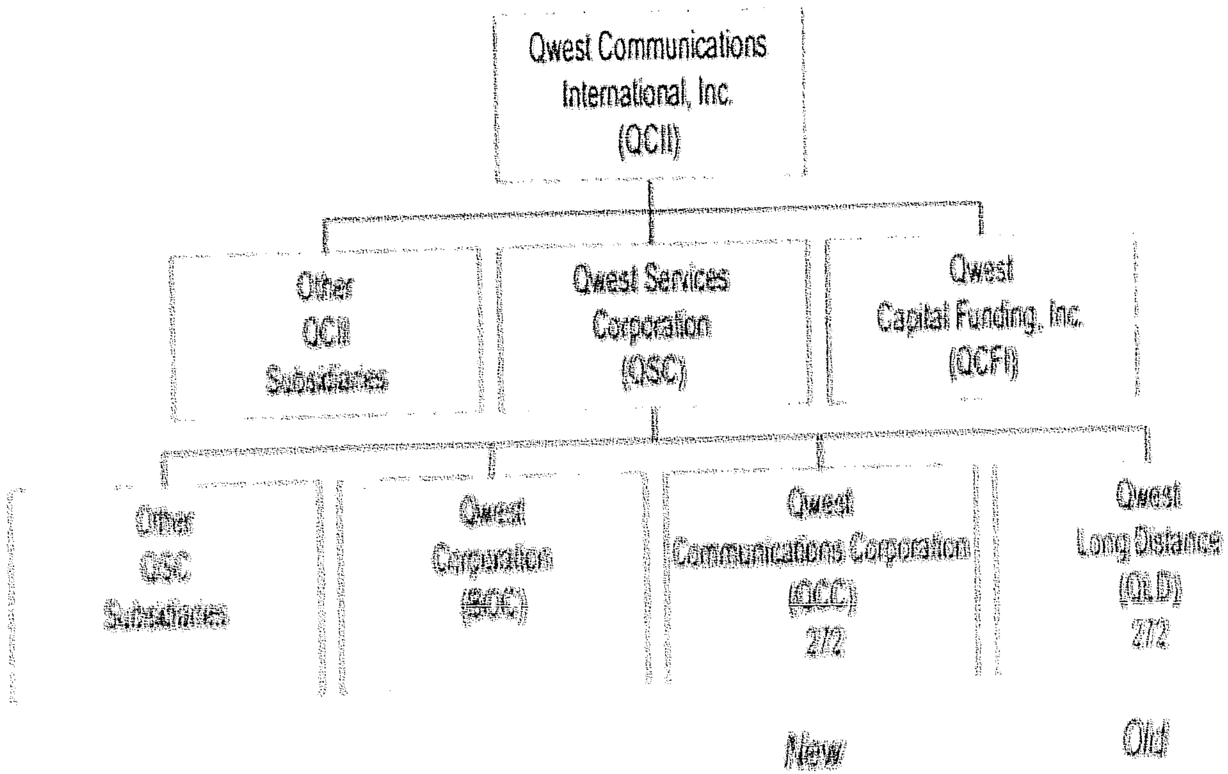
Ms. Schwartz has over 13 years experience in the telecommunications and high tech industries, concentrating in regulatory compliance, finance, and accounting. Ms. Schwartz began her career with U S WEST Communications, Inc., now Qwest Corporation, in 1989 in the Tax Department. In 1990, and began working in FCC Regulatory Accounting with responsibilities in Part 64 cost allocation and Part 32.27 affiliate transactions compliance for six years, and chaired an industry task group representing those areas. From 1996-1999, Ms. Schwartz gained further accounting and finance experience in the high tech industry in California. Ms. Schwartz resumed her career at U S WEST Communications, Inc., now Qwest Corporation, in 1999.

Ms. Schwartz has filed testimony on the subject of Section 272 in Arizona, Colorado, Idaho, Iowa, Montana, Nebraska, New Mexico, North Dakota, Oregon, Utah, Washington and Wyoming. She has participated in workshops in Arizona, Colorado, and Washington, as well as the multi-state workshops for Idaho, Iowa, Montana, New Mexico, North Dakota, Utah and Wyoming and in hearings in Nebraska.

QWEST CORPORATE STRUCTURE

Qwest Corporate Structure

ride the light
Qwest



CONFIDENTIAL/PROPRIETARY INFORMATION
CLASSIFICATION RATIONALE

Description/Title of Information: QWEST CORPORATION CHART OF ACCOUNTS

Confidential/Proprietary Designation Rationale:

This exhibit categorizes the Chart of Accounts for Qwest Corporation. The detailed subaccounts listed in this document contain confidential information about revenue streams and cost categories. Because this information would be valuable to Qwest Corporation's competitors, it is proprietary.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

UNITED STATES SECURITIES AND EXCHANGE COMMISSION
Washington, D.C. 20549

FORM 10-K

[X] ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2000

OR

[ ] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934

FOR THE TRANSITION PERIOD FROM TO

COMMISSION FILE NO. 1-3040

QWEST CORPORATION
(formerly known as U S WEST Communications, Inc.)

A COLORADO CORPORATION	84-0273800
(State or other jurisdiction of incorporation or organization)	(I.R.S. Employer Identification No.)

1801 CALIFORNIA STREET, DENVER, COLORADO 80202
TELEPHONE NUMBER (303) 992-1400

Securities registered pursuant to Section 12(b) of the Act:

TITLE OF EACH CLASS	NAME OF EACH EXCHANGE ON WHICH REGISTERED
5.625% Notes Due 2008	New York Stock Exchange

Securities registered pursuant to Section 12(g) of the Act:
NONE

THE REGISTRANT, A WHOLLY-OWNED SUBSIDIARY OF QWEST COMMUNICATIONS INTERNATIONAL INC., MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION I(1)(a) AND (b) OF FORM 10-K AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION I(2).

INDICATE BY CHECK MARK WHETHER THE REGISTRANT (1) HAS FILED ALL REPORTS REQUIRED TO BE FILED BY SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934 DURING THE PRECEDING 12 MONTHS (OR FOR SUCH SHORTER PERIOD THAT THE REGISTRANT WAS REQUIRED TO FILE SUCH REPORTS), AND (2) HAS BEEN SUBJECT TO SUCH FILING REQUIREMENTS FOR THE PAST 90 DAYS. Yes [X] No [ ]

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of the registrant's knowledge in definitive proxy or information statements incorporated by reference in Part III of the Form 10-K or any amendment to this Form 10-K. ***

*** Not applicable in that registrant is a wholly-owned subsidiary.

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To Qwest Corporation:

We have audited the accompanying consolidated balance sheets of Qwest Corporation (a Colorado corporation) and subsidiaries as of December 31, 2000 and 1999, and the related consolidated statements of operations, stockholder's equity, and cash flows for each of the three years in the period ended December 31, 2000. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Qwest Corporation and subsidiaries as of December 31, 2000 and 1999, and the results of their operations, changes in stockholder's equity and their cash flows for each of the three years in the period ended December 31, 2000, in conformity with accounting principles generally accepted in the United States.

/s/ ARTHUR ANDERSEN LLP

Denver, Colorado,
January 24, 2001

Docket No. TC 01-
Qwest Corporation
Exhibits to the Affidavit of Marie E. Schwartz
Section 272
Exhibit MES-272-5
October 24, 2001

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

FCC REPORT 43-03

ARTHUR ANDERSEN

REPORT OF INDEPENDENT PUBLIC ACCOUNTANTS

To U S WEST Communications, Inc.

We have audited, in accordance with auditing standards generally accepted in the United States, the balance sheet of U S WEST Communications, Inc. (the "Company") at December 31, 1999, and the related statements of income, stockholder's equity and cash flows for the year then ended. We have also issued our report dated January 26, 2000, in which we expressed an unqualified opinion on those financial statements. We have also audited the accompanying Federal Communications Commission (the "FCC") Report 43-03, ARMIS Joint Cost Report (columns (b) through (j) on pages 1 through 18) of the Company for the year ended December 31, 1999.

As described in Note 1, this report was prepared pursuant to the Company's Cost Allocation Manual, the FCC's Joint Cost Orders issued in conjunction with FCC Docket No. 86-111 and the FCC's published rules and regulations thereto (including 47 CFR Sections 32.23, 32.37, 64.901 and 64.903) in force as of March 31, 2000. This report was prepared for the purpose of complying with those rules and regulations and is not intended to be a complete presentation of the Company's financial statements. The FCC Report 43-03, ARMIS Joint Cost Report is the responsibility of the Company's management. Our responsibility is to express an opinion on the FCC Report 43-03, ARMIS Joint Cost Report based on our audit.

We conducted our audit of the FCC Report 43-03, ARMIS Joint Cost Report in accordance with auditing standards generally accepted in the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the FCC Report 43-03, ARMIS Joint Cost Report is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the report. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall report presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the FCC Report 43-03, ARMIS Joint Cost Report referred to above presents fairly, in all material respects, the information of the Company required to be set forth therein for the year ended December 31, 1999, in accordance with the Company's Cost Allocation Manual, the FCC's Joint Cost Orders issued in conjunction with FCC Docket No. 86-111 and the FCC's published rules and regulations thereto (including 47 CFR Sections 32.23, 32.27, 64.901 and 64.903) in force as of March 31, 2000.

This report is intended for the information of the Company and the FCC which established the criteria against which the FCC Report 43-03, ARMIS Joint Cost Report was evaluated. Accordingly, this report should not be used for any other purpose.

Arthur Andersen LLP

Denver, Colorado,
March 31, 2000.

QWEST CORPORATION
OFFICERS

- James A. Smith – President
- Robert Tregemba – Senior Vice President – Network
- Mark Schumacher – Vice President & Controller
- Beth Halvorson – Vice President – Wholesale
- Mark Pitchford – Vice President – Retail Markets
- Kamelia Davidson – Assistant Secretary
- Jennifer Pettus – Assistant Secretary

DIRECTORS

- Augustine M. Cruciotti – Director
- James A. Smith – Director

MASTER SERVICES AGREEMENT

MASTER SERVICES AGREEMENT

BETWEEN

QWEST CORPORATION

AND

QWEST COMMUNICATIONS CORPORATION

TABLE OF CONTENTS

EXHIBIT

MASTER SERVICES AGREEMENT
QWEST CORPORATION
AND
QWEST COMMUNICATIONS CORPORATION

[illegible] AGREEMENT [illegible] made as of the first day of Jan 2001 by and between

Qwest Corporation [illegible] Qwest [illegible] and

Qwest Communications Corporation hereinafter [illegible]

[illegible] agree as follows:

ARTICLE 1
DESCRIPTION OF SERVICES

[illegible] agrees to provide services ("Services") to QCC as documented in a Work Order [illegible] incorporated herein as Exhibit A, and QCC agrees to pay for these services consistent with the Work Order.

[illegible] Work Order shall include at a minimum the following information:

- [illegible] Location of Service is Requested
- Dates of Commencement and Completion of Services Requested
- Units and Price per Unit for Requested Service
- [illegible]
- [illegible]
- Special Equipment if required
- [illegible] number and type of personnel in work group to perform functions

[illegible] Qwest [illegible] developed products or Services.

ARTICLE 2
TERM

[illegible] Agreement shall become effective as of 1-19-01 and will remain in full force and effect until [illegible] party provides sixty (60) calendar days written notice of termination to the other party. If this Agreement is terminated prior to the completion of any Service, QCC shall pay for all charges billed and [illegible] to Qwest Corp for Services performed up to and including the date of termination, provided [illegible] performed are in accordance with the terms and conditions of this Agreement. Qwest Corp shall [illegible] complete any such work in progress prior to the termination of the Agreement and Qwest Corp shall perform such services in accordance with the terms and conditions of this Agreement.

[illegible] MSA Master
[illegible] Qwest Communications Corporation

ARTICLE 3
BILLING

A. Qwest Corp shall submit invoices to QCC for Services provided in accordance with the terms and conditions of this Agreement on a monthly basis unless otherwise specified in the Work Order. QCC shall notify Qwest Corp of the address to which invoices are to be sent.

B. Invoices shall include the following billing information as a minimum:

1. Invoice number
2. Payment due date
3. Date of Service
4. Description of charges
5. Applicable taxes
6. Total charge

ARTICLE 4
INDEPENDENT CONTRACTOR

Qwest Corp hereby declares and agrees that it is engaged in an independent business and will perform its obligations under this Agreement as an independent contractor and not as the agent or employee of QCC; that Qwest Corp does not have the authority to act for QCC or to bind QCC in any respect whatsoever, or to incur any debts or liabilities in the name of or on behalf of QCC; that any persons provided by Qwest Corp shall be solely the employees or agents of Qwest Corp under its sole and exclusive direction and control. Qwest Corp and its employees or agents are not entitled to QCC's unemployment insurance benefits as a result of performing under this Agreement. Qwest Corp shall be solely responsible for all matters relating to payment of its employees and agents, including compliance with worker's compensation, unemployment, disability insurance, social security withholding, and all other federal, state and local, rules and regulations. Qwest Corp shall indemnify and hold QCC harmless from any causes of action arising out of Qwest Corp's liability to its employees or agents.

ARTICLE 5
PROPRIETARY INFORMATION

Solely for the purposes of providing Services under this Agreement, each party grants to the other a nonexclusive, nontransferable license to use information provided by the other. Neither party shall publish, circulate, or otherwise distribute or disclose any such information that is marked proprietary or confidential to any third party other than its affiliates and its consultants who have executed a confidentiality agreement unless and until (1) the original disclosing party has consented to such disclosure and such third party executes a confidentiality agreement containing terms substantially similar to the ones contained in this Agreement, (2) such information has come into the public domain through no fault of QCC or Qwest Corp, (3) such information is otherwise in the possession of QCC or Qwest Corp free of any obligation of confidentiality, or (4) such party is required to do so by regulatory mandate.

Any third party information provided by QCC or Qwest Corp to the other party shall be deemed QCC or Qwest Corp information according to its source and shall be treated accordingly. If such information is subject to a separate agreement with a third party, the party receiving information agrees to hold and use the information in strict accordance with the separate agreement, provided it has knowledge of the separate agreement, unless otherwise instructed in writing by the party providing the information.

ARTICLE 6
INDEMNIFICATION

A. Qwest Corp shall indemnify and hold harmless QCC, its owners, parents, subsidiaries, affiliates, agents, directors and employees against all Liabilities to the extent they arise from or in connection with: (1) the fault or negligence of Qwest Corp, its officers, employees, agents, subcontractors and/or representatives; and/or (2) the furnishing, performance or use of any Services under this Agreement or any product liability claims relating to any Services; and/or (3) failure by Qwest Corp, its officers, employees, agents, subcontractors and/or representatives to comply with the Article entitled "Compliance with Laws;" and/or (4) assertions under workers' compensation or similar employee benefit acts by Qwest Corp or its employees, agents, subcontractors, or subcontractors' employees or agents.

B. QCC shall indemnify and hold harmless Qwest Corp, its owners, parents, subsidiaries, affiliates, agents, directors and employees against all Liabilities to the extent they arise from or in connection with: (1) the fault or negligence of QCC its officers, employees, agents, subcontractors and/or representatives; and/or (2) the furnishing, performance or use of any Services under this Agreement or any product liability claims relating to any Services; and/or (3) failure by QCC, its officers, employees, agents, subcontractors and/or representatives to comply with the Article entitled "Compliance with Laws," and/or (4) assertions under workers' compensation or similar employee benefit acts by QCC or its employees, agents, subcontractors, or subcontractors' employees or agents.

ARTICLE 7
LIMITATION OF LIABILITY

Neither party is liable to the other for consequential, incidental, indirect, punitive or special damages, including commercial loss and loss profits, however caused and regardless of legal theory or foreseeability, directly or indirectly arising under this Agreement. Notwithstanding the foregoing, the parties are liable in accordance with the provisions of this Agreement and this limitation of liability shall not apply to the indemnification obligations under this Agreement.

ARTICLE 8
REGULATORY SUPPORT

This agreement shall comply with all state statutes and regulations, and Qwest Corp shall bear the financial risk if it does not. The parties agree that to the extent Qwest Corp is under the regulation of federal or state agencies, QCC will provide cooperation and support for Qwest Corp's response to regulatory inquiries or discovery requests concerning this Agreement or relationships derived from this Agreement.

ARTICLE 9
COMPLIANCE WITH LAWS

A. The parties shall obtain and maintain at its own expense all permits and licenses and pay all fees required by law with respect to any Services and/or performance of this Agreement. The parties shall, in connection with performance of and Services under this Agreement, comply with all applicable federal, state, and local laws, ordinances, rules, regulations, court orders, and governmental or regulatory agency orders ("Laws"), including, without limitation:

1. The Communications Act of 1934, as amended and all rules, regulations and orders issued in connection with that Act and this Agreement shall, to the greatest extent possible, be construed to be consistent with the same.

2. Laws relating to non-discrimination in employment, fair employment practices, equal employment opportunity, employment opportunities for veterans, non-segregated facilities, and/or employment of the disabled, except to the extent a party is exempt therefrom, and the Laws and contract clauses required by those Laws to be made a part of this Agreement are incorporated herein by this reference.

3. The Laws referred to in the Article entitled "Independent Contractor".

B. Qwest Corp acknowledges that Purchase(s) and/or Confidential Information ("Exports") may be subject to U.S. and applicable foreign export laws or regulations. Qwest Corp shall perform its obligations under this Agreement in a manner consistent with the requirements of all applicable U.S. and all applicable foreign laws and regulations, including the U.S. export laws and regulations, the Foreign Corrupt Practices Act, and anti-boycott laws, and U.S. export laws and regulations prohibiting the unauthorized export or re-export of certain items to residents of countries listed in U.S. Export Administration Regulations.

C. The requirements of this Article shall survive the expiration, termination or cancellation of this Agreement. All provisions of this Article shall also apply to all subcontractors, and similar terms shall be included in all Qwest Corp's contracts with subcontractors.

ARTICLE 10
NOTICES

Whenever written notices, demands, or other communications are required under this Agreement, they shall be deemed duly given when made in writing and delivered to the other party's address listed below. Addresses may be changed by written notice to the other party. Notices shall be delivered by hand, overnight courier service or certified mail, return receipt requested. Notification will be deemed to have taken place upon delivery, if delivery is by hand, overnight courier service or five (5) calendar days after mailing if sent by certified mail.

Qwest Communications Corporation	Qwest Corporation
Attention: Contract Manager	Attention: Contract Specialist
Contract Development & Services	Contract Development & Services
7800 East Orchard Road, Suite 250	7800 East Orchard Road, Suite 250
Englewood, CO 80111-2526	Englewood, CO 80111-2526

ARTICLE 11
DISPUTE RESOLUTION

[illegible] [illegible] which arises between the parties, their agents, employees, [illegible] ("Dispute") which the parties are unable to settle through [illegible] may be mediated under the Commercial Mediation Rules of the [illegible] Association ("AAA") by a mutually acceptable mediator. Any Dispute which [illegible] negotiation or mediation shall be resolved by binding arbitration as [illegible] Article. The arbitrability of claims shall be determined under the Federal [illegible] 1-16. Notwithstanding the foregoing, the parties may cancel or [illegible] accordance with its terms and conditions without being required to [illegible] set forth in this Article.

[illegible] [illegible] practice of law, who is knowledgeable about the subject matter [illegible] matter in Dispute, shall conduct the arbitration under the rules of the [illegible] except as otherwise provided herein. The arbitrator shall be selected in [illegible] AAA procedures from a list of qualified people maintained by the AAA. The [illegible] conducted in Denver, Colorado, and all expedited procedures prescribed by [illegible] apply. The laws of Colorado shall govern the construction and interpretation [illegible]. The arbitrator's decision and award shall be final, conclusive and binding, and [illegible] upon it in accordance with applicable law in any court having jurisdiction [illegible]

[illegible] [illegible] request from the arbitrator injunctive relief to maintain the status quo until such [illegible] award is rendered or the Dispute is otherwise resolved. The arbitrator shall [illegible] punitive damages. Each party shall bear its own costs and attorneys' [illegible] equally the fees and expenses of the mediator and arbitrator.

[illegible] [illegible] or administrative action asserting claims subject to arbitration, as [illegible] another party successfully stays such action and/or compels arbitration of [illegible] said action shall pay the other party's costs and expenses incurred in [illegible] arbitration, including reasonable attorneys' fees.

[illegible] [illegible] in the event of any Dispute between the parties, it will continue to provide [illegible]

[illegible]

[illegible]

[illegible]	[illegible]

[illegible]