Exhibit
60

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 01-165

QWEST CORPORATION'S

REBUTTAL AFFIDAVIT

OF

MARIE E. SCHWARTZ

SECTION 272

APRIL 2, 2002

TABLE OF CONTENTS

REBUTTAL AFFIDAVIT

OF

MARIE E. SCHWARTZ

Section 272

My name is Marie E. Schwartz. As stated in my initial affidavit, 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 ("QC," or "the BOC") and am responsible for ensuring QC's regulatory compliance with Section 272 of the Telecommunications Act of 1996 ("the Act").

I. INTRODUCTION

The purpose of my rebuttal affidavit is to address issues raised by AT&T in its comments on Section 272, filed on March 18, 2002. No South Dakota parties have raised any issues relevant to Section 272.[1] Indeed, the Staff of the Commission has endorsed the Multistate Facilitator's approval of QC's Section 272 showing.[2]

---

[1] Midcontinent Communications notes in its testimony that it has had a dispute with QC over a bill for resold services that it claims has not been resolved promptly. Although listed as a Section 272 issue, this matter does not seem to relate in any way to any transaction between QC and QCC. Pre-filed Testimony of W. Tom Simmon, *In the Matter of the Analysis into Qwest Corporation's Compliance with Section 271(c) of the Telecommunications Act of 1996*, Docket TC01-165 (Mar. 18, 2002) at 15-16.

[2] Direct Testimony of Marlon Griffing on behalf of the Staff of the Public Utilities Commission of South Dakota, *In the Matter of the Analysis into Qwest Corporation's Compliance with Section 271(c) of the Telecommunications Act of 1996*, Docket TC01-165 (Mar. 18, 2002) at 122-137 ("Griffing Testimony"). Dr. Griffing has urged that QC demonstrate that the overlap between officers of QCC and its corporate parent is consistent with Section 272. I address this issue in connection with Section 272(b)(3) below.

AT&T has not introduced any sworn testimony in South Dakota regarding Section 272. In states in which it has, its arguments have been rejected. These decisions are probative here, because the Section 272 affiliate contemplated in South Dakota is the same one the QC contemplates in all of its other states and the evidence it has submitted in each state on this issue is thus virtually identical.

QC and AT&T have presented their evidence on Section 272 in hearings conducted by or on behalf of each of the thirteen other states in QC's fourteen state region.[3] Commissions (or, in Colorado, the Commission Chairman) in six of these thirteen states have now issued decisions regarding Section 272. *Every one of these decisions* – in Nebraska,[4] New Mexico,[5] Washington,[6] Colorado,[7] Montana,[8] and North

---

[3] Excerpts from pertinent portions of the transcripts of these hearings relating to issues raised by AT&T are attached hereto as Exhibits MES-272-25, MES-272-26, MES-272-27, and MES-272-28.

[4] Section 272 Satisfied, *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 US West compliance with Section 271(c)*, Application No. C-1830 (Neb. Pub. Serv. Comm'n, Sept. 19, 2001) at ¶ 23 ("Nebraska Order").

[5] Order Regarding Section 272 Compliance, *In the Matter of Qwest Corporation's Section 271 Application and Motion for Alternative Procedure to Manage the Section 271 Process*, Utility Case No. [illegible] (New Mexico Pub. Reg. Comm'n, Feb. 13, 2002) ("New Mexico Order").

[6] Twenty-Eighth Supplemental Order, Washington Commission Order Addressing Workshop Four Issues: Checklist Item No. 4, Emerging Services, General Terms and Conditions, Public Interest, Track A, and Section 272, *In the Matter of the Investigation Into U S WEST Communications, Inc.'s Compliance with Section 271 of the Telecommunications Act of 1996, Docket No. UT-003022 and 003040, Washington Utilities and Transportation Commission*, (Washington Utils. And Transp. Comm'n, March 13, 2002) ("Washington Order") (this Order to be finalized after further consideration of QCC-LCI merger).

[7] Order on Staff Volume VII Regarding Section 272, Public Interest, and Track A, *In the Matter of the Investigation into U S West Communication, Inc.'s Compliance with § 271(c) of the Telecommunications Act of 1996*, Docket No. 971-198T, Decision No. R02-318-I (Colorado Pub. Utils. Comm'n, Mar. 15, 2002) at ¶¶ B. E-10-E14 ("Colorado Order").

[8] Preliminary Report on Qwest's Compliance with Section 272 and Request for Comments on Findings, *In the Matter of the Investigation into Qwest Corporation's Compliance with Section 271 of the Telecommunications Act of 1996*, Docket No. D2000.5.70, (Montana Pub Serv. Comm'n Feb. 4, 2002) ("Montana Report") (this report will be finalized upon review of further comments).

Dakota[9] -- has now found that, subject to independent testing recommended by the Multistate Facilitator which QC and QCC have now undergone, as described below, QC and QCC meet the requirements of Section 272. And all three of those orders that have had the opportunity to address that independent testing (in New Mexico, Washington and Colorado) have rejected AT&T's further challenges to it.

The Multistate Facilitator, who was appointed by seven of the states in QC's fourteen-state region to hear testimony and issue recommendations regarding the BOC's compliance with Section 272, found in September 2001 that "[t]he record demonstrates that QC and QCC have met each of the separate affiliate requirements established by section 272 of the Telecommunications Act of 1996."[10] Neither AT&T nor any other party to these Multistate proceedings took any exception to the Facilitator's Report on Section 272. The Arizona Staff has likewise recommended that the Arizona Commission conclude that "Qwest meets the requirements of Section 272, and will provide in-region interLATA service through an affiliate that is separate from the BOC, which will maintain separate books and records in the manner prescribed by the FCC, with separate officers, directors, and employees."[11]

Despite these authorities, AT&T argues that a recent Minnesota ALJ decision supports its claims. That decision, however, is not effective until and unless the

9 Interim Consultative Report on Group 5 Issues, *U S West Communications Inc., Section 271 Compliance Investigation*, Case No. PU 314-97-193 (North Dakota Pub. Serv. Comm'n, Feb. 27, 2002) ("North Dakota Report") (this report to be finalized after consideration of KPMG evaluation).

10 Facilitator's Report on Group 5 Issues: General Terms and Conditions, Section 272, and Track A, In the Matter of the Investigation into U S WEST Communications, Inc.'s Compliance with § 271 of the Telecommunications Act of 1996, Seven State Collaborative Section 271 Workshop, (Sept. 21, 2001) at 7 ("Facilitator's Report").

commission in that state adopts it. Moreover, as described below, the Minnesota ALJ actually rejected AT&T's principal claims that QC has failed to comply with the FCC's accounting rules on the timeliness of its accrual and billing for transactions with its 272 affiliate. On these issues, the Minnesota ALJ concluded that QC has demonstrated that QC and its 272 Affiliate will comply with Section 272(b)(2).[12] With respect to other aspects of Section 272, the ALJ's report stated that Qwest had not yet met its burden of demonstrating compliance but could do so by taking recommended actions.[13] This recommendation is at odds with the numerous commission decisions set forth above. It appears based on a view that the FCC's interpretation of the statute "does not have a common sense meaning," or that "the FCC may well reconsider that interpretation" in the future.[14] While QC is in the process of reviewing the Minnesota ALJ's recommendations, many of which are in fact already in place, some of these recommendations go well beyond what the FCC has required of other BOCs that have received 271 approval. The FCC has made clear that a state commission may not "condition or delay BOC entry into intrastate interLATA services" with requirements

---

11 *Final Report on Qwest's Compliance with Section 272*, In the Matter of Qwest Corporation's Section 271 Application, ACC Docket No. T-00000A-97-0238 (Arizona Corp. Comm'n Nov. 14, 2001) ¶ 101 ("Arizona Report") (report to be finalized upon consideration of additional comments).

12 Findings of Fact and Conclusions of Law and Recommendations, *In the Matter of a Commission Investigation into Qwest's Compliance with the Separate Affiliate Requirements of the Telecommunications Act of 1996 (Section 272)* Docket No. 7-2500-14487-2 (Minnesota Pub. Utils. Comm'n, Mar. 14, 2002)("MN ALJ Decision") at ¶ 37.

13 *Id.* at 42-43.

14 *Id.* at ¶¶ 23, 91 & n.116.

inconsistent with those imposed by the FCC.[15] whether or not the state commission has a different view of what "common sense" requires.

B. THE 272 AFFILIATE SATISFIES THE SEPARATE AFFILIATE REQUIREMENTS OF SECTION 272

Section 272(a) provides that a BOC may not provide in-region interLATA services except through an affiliate that is both "separate" from the BOC and meets the requirements of Section 272(b).[16] As evidenced in my initial affidavit, the BOC complies with the separate affiliate requirement of Section 272(a). As the Multistate Facilitator noted, "[t]he uncontroverted evidence of the record . . . fully supports a conclusion that QCC . . is, by virtue of the corporate structure and ownership under which it operates, separate from QC."[17]

AT&T does not really argue otherwise. Indeed, in other states, it has conceded that compliance with Section 272(b) entitles QC to a finding of compliance with Section 272(a).[18] It suggests, however, that QC -- or, more accurately, its

---

15 First Report and Order and Further Notice of Proposed Rulemaking, *Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended*, 11 FCC Rcd 21905 (1996) ¶ 47 ("Non-Accounting Safeguards Order"). It is axiomatic that if a state commission cannot condition or delay BOC entry into intrastate interLATA services, it also cannot condition or delay BOC entry into interstate interLATA entry with requirements inconsistent with those imposed by the FCC.

16 47 U.S.C. § 272(a)(1)(A)-(B).

17 Facilitator's Report at 49.

18 Transcript, US WEST Communications, Inc.'s Section 271 Compliance Investigation, Seven State Collaborative Process (June 6, 2001) ("6/7/01 MS Tr.) at 176: "[I]f you meet 272(B) . . . you would meet 272(A)."

predecessor – allegedly has a "repeated failure to comply with § 272(a) and § 271."[19] This argument relates to QC's predecessor's prior interpretations of the scope of Section 271, not its efforts to implement Section 272. AT&T's attorney agreed to this point at the multistate workshop. In his words, "It's not relevant to 272."[20]

The Multistate Facilitator recognized that each of the three cases cited by AT&T involved a good faith view by QC's predecessor (and, in two cases, by Ameritech as well) that a service or product offering did not involve it in the provision of interLATA service. The Buyer's Advantage case, for example, involved the question of whether the prohibition in Section 271 against "provid[ing]" interLATA service could be read to extend to programs by U S WEST and Ameritech in which those BOCs marketed (but did not transport) an independent third party provider's interLATA service.[21] The calling card programs developed by U S WEST and Ameritech involved similar analyses of whether those BOCs would be deemed to be "provid[ing]" interLATA service by marketing a calling card for use with an independent third party's interexchange service.[22] Finally, U S WEST's National Directory Assistance program involved the question whether providing nonlocal directory assistance from an out-of-region data base – which would have been permissible under Section 271(g)(4) had the data base

---

19 AT&T Comments on Section 272, *In the Matter of Investigation into Qwest Corporation's Compliance with Section 271(c) of the Telecommunications Act of 1996*, Docket No. TC. 01-165 ([illegible] 2001) ("AT&T Comments") at 4-5.

20 Transcript, U S WEST Communications, Inc.'s Section 271 Compliance Investigation, Seven State Collaborative Process (June 6, 2001) ("6/6/01 MS Tr.") at 172.

21 *U S West Communications, Inc. v. FCC*, 177 F.3d 1057 (D.C. Cir. 1999), *cert. denied*, 528 U.S. [illegible]

22 See Memorandum Opinion and Order, *AT&T Corp. v. U S WEST Communications, Inc.*, 16 FCC Rcd [illegible]

been owned by U S WEST itself -- so qualified where the data base was owned by a third party.[23]

These cases involved nothing more than a dispute, not about Section 272, but about the scope of the term "provide" as used in Section 271. They provide no evidence concerning the BOC's commitment to compliance with Section 272. As the Multistate Facilitator recognized, these cases do not contradict the fact that "Qwest accepts the separate subsidiary obligation and stands ready to meet it," because "it is self-evident that Qwest only failed to use a separate subsidiary [in these instances] in the mistaken belief that the services did not constitute in-region, InterLATA service."[24]

Here, in contrast, QC has initiated proceedings to obtain Section 271 approvals in every one of its 14 states, and in connection with those proceedings has established QCC as a Section 272 affiliate to provide future interLATA service. This is the evidence relevant here: QC's demonstration of its satisfaction of the specific requirements of Section 272 over the course of many years, its extensive system of controls designed to detect any noncompliance with those requirements, as well as the further protections the FCC has recognized will be afforded by the biennial audit process. As the Multistate Facilitator found, and as other state commissions have agreed,[25] the cases cited by AT&T "are not predictive of future Qwest conduct that is

---

23 Memorandum Opinion and Order, *Petition of U S WEST Communications, Inc. for a Declaratory Ruling Regarding the Provision of National Directory Assistance; Petition of U S WEST Communications, Inc. for Forbearance; The Use of N11 Codes and Other Abbreviated Dialing Arrangements*, 14 FCC Rcd 16252 (1999).

24 Facilitator's Report at 50.

25 *See* Arizona Report ¶¶ 88-92; Nebraska Order ¶¶ 8, 24; Montana Report at 4-7. The Colorado Commissioner also found these instances discussed by AT&T to be "ultimately irrelevant when it comes to deciding whether Qwest meets the separate subsidiary requirements of § 272(a)," and

relevant to the issue of meeting the separate subsidiary requirements of § 272(a)."[26] The South Dakota staff has also endorsed the Multistate Facilitator's finding that "QC and QCC meet the separate ownership test of Section 272" and that the "three cases cited by AT&T are not evidence to warrant drawing a conclusion of Section 272 failure."[27]

III. THE 272 AFFILIATE COMPLIES WITH THE STRUCTURAL AND TRANSACTIONAL REQUIREMENTS OF SECTION 272(b)

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

This provision requires the 272 Affiliate to maintain books, records, and accounts in the manner prescribed by the FCC and separate from the books, records and accounts of the BOC. Here, AT&T continues to present the same arguments that have been rejected by every Commission report that has addressed this issue, as well as in the Minnesota ALJ's recommendation.[28]

"ancillary to the primary inquiry here -- whether it will provide in-region, interLATA service through a separate affiliate." Colorado Order at ¶¶ D-6-7.

26 Facilitator's Report at 50.

27 Griffing Testimony at 123-124.

28 See Nebraska Order at ¶ 26 (finding that QC "will comply with Section 272(b)(2)"); New Mexico Order at ¶ 21 (finding QC to be in compliance with Section 272(b)(2)); Washington Order at ¶ 241 (finding that "Qwest has implemented new procedures and controls that will assist it in coming into substantial compliance with the requirements of section 272," including the requirements of 272(b)(2)); Colorado Order at ¶ E-14 (QC "has shown that it has satisfied the requirements of § 272(b)(2)" and has been diligent in identifying errors and strengthening its internal controls); Arizona Report at ¶ 100 (recommending, in a report to be finalized upon consideration of further evidence, that the Arizona Commission find that QC "maintains its books, accounts, and records in accordance with GAAP" and complies with Section 272); MN ALJ Decision at ¶ 37 (finding "Qwest has demonstrated by a preponderance of the evidence that the Qwest BOC and the 272 Affiliate will comply with Section 272(b)(2)").

AT&T says that QC and QCC do not comply with this provision because of "numerous instances of the failure to follow accrual accounting and to timely book billable transactions."[29] Significantly, AT&T does not cite to any such transactions initiated after the overlay of Section 272 controls on the 272 affiliate, which as I noted in my prior affidavit was completed on March 26, 2001.[30] As the Multistate Facilitator noted in his report, AT&T's focus on transactions initiated prior to QCC's ever becoming QC's 272 affiliate in March 2001 "strain[s] the plain language of federal law past the breaking point."[31]

As AT&T also now concedes, QC and QCC "undertook enormous efforts"[32] during this transition period to account for its transactions between the BOC and the 272 Affiliate.[33] In the process of establishing QCC as its Section 272 Affiliate, QC did identify instances of untimely booking of transactions with QCC following the Qwest- U S WEST merger. The steps that QC took during the three-month transition period to bring its newly designated Section 272 Affiliate into compliance with these

---

29 AT&T Comments at 7

30 Qwest Corporation's Affidavit of Marie E. Schwartz, In the Matter of the Investigation into Qwest Corporation's Compliance with Section 271 at 7 ("Schwartz Aff.). AT&T suggests that QC planned to use QCC as its new Section 272 affiliate as early as September 2000. AT&T Comments at 50 & n.80. While QC began to explore the possibility of changing its prior 272 affiliate shortly after the Qwest-U S WEST merger, it did not determine to use QCC until January 2001. The September 2000 e-mail referred to by AT&T did not identify any particular entity as a possible replacement. E-mail from Andrew Crain to 271superlist@psclist.state.mt.us (Sept. 15, 2000) ("Qwest is in the process of developing a transition plan for another subsidiary to become Section 272 compliant").

31 Facilitator's Report at 67.

32 AT&T Comments at 8

33 I have summarized these efforts in my prior affidavit. *See* Schwartz Affidavit at 6-7. They 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.

[illegible] both its ability and intention to comply with Section 272's [illegible] that QCC has become its designated Section 272 Affiliate.

[illegible] of the controls implemented by QC and QCC during the [illegible] by the independent third-party testing which the Multistate [illegible] to "validat[e]" the effectiveness of the "substantial efforts" that [illegible] during the transition period.[34] That testing was performed [illegible] LLP [illegible], which provided a report on its results in November 2001.[35] [illegible] AT&T [illegible] that the KPMG validation was "limited in scope" and confined to [illegible] of April through August 2001,"[36] the Colorado Chairman has [illegible] AT&T's comments on the KPMG report as "disingenuous."[37] KPMG's [illegible] the kind of review recommended by the Multistate Facilitator. It [illegible] questions that he identified for validation, it addressed the [illegible], and it reflected his determination that materiality was the [illegible] for review. As the New Mexico Commission recently concluded, [illegible] "conforms to the Facilitator's recommendation."[38]

---

34 [illegible]

35 [illegible] KPMG report, affidavits by Ms. Brunsting and me summarizing the actions [illegible], and a subsequent KPMG declaration confirming that such actions had [illegible] state commissions participating in the multistate workshop. Copies of [illegible] affidavit as Exhibits MES-272-19 through MES-272-23.

36 [illegible]

37 [illegible]

38 [illegible] the KPMG report have agreed. *See* Washington Order [illegible] E-13-14 (rejecting AT&T's assertion that KPMG should have [illegible] Section 272 and stating that "KPMG did not review Qwest's [illegible] 272(b)(3), 272(b)(4), or 272(g), because the Multistate [illegible], that Qwest already has complied with those provisions.").

The KPMG Report and the enhanced controls implemented by QC and QCC provide further assurance that they have implemented procedures reasonably designed to ensure compliance with Section 272. The Washington Commission[39] and the Colorado Chairman[40] have since agreed with the New Mexico Commission that KPMG's evaluation and the related corrective measures "show Qwest to be in compliance with the applicable accounting principles pursuant to section 272(b)(2)."[41]

AT&T also alleges that "Qwest does not even concede that the KPMG Report found specific instances in which Qwest was not in compliance with § 272."[42] The KPMG report makes clear -- and QC's submission of that report acknowledges -- that KPMG identified discrepancies in twelve transactions between QC and QCC. However, this report does not support AT&T's claim that these isolated discrepancies preclude a finding of compliance with Section 272(b)(2). All but one of them involved transactions initiated prior to the transition to QCC as the new Section 272 affiliate, and all but one (which had an estimated net impact of only $3,000) involved discrepancies for which QC or QCC itself had detected the need for corrective action. They also involved an estimated net financial *detriment* to QCC, so they did not implicate either the discrimination or the cross-subsidization concerns identified by the FCC as

39 Washington Order ¶ 241.

40 Colorado Order at ¶ E-14.

41 New Mexico Order ¶ 20.

42 AT&T Comments at 10.

underlying Section 272.[43] And KPMG's subsequent review has confirmed that QC and QCC have now corrected each of these discrepancies.[44]

The South Dakota Staff has agreed[45] with the Multistate Facilitator's conclusions that "perfection" should not be the relevant standard for judging compliance with Section 272. Such a standard could not be met in "in [AT&T's] own operations" or, for that matter, "in the operations of any wholesale supplier."[46] The FCC has also agreed. It has made clear that determinations of Section 272 compliance should not place weight on "isolated instances" or on "past accounting compliance problems that have been redressed and corrected."[47] The FCC's test is not whether discrepancies have ever arisen but whether QC has controls in place that are "reasonably designed to prevent, as well as detect and correct" such discrepancies.[48]

KPMG's report and subsequent declaration demonstrate that QC and QCC have such controls, and have strengthened them. As set forth in my November

---

43 Memorandum Opinion and Order, *Joint Application by SBC Communications Inc., Southwestern Bell Telephone Company, and Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance Pursuant to Section 271 of the Telecommunications Act of 1996 To Provide In-Region, InterLATA Services in Arkansas and Missouri*, 16 FCC Rcd 20719 ¶ 122 (2001).

44 *See* Exhibit MES-272-23 (KPMG Jacobsen Declaration)

45 Griffing Direct Testimony at 127.

46 Facilitator's Report at 56.

47 Memorandum Opinion and Order, *Application of BellSouth Corporation, BellSouth Telecommunications, Inc., and BellSouth Long Distance, Inc., for Provision of In-Region, InterLATA Services in Louisiana*, 13 FCC Rcd 20599 ¶ 340 (1998) ("BellSouth-Louisiana II Order").

48 Memorandum Opinion and Order, *Application by SBC Communications Inc., Southwestern Bell Telephone Company, and Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance Pursuant to Section 271 of the Telecommunications Act of 1996 To Provide In-Region, InterLATA Services in Texas*, 15 FCC Rcd 18354 ¶ 398 (2000) ("SBC-Texas Order").

affidavit and that of Ms. Brunsting included with QC's submission of the KPMG report,[49] these strengthened controls include additional safeguards at the corporate level of each company designed to ensure that all inter-company transactions are accrued, billed, and posted promptly and at correct prices: improved formal tracking mechanisms, coordination with operational personnel and comparisons to databases to verify the results of those tracking mechanisms, additional training sessions with relevant personnel, additional supporting documentation to the FCC Regulatory Accounting Department, and development of automated solutions. Contrary to AT&T's assertion that "these reforms have not been tested," KPMG's supplemental declaration has confirmed -- and the New Mexico and Washington Commissions as well as the Chairman of the Colorado Commission have agreed[50] -- that "the new controls and control enhancements . . . implemented by Qwest appear to strengthen the overall control environment with respect to Section 272 compliance and should minimize the types of findings presented in the KPMG Report."[51]

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

Section 272(b)(3) requires the 272 Affiliate to have separate officers, directors, and employees from the BOC. AT&T claims that QC and QCC violate the

---

49 See Exhibits MES-272-21 & MES-272-22.

50 New Mexico Order ¶ 21. Washington Order ¶241. Colorado Order ¶¶E 13-14.

51 Declaration of Philip A. Jacobsen, KPMG LLP (Dec. 14, 2001) at 23 (attached hereto as Exhibit MES-272-23).

requirements of Section 272(b)(3) by (1) establishing "a revolving door atmosphere"[52] that leads to a "free flow of employees back and forth between the BOC and its §272 affiliate,"[53] (2) allowing for the discriminatory sharing of confidential information between QC and QCC employees and (3) permitting employee loans that it alleges are ungoverned by any controls.[54] These arguments are not factually supported and have been rejected by the Multistate Facilitator and by every Commission that has issued a report on QC's Section 272 compliance.

First, as the Multistate Facilitator noted,[55] the statute prohibits only simultaneous employment by both QC and QCC, not transfers.[56] AT&T has conceded this point in its testimony in other states.[57] The FCC's biennial audit will assess whether QC and QCC have complied with their internal controls with respect to such transfers. But in any event, contrary to AT&T's allegations of wholesale employee transfer, the actual number of transferred employees has been, in the Colorado Chairman's words, "miniscule."[58] Transfers have involved only approximately 149 employees moving between the BOC and the 272 affiliate, out of a total of approximately 42,000 employees – 39,000 BOC employees and now approximately 3,000 QCC employees. Reviewing this evidence, the Multistate Facilitator concluded that this relatively small

---

52 AT&T Comments at 10.

53 AT&T Comments at 11

54 AT&T Comments at 11 and 12.

55 Facilitator's Report at 10.

56 *Non-Accounting Safeguards Order* ¶ 178.

57 6/7/01 MS Tr. at 293; 7/9/01 Neb. Tr. at 253-54.

58 Colorado Order at ¶ E-14.

number of transfers "do[es] not establish that Qwest is using transfers back and forth in a way intended to or actually causing a compromise of operational independence."[59]

AT&T next claims that this relatively small number of transfers between QCC and QC -- or the sharing of services between them as permitted by the FCC's decisions -- will result in the discriminatory provision of confidential information by QC to QCC.[60] In fact, there are significant controls in place designed to assure that transferred employees, and those involved in the provision of shared services, comply with the requirements of Section 272.

Employees of the BOC and the 272 affiliate are physically separated to the greatest extent practicable -- either in separate buildings, or separate floors, or with different access points to the floor. The BOC and the 272 affiliate also provide each employee with a color-coded badge so that others can identify the entity for which that employee works. In addition to these physical separation policies, the BOC and the 272 affiliate have extensive controls to prevent the sharing of confidential information. The Code of Conduct governing the BOC, QCC, and all of their affiliates advises all employees that there are requirements governing the relationships between affiliates that regulate "information flow between" these affiliates."[61] These provisions specifically refer to Section 272 and its "restrictions that apply to the interaction between Qwest Corp. [the BOC] and Qwest Communications Corp [the 272 Affiliate]."[62]

---

59 Facilitator's Report at 60.

60 AT&T Comments at 11.

61 Qwest Code of Conduct (Jun. 30, 2000) at 21. A copy of the most recent version of this Code is attached to this rebuttal affidavit as Exhibit MES-272-24.

62 *Id.*

Employees are also informed -- in mandatory Section 272 training -- about the nature of these requirements. The Code of Conduct further instructs that if they have any questions about them, they are to contact the Policy and Law or Regulatory Accounting Department. QCC's mandatory training expressly instructs its employees that they cannot receive any information except "through the same...processes as other interexchange carriers."[63] BOC employees are similarly informed expressly that the BOC "must provide the goods, services, facilities, and information it provides to QCC to other long distance carriers at the same rates, terms, and conditions."[64] In addition, 272 compliance training is conducted as new employees join the 272 affiliate, the BOC, or any of its other affiliates.

Employees of both the BOC and the 272 affiliate are also made aware that failure to follow these policies will have serious consequences. They are annually required to review the Code of Conduct and sign a statement confirming that they will comply with it. The training and Code of Conduct emphasize that violations of these policies or guidelines will not be tolerated. Employees who violate these policies or guidelines are subject to disciplinary action up to and including termination of employment. Under the policies in place at the BOC and the 272, there can be no inappropriate sharing of information with the Section 272 in any context.

AT&T has also raised an issue concerning the possibility of loans of employees from QC to QCC.[65] There have in fact been no such loans. However, the

63 "Conducting Business After Long Distance Re-Entry, Section 272 Compliance," Exhibit MES-272-16, to the Schwartz Aff. at 10.

64 *Id.*

65 AT&T Comments at 12.

BOC and 272 affiliate have until recently had policies specifying that employees cannot be loaned for more than four months out of any 12-month period, and that any service provided by loaned employees would be posted to the Internet and made publicly available to other carriers under nondiscriminatory rates, terms, and conditions. As the Multistate Facilitator recognized, loaned employee arrangements occurring within the context of such controls would not violate Section 272(b)(3). Rather, such limitations on the loaning of employees "represent [] a good-faith effort...acceptable for present purposes," given the availability of the biennial review.[66] In any event, QC and QCC have recently implemented a written policy that now prohibits any loans of employees between them.

The South Dakota Staff endorses the Facilitator's finding that there is no evidence of "simultaneous employment" between QC and its 272 affiliate,[67] but noted that certain officers of QCC are also officers of QCI, the parent corporation of both QCC and the BOC. Section 272 (b)(3) prohibits overlaps in officers between the 272 Affiliate and the BOC. It does not prohibit overlaps between a Section 272 affiliate and the *parent* of a BOC such as QCI.[68] The FCC has never required BOCs to provide information concerning the officers of their corporate parents in prior 271 approvals, and has expressly stated that there is no requirement that a BOC outline "the reporting structure" of its affiliate.[69]

---

66 Facilitator's Report at 61.

67 Griffing Testimony at 133-34.

68 *Non-Accounting Safeguards* Order ¶178.

69 *BellSouth-Louisiana II Order* ¶ 330.

The Staff has also asked QC to explain who serves the functions of Chief Financial Officer and General Counsel at the BOC.[70] There is no Chief Financial Officer at the BOC. Such functions are performed by the BOC's Controller, as indicated in Exhibit MES-272-6.[71] There is no office of General Counsel at the BOC. The BOC receives all of its legal services from Qwest Services Corporation. As noted in prior affidavit, there is no overlap of officers or directors between the BOC and its 272 Affiliate.[72]

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

Section 272(b)(5) requires all transactions between the 272 Affiliate and the BOC to be at arm's length, with any such transactions reduced to writing and available for public inspection. AT&T alleges that QC and QCC's affiliate transaction postings are untimely and insufficiently detailed.[73]

On timeliness, AT&T alleges that QC and QCC have failed to post affiliate transactions within 10 days as required by FCC rules. It refers only to statements by an AT&T witness (whose testimony has not been introduced into the record), which allege that two 1999 transactions were allegedly not posted within that requisite time period but fail to identify the transactions.[74] In any event, every commission to address this

---

70 Griffing Testimony at 133-34.

71 I note one change in Exhibit MES- 272-6. Brian Treadway is now Controller.

72 Schwartz Aff. at 16.

73 AT&T Comments at 8.

74 AT&T Comments at 14 (citing Skluzak Minnesota Affidavit ¶¶ 66 (d-e), 67).

issue has found that Qwest now satisfies this element of Section 272(b)(5).[75] The New Mexico Commission, for example, found that "as called for by the Facilitator, the KPMG Supplemental Review confirmed that QC is now posting affiliate transactions 'to the Qwest website' and is 'billing or booking these transactions.'"[76]

AT&T also asserts that QC should be required to provide more information than the FCC requires a Section 272 website to provide. QC has modeled its website after those approved by the FCC in other 271 cases, and its postings contain all of the information required by the FCC: rates, terms, conditions, frequency, number and type of personnel, and level of expertise, length of time required to complete the transaction, and special equipment used.

The FCC has made clear that while transactions must be available for public inspection, it would "continue to protect the confidential information of BOCs."[77] Indeed, the FCC has already rejected AT&T's identical complaint in *SBC Texas*. In that case, SBC stated that it would not post "the billing details about individual occurrences of service provided pursuant to its agreements," such as "periodic billing," in light of the competitively sensitive nature of such details and instead made the information available at BOC headquarters to interested parties who sign a non-disclosure

[75] *See* Nebraska Order at 16 (finding that QCC is currently posting transactions on a timely basis and that Qwest LD did so as well); *See also* Facilitator's Report at 66-67 (rejecting AT&T's arguments of untimely posting as rooted in "an illogical conception" of when a company becomes a 272 affiliate and stating that KPMG examination shall verify compliance with requirement of timely posting); Montana Order at 30-31 (agreeing with Facilitator); North Dakota Order at 40 (agreeing with Facilitator); Colorado Order at ¶ G-4 (agreeing with Facilitator and finding that KPMG examination has now demonstrated compliance with Section 272(b)(5)).

[76] New Mexico Order ¶ 30.

[77] *See* Report and Order, *Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996*, 11 FCC Rcd 17539 ¶ 122 (1996) ("Accounting Safeguards Order").

agreement.[78] AT&T claimed that this level of disclosure did not satisfy Section 272(b)(5), but the FCC rejected AT&T's concerns, finding that the "nondisclosure agreement has not adversely affected [SBC's] ability to comply with section 272(b)(5) to date because all transactions were properly posted on the Internet."[79] QC has demonstrated that its Internet postings comply with the FCC's public disclosure requirements, and its willingness to provide access to additional confidential information at its principal place of business is fully consistent with FCC requirements.[80]

AT&T also argues that *SBC Texas* "does not state that the BOC need not post the detail or volume of transactions,"[81] but only generally that the postings at issue there "were sufficiently detailed."[82] As noted above, in fact the FCC rejected *precisely the same claim by AT&T* about billing detail that it raises here, challenging precisely the same policy by SBC. As the New Mexico Commission has found, "Qwest's disclosures generally provide the same level of detail respecting the rates, terms, and conditions of its affiliate transactions that SBC and Verizon provide on their Websites."[83] The

---

78 SBC Brief in Support of Application by Southwestern Bell for Provision of In-Region, InterLATA Services in Texas (filed Jan. 10, 2000) at 66; Affidavit of Tom Weckel (filed Jan. 10, 2000) at ¶ 54.

79 *SBC-Texas Order* ¶ 407.

80 *Id. See also Accounting Safeguards Order* ¶ 122. AT&T refers to the public availability of the results of the biennial audit following Section 271 approval. *See* 47 U.S.C. § 272(d)(2). That statutory requirement with respect to the biennial audit has no bearing on the question of whether AT&T is required to execute a confidentiality agreement to review billing detail with respect to transactions between Qwest and QCC.

81 AT&T Comments at 17.

82 *Id.*

83 New Mexico Order at ¶ 30.

Washington Commission similarly concluded that QC's web site disclosures are "comparable to the scope of information available on the other RBOC websites."[84]

IV. THE BOC HAS PROCESSES IN PLACE TO SATISFY SECTION 272(C)

A. Section 272(c)(1) – Nondiscrimination Safeguards

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 has committed to providing its services to all of its IXC customers, including the 272 Affiliate, on a nondiscriminatory basis. The Multistate Facilitator accepted these commitments, and rejected AT&T's Section 272(c)(1) arguments.[85] And every commission to address this provision has found that QC complies with it.[86]

AT&T claims that QC "undertakes a business case analysis" to determine whether to provide a new service requested by QCC, but does not do so for unaffiliated IXCs.[87] The business case analysis that the BOC undertakes in this situation is not, however, a service it provides with or for QCC; it is an internal analysis provided by the BOC to determine that Section 272 requirements are met, including requirements of Section 272(c)(1). This analysis is performed by the Compliance Oversight Team and as I noted in my prior affidavit, QCC is not a member of, and is not represented on, the

---

[84] Washington Order at ¶ 155.

[85] Facilitator's Report at 69-70.

[86] *See* Nebraska Order at ¶¶ 17-19; New Mexico Order at 37-41; Montana Order at 33-35.

[87] AT&T Comments at 19.

Compliance Oversight Team.[88] Even the Minnesota ALJ, upon whose recommendations AT&T otherwise relies, found no merit in AT&T's allegation that this process for evaluating service requests is discriminatory.[89]

AT&T next argues that QC's lack of prompt billing of QCC during the transition period described above, and its inadvertent failure in transition to QCC to include interest charges for late payments, constituted discriminatory treatment. That failure was promptly corrected in July 2001, and QCC was billed for and has paid all appropriate interest charges on these late bills. Since the transition, billing has been undertaken promptly, and interest is charged in late payments in accordance with the Master Services Agreement, which was revised to include such an interest requirement (as was included for QC's prior 272 affiliate). There has therefore been no favorable treatment accorded to QCC with respect to billing.

Finally, AT&T argues that if the BOC obtains services from QCC, it might not make those services available as "local exchange services" under Section 251. AT&T fails to identify any facts in support of any claim relevant to QC's obligations under Section 272 in this respect.

B. Section 272(c)(2) – Compliance With Accounting Principles

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. I have already addressed AT&T's claims regarding this issue. Its claims on 272(c)(2) are

---

88 Schwartz Aff. at 21.

89 MN ALJ Decision at ¶ 107.

encompassed by its discussion of accounting requirements "in the context of § 272(b)(2)."[90] I have responded to those claims above.

V. 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. Despite AT&T's claim that "Qwest asks the Commission to put substantial faith in this audit process," it is the Congress that has created this safeguard and the FCC that has placed reliance on its existence in consideration of Section 271 applications.[91] In the Bell Atlantic-New York Order, for example, the FCC stressed -- in response to concerns raised by AT&T about Bell Atlantic's web postings -- that the BOC "will undergo a thorough and systematic review in the section 272(d) biennial audit, which will ensure that any failures to post are identified in time for appropriate remedial action."[92]

VI. THE BOC COMPLIES WITH SECTION 272(e) – FULFILLMENT OF CERTAIN REQUESTS.

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

---

90 AT&T Comments at 21.

91 Memorandum Opinion and Order, *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*, 15 FCC Rcd 3953 (1999) ¶ 412 ("*Bell Atlantic-New York Order*"), *aff'd sub nom. AT&T Corp. v. FCC*, 220 F.3d 607 (D.C. Cir. 2000); *SBC-Texas Order* ¶ 406; Memorandum Opinion and Order, *Joint Application by SBC Communications Inc., Southwestern Bell Telephone Company, and Southwestern Bell Communications Services d/b/a Southwestern Bell Long Distance for Provision of In-Region InterLATA Services in Kansas and Oklahoma*, 16 FCC Rcd 6237 (2001) ¶ 260, modified Sprint Communications Co. v. FCC, 274 F.3d 549 (D.C. Cir. 2001).

92 *Bell Atlantic-New York Order* ¶ 412.

AT&T is the only competitor to question QC's stated intent to comply with these requirements upon obtaining Section 271. AT&T asserts that QC has not been able to "carry its burden with respect to compliance with § 272(e)(1)."[93]

As stated in my previous testimony, "[t]he BOC does not and will not discriminate in favor of the 272 Affiliate in the provision of telephone exchange service or exchange access."[94] Moreover, QC has controls in place that will assure compliance with Section 272(e). Specifically, as stated in my previous affidavit, when the 272 Affiliate requests exchange access services, it will contact its Sales Executive Team representative for these tariffed services through the same procedures that are available to other interexchange carriers and these IXC representatives will process orders in a nondiscriminatory manner.[95] As I explained in my earlier affidavit and the accompanying exhibits demonstrate, QC has also conducted extensive training for its staff members on all of the requirements of Section 272, including those in Section 272(e).[96]

The Multistate Facilitator has concluded that the foregoing constitute "adequate measures to assure" that QC will comply with Section 272(e)'s non-discrimination requirements.[97] The Montana Commission has agreed in its preliminary report.[98] The

---

93 AT&T Comments at 24.

94 Schwartz Aff. at 31.

95 *Id.* at 31-32.

96 *See id.* at 33-35. QC's training covers Section 272(e) and makes clear to employees that "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." *See id.*, MES-272-16, at 11.

97 Facilitator's Report at 12, 69-70.

Nebraska Commission also found that QC had "committed not to discriminate in favor of QCC in the provision of telephone exchange service or exchange access services."[99] And the New Mexico Commission similarly found QC in compliance with all four requirements of section 272(e) and noted that QC had "implemented practices and procedures that go toward preventing discrimination in favor of QCC in the provision of telephone exchange service or exchange access service."[100]

AT&T insists that QC must now disclose data on the time it takes to provide these Section 272(e)(1) services to its 272 Affiliate, to permit a comparison with provisioning intervals for unaffiliated carriers.[101] However, the BOC will have no data to compare provisioning intervals between affiliated and unaffiliated providers of in-region interLATA services until QCC begins providing such services. For this reason, the FCC has made clear that Section 272(e)(1) "applies only when a BOC has an operational section 272 affiliate,"[102] and has proposed only that BOCs commit that they "will maintain" the required information "upon receiving permission to provide interLATA services pursuant to section 271."[103]

Before receiving such permission, and thereupon initiating in-region, interLATA service through QCC, QC (like other BOCs) can only commit that when it does so it will

98 Montana Report at 34-35.

99 Nebraska Order at ¶ 20.

100 New Mexico Order at ¶¶ 47-48.

101 AT&T Comments at 23.

102 Notice of Proposed Rulemaking, *Performance Measurements and Standards for Interstate Special Access Services*, Notice of Proposed Rulemaking, 16 FCC Rcd 20896 ¶ 10 (2001).

103 Non-Accounting Safeguards Order at ¶ 369 (emphasis added).

maintain, update, and make available the data on provisioning these services to QCC pursuant to the FCC's requirements. QC commits to do so, and is prepared to keep such data in a format previously deemed acceptable by the FCC. Such a commitment was accepted as sufficient in *SBC-Texas*,[104] *Bell Atlantic-New York*[105], and *Verizon-Massachusetts*.[106] Moreover, the FCC will have ample opportunity to verify QC's compliance with Section 272(e)(1) after it receives 271 approval. QC will regularly maintain, update, and make available information allowing for a comparison of service intervals for affiliated and unaffiliated carriers in accordance with FCC requirements, and its compliance record will also be thoroughly reviewed as part of the biennial audit. Objective VIII of the Biennial Audit Procedures is specifically directed at the question of Section 272(e)(1) compliance.[107]

---

104 *See*, e.g., *SBC-Texas Order* ¶ 412 & n. 1198, finding compliance with 272(e)(1) on the basis of evidence from Affidavit of Kathleen M. Rehmer, *In the Matter of Application by SBC Communications, Inc., Southwestern Bell Telephone Company, and Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance for Provision In-Region, InterLATA Services in Texas*, filed Jan. 10, 2000, ¶¶ 33-39 & Att. D

105 Bell Atlantic-New York ¶ 418 & n. 1290 (1999), finding compliance with 272(e)(1) on the basis of evidence from Declaration of Susan C. Browning, *In the Matter of 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*, filed Sep. 22, 1999, ¶¶ 17-18 & Att. J

106 Memorandum Opinion and Order, *Application by Verizon New England Inc., Bell Atlantic Communications, Inc. (d/b/a Verizon Long Distance), NYNEX Long Distance Company (d/b/a Verizon Enterprise Solutions) And Verizon Global Networks Inc. For Authorization to Provide In-Region InterLATA Services in Massachusetts*, 16 FCC Rcd 8988 ¶ 230 & n. 767, finding compliance with 272(e)(1) on the basis of evidence from Affidavit of Susan C. Browning, In the Matter of Application of Verizon New England Inc., Bell Atlantic Communications, Inc. (d/b/a Verizon Long Distance), NYNEX Long Distance Company (d/b/a Verizon Enterprise Solutions) and Verizon Global Networks Inc. For Authorization to Provide In-Region InterLATA Services in Massachusetts, filed Sep 21, 2001, ¶ 18 & Att. Q.

107 *See* General Standard Procedures of Biennial Audits Required Under Section 272 of the Communications Act of 1934, attached to Schwartz Aff as Ex. MES-272-14, at 42-44.

VII. CONCLUSION

Both QC and QCC have demonstrated that they will satisfy Section 272 of the Act, as well as the FCC's related rules, and have taken steps to ensure their continued compliance. Additionally, they have undertaken employee training and awareness efforts to assure continued satisfaction of Section 272. QC understands its obligations under Section 272 and is dedicated to satisfying these obligations. In light of its demonstration of compliance with Section 272 in accordance with FCC precedent, QC respectfully requests that the Commission recommend to the FCC that QC complies with Section 272.

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 REBUTTAL AFFIDAVIT

OF

MARIE E. SCHWARTZ

SECTION 272

APRIL 2, 2002

INDEX OF EXHIBITS

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE 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 No. TC01-165**

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 25 day of March, 2002.

Marie E. Schwartz

STATE OF NEBRASKA)
)
COUNTY OF DOUGLAS)

Subscribed and sworn before me this 25 day of March, 2002.

Notary Public

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

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

In the Matter of Qwest Corporation's Motion for an Alternative Procedure to Manage the Section 271 Process	**Case No. USW-T-00-3**

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: QWEST CORPORATION	**DOCKET NO. INU-00-2**

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER OF the Investigation Into Qwest Corporation's Compliance with Section 271 of the Telecommunications Act of 1996	**Docket No. D2000.5.70**

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Qwest Corporation Section 271 Compliance Investigation	**Case No. PU-314-97-193**

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Qwest Corporation for Approval of Compliance with 47 U.S.C. § 271(d)(2)(B)	**Docket No. 00-049-08**

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

IN THE MATTER OF THE APPLICATION OF QWEST CORPORATION REGARDING 271 OF THE FEDERAL TELECOMMUNICATIONS ACT OF 1996, WYOMING'S PARTICIPATION IN A MULTI-STATE SECTION 271 PROCESS, AND APPROVAL OF ITS STATEMENT OF GENERALLY AVAILABLE	**DOCKET No. 70000-TA-00-599**

<u>BEFORE THE NEW MEXICO REGULATION COMMISSION</u>

IN THE MATTER OF Qwest Corporation's Section 271 Application and Motion for Alternative Procedure to Manage the Section 271 Process	**Utility Case No. 3269**

Qwest's Submission of Results of Independent Testing

Qwest Corporation (the "BOC") herewith respectfully submits the attached report ("KPMG Report") of KPMG LLP ("KPMG"), conducted in accordance with the recommendation in Part IV (Section 272) of the Multistate Facilitator's Report on Group 5 Issues: General Terms and Conditions, Section 272 and Track A, dated September 21, 2001 ("Report"). Additionally, the affidavits of Judith L. Brunsting and Marie E. Schwartz are attached. These affidavits address the findings of the KPMG Report and the controls instituted in response thereto.

Introduction

Earlier this year, the BOC engaged in what the Facilitator concluded were "substantial efforts" to retool Qwest Communications Corporation ("the 272 Affiliate") to be its future provider of in-region interLATA service. Report at 53-54. In order to validate and reinforce these efforts, the BOC has now taken the further unprecedented and valuable step recommended by the Facilitator of submitting to a *pre-approval* review of its Section 272 accounting controls.

As noted below in greater detail, the KPMG Report concludes that except in 12 instances, both the BOC and the 272 Affiliate complied in all material respects with the applicable FCC accounting rules. KPMG's examination was comprehensive. It did not exclude transactions of a *de minimis* nature (*see id.* at 56): at least half of these 12 instances had a financial impact of less than $25,000.[1] Nor was it confined to transactions in which the BOC was the "vendor or supplier" of services to the 272 Affiliate (*see id.* at 54): seven of them involved the provision of services *from* the 272 Affiliate *to* the BOC. Nor did KPMG limit its review to transactions in which the error resulted in the kind of "anticompetitive discrimination and cost-shifting" against which Section 272 was designed to protect:[2] the net financial impact of all 12 transactions worked to the 272 Affiliate's *detriment*. The overarching goal of Section 272's separation and nondiscrimination provisions is to prevent the BOC from advantaging its 272 affiliate over that affiliate's competitors.

Most of these transactions also involved errors previously identified by the BOC and the 272 Affiliate themselves. Nevertheless, because they take their 272 responsibilities seriously and strive to improve procedures to aid in compliance with those requirements, the BOC and the 272 Affiliate have undertaken a careful review of KPMG's findings, in an effort to identify aspects in which their existing controls can be strengthened in preparation for the 272 Affiliate's future provision of in-region interLATA service. As set forth in the attached affidavits, they have taken the appropriate steps to correct these errors, and are reinforcing and supplementing training programs and other controls to assist them in their ongoing efforts to ensure procedures "reasonably designed to prevent, as well as detect and correct, any noncompliance with section 272."[3] As the FCC has recognized, the requirements of further expert review through section 272(d) biennial audits following 271 authorization also "will provide an appropriate mechanism for detecting potential anticompetitive or otherwise improper conduct."[4] In light of all of these

---

[2] The Facilitator concluded that "the concept of materiality should remain a part of evaluating compliance with § 272(b)(2)," based on the universe of transactions between the BOC and the 272 Affiliate during the relevant time period. Report at 9, 56.

[3] Report and Order, *Implementation of the Telecommunications Act of 1996: Accounting Safeguards Under the Telecommunications Act of 1996*, 11 FCC Rcd 17,539 (1996) ("*Accounting Safeguards Order*"); First Report and Order and Further Notice of Proposed Rulemaking, *Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as Amended*, 11 FCC Rcd 21,905 ¶ 9 (1996) ("*Non-Accounting Safeguards Order*").

[4] Memorandum Opinion and Order, *Application by SBC Communications Inc., Southwestern Bell Telephone Company, and Southwestern Bell Communications Services, Inc. d/b/a Southwestern Bell Long Distance Pursuant to Section 271 of the Telecommunications Act of 1996 To Provide In-Region, InterLATA Services in Texas*, 15 FCC Rcd 18,354 ¶ 398 (2000) ("*SBC Texas Order*"); Memorandum Opinion and Order, *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*, 15 FCC Rcd 3953 ¶ 405 & n.1253 (1999), *aff'd sub nom AT&T Corp. v. FCC*, 220 F.3d 607 (D.C. Cir. 2000) ("*BANY Order*").

SBC Texas Order ¶ 406. *See also BANY Order* ¶ 412.

factors, the record now convincingly demonstrates that, when granted, the BOC's future Section 271 authorizations "will be carried out in accordance with the requirements of section 272." 47 U.S.C. § 271(d)(3)(B).

Background

The Facilitator concluded that "[t]he record demonstrates that Qwest has met . . . each of the separate affiliate requirements established by section 272 of the Telecommunications Act of 1996." Report at 7. In reaching this conclusion, the Facilitator examined the record with respect to both of the BOC's successive Section 272 affiliates: U S WEST Long Distance, Inc. (subsequently renamed Qwest Long Distance, Inc. ("Qwest LD")), and the 272 Affiliate, which became the BOC's designated 272 affiliate effective March 26, 2001.

With respect to the extensive prior record of Qwest LD over many years, the Facilitator found nothing in the record of "sufficient concern to warrant special measures." *Id.* at 54. With respect to the 272 Affiliate, the Facilitator acknowledged the "substantial efforts" that the BOC undertook during the recent transition to its newly designated 272 Affiliate "to bring its transactions, both past and current, into compliance with applicable accounting requirements." *Id.* In order to test the "current and future effectiveness of the[se] recent improvement efforts" following the completion of that transition, the Facilitator recommended that the BOC arrange for independent testing of transactions between the BOC and the 272 Affiliate covering the ensuing period from April through August 2001. He recommended that the BOC provide the results of the independent testing, along with supporting workpapers, to the seven multistate commissions by November 15, 2001. *Id.* at 8, 54.[5]

---

[5] In accordance with the American Institute of Certified Public Accountants Professional Standards, AT § 9100.56; AU § 339.02-.08; AU § 9339.02 (2000)), KPMG will make these workpapers available to the seven state commissions for their review, subject to confidentiality restrictions, at mutually convenient times and locations in each of the seven states.

The Facilitator determined that the third-party evaluation is intended to provide "adequate assurances" that the 272 Affiliate is prepared to comply with certain provisions of Section 272 upon receipt of Section 271 authority. *Id.* Such assurances do not require "perfection," which is a standard that "could not be met in . . . the operations of any wholesale supplier." *Id.* at 56. As noted above, the significant question here is whether the BOC and the 272 Affiliate have sufficient controls in place that are "reasonably designed to prevent, as well as detect and correct, any noncompliance with section 272."[6]

Summary of KPMG Report

KPMG examined transactions that occurred between the BOC and the 272 Affiliate during the period April through August 2001. During the course of its examination, KPMG found items in its testing that confirm the BOC's earlier testimony that a number of transactions related to the transition of the 272 Affiliate were discovered and corrected to effect Section 272 compliance. With respect to new transactions occurring during the five-month test period, KPMG determined that except for 12 instances identified in the attached KPMG Report, the BOC complied "in all material respects" with Sections 272(b)(2), (b)(5), and (c)(2) and the applicable FCC accounting rules.[7]

The exceptions noted in the KPMG Report do not raise any of the anti-competitive and cross-subsidization concerns underlying the relevant Section 272 requirements. The underlying purpose of the affiliate pricing rules and the accounting requirements of Sections 272(b)(2) and

---

6 *SBC Texas Order* ¶ 398 (2000); *BANY Order* ¶ 405 & n.1253.

7 KPMG's comprehensive examination also identified instances of noncompliance during the testing period that KPMG determined were not material. KPMG's analysis of discrepancies divided instances of noncompliance into four categories: Type 1 includes items that occurred before the examination period and were corrected during the period; Type 2 includes items that occurred during the examination period and were corrected during the period; Type 3 includes items that KPMG determined were clerical in nature; and Type 4 includes items that occurred during the examination period and were not resolved during the period. The Type 4 items are those identified in the attached KPMG report.

(c)(2) is to ensure that an incumbent LEC does not cross-subsidize its nonregulated activities.[8] The same policy forms the basis for Section 272(b)(5)'s requirement that a 272 affiliate conduct all transactions with the BOC "on an arm's length basis,"[9] and Section 272(c)(1)'s provision that a BOC may not discriminate in favor of its 272 affiliate, which are designed to ensure that "potential competitors do not receive *less favorable* prices or terms, or *less advantageous* services from the BOC than its separate affiliate receives."[10] The instances cited in the attached KPMG Report, and discussed below, do not suggest any policy of the BOC of discriminating in favor of its 272 Affiliate. On the contrary, they involve a net *detriment* to the 272 Affiliate of $2.604 million.

As set forth in the Issue Descriptions included with the KPMG workpapers, in most of these 12 instances, the BOC or the 272 Affiliate themselves detected the need for corrective action. As discussed more fully below, based on its review of the few remaining instances, the BOC is strengthening its internal controls in efforts to prevent any such discrepancies in the future. These instances do not undermine the BOC's showing that it "accepts the separate subsidiary obligation and stands ready to meet it" (Report at 50), particularly after the implementation of these additional controls.

1. <u>Affiliate Pricing Rules</u>. Four of these instances relate not to the question of timely accounting or posting, but rather to the application by the BOC or the 272 Affiliate of the valuation procedures for the FCC's affiliate pricing rules set forth in 47 C.F.R. Part 32. Overall,

---

8 *See* Report and Order, *Separation of Costs of Regulated Telephone Service from Costs of Nonregulated Activities*, 2 FCC Rcd 1298 ¶¶ 254-56 (1987). *See also* Report and Order, *Accounting Safeguards Under the Telecommunications Act of 1996*, 11 FCC Rcd 17,539 ¶¶ 172, 176 (1996) ("*Accounting Safeguards Order*"). In the *Accounting Safeguards Order*, the FCC determined that it would extend the application of these affiliate pricing rules to transactions between a BOC and its 272 affiliate. *Id.* ¶ 176.

9 *See Accounting Safeguards Order* ¶ 147 (the valuation rule "guard[s] against cross-subsidization of competitive services by subscribers to regulated telecommunications services").

these instances involve a net detriment to the BOC of only $21,000, and accordingly do not demonstrate any general policy of cross-subsidization or discrimination.

Nor do these transactions reveal any "systemic flaws"[11] in the BOC's compliance with the affiliate pricing rules. As set forth in the Issue Descriptions included with the KPMG workpapers, three of the four instances involved the use of fully distributed cost rather than fair market value.[12] The first of these involved 10 real estate properties made available by the BOC to 272 Affiliate employees; the error had an impact during the examination period of $3,000. The second involved real estate properties provided by the 272 Affiliate to the BOC and resulted in a net detriment to the BOC of about $9,000. The third such transaction resulted from an employee's pricing of lab facility services to the 272 Affiliate at fully distributed cost rather than fair market value, even though a chart designed by the BOC to aid in compliance with these rules had provided the fair market value information. The fourth listed transaction involved using the BOC's rather than the 272 Affiliate's inputs in calculating the 272 Affiliate's fully distributed cost.

While the BOC and the 272 Affiliate strive to properly and accurately calculate and record all of their affiliate transactions, some errors will and do occur. As the Facilitator recognized, perfection is not the relevant standard here. However, in order to continue reducing each company's error rate, the BOC and the 272 Affiliate are instituting additional safeguards at the corporate level of each company to ensure all material intercompany transactions are

---

10 *See* First Report and Order and Further Notice of Proposed Rulemaking, *Implementation of the Non-Accounting Safeguards of Sections 271 and 272 of the Communications Act of 1934, as amended*, 11 FCC Rcd 21,905 ¶ 206 (1996) (emphasis added).

11 *BANY Order* ¶ 412.

12 We note that the FCC has recently eliminated the requirement that carriers undertake fair market value studies for assets as well as services until the total amount of transfers in a given year exceeds $500,000. This change may be implemented by carriers as of January 1, 2001. *See* Report and Order and Further Notice of Proposed Rulemaking, 2000 Biennial Regulatory Review – Comprehensive Review of the Accounting

identified and billed at correct prices. The BOC and 272 Affiliate corporate regulatory compliance groups will improve the formal tracking mechanism for affiliate transactions. This list will be discussed with operational personnel and compared to databases to ensure that it is both complete and accurate. Additionally, the BOC will conduct additional training sessions with all relevant personnel concerning the FCC's affiliate transaction pricing rules. As an additional safeguard, supporting documentation will now be provided to the BOC's FCC Regulatory Accounting Department for verification of affiliate transaction pricing.

2. Timely Accounting and Posting. The remaining category of items identified in the KPMG Report relate to the timeliness of accrual or billing and reducing transactions to writing.[13] Although the combined impact of these eight errors was $2.625 million to the detriment of the 272 Affiliate, one transaction alone accounted for more than 94 percent of that total. Excluding that amount, the net impact of all of these transactions was $146,000 in underbilling of the 272 Affiliate's costs to the BOC. In every one of these cases, the BOC or the 272 Affiliate themselves detected the error. These instances do not reveal any systemic flaws, and Qwest has further strengthened its controls to address them following its review of the KPMG Report:

- The largest of these transactions involved the 272 Affiliate's provision of audio conferencing services to the BOC. Because in-region interLATA services had been spun off to Touch America and because pursuant to that arrangement the 272 Affiliate billed the BOC on Touch America letterhead, the procurement office erroneously assumed that these services were not transactions with an affiliate and failed to process a bill to the

---

Requirements and ARMIS Reporting Requirements for Incumbent Local Exchange Carriers: Phase 2, CC Docket No. 00-199, FCC 01-305 ¶¶ 87-90 (rel. Nov. 5, 2001).

[13] In one of these transactions, there was no untimely accrual or billing, but only a failure to comply with the FCC's posting requirements. Qwest discovered that corporate calling card services, which had been migrated from Qwest LD to the 272 Affiliate with pricing set at prevailing company prices, were not listed. Qwest has strengthened its existing controls by implementing a monthly review of all BOC intercompany payables and establishing a 272 checklist to track all new services provided by the 272 Affiliate to the BOC.

BOC and receive payment. The procurement employee responsible for the nonpayment was reassigned in June 2001, and the processing error has been identified and corrected.

- A similar error involved private line services that previously had been provided to the BOC by Touch America, most of which were not moved to the 272 Affiliate until September and October 2001. Because the 272 Affiliate's order entry system has a Section 271 protection that restricts creation of an in-region account, billing for the re-engineered circuits was not immediately possible, but internal controls nevertheless identified the need to bill and post this transaction, which was accomplished manually (but after the test period). Qwest is now developing an overall automated solution to handle intercompany provision of interLATA services, while maintaining the system's built-in Section 271 protections.

- In the course of the company's annual affiliate transaction repricing, the BOC discovered that it had provided photo identification badges to the 272 Affiliate's employees without reducing the service to writing, posting it, and billing it properly. Having detected and corrected the problem through existing controls, the BOC will minimize further discrepancies by conducting additional training to emphasize the use of department and responsibility codes so new badges can be charged to the appropriate entities on a timely basis.

- Internal controls also detected a failure to identify for affiliate transaction purposes the BOC's pre-merger lease of a dark fiber link in Utah from the 272 Affiliate. Regulatory Accounting subsequently obtained a copy of the lease and developed and posted a Task Order and corrected the billing error. Qwest Network Construction Services has now instituted procedures for quarterly review of billing systems and for immediate notification to the 272 Affiliate regarding any actual or proposed transaction with the BOC.

- The BOC became aware that a total of 40 out of approximately 64,000 BOC employees, including 10 scattered among nine out-of-region facilities, were occupying the 272 Affiliate's real estate and using its PBX services. Qwest has added audit processes to its Human Resources and Real Estate organizations to detect movements of small numbers of employees in the future.

- During the transition of the 272 Affiliate, experienced BOC finance personnel performed a very minor project for the Affiliate, involving the calculations of FDC values for affiliate pricing rule purposes. That work totaled approximately $1000, and was not billed. The BOC has corrected the error and strengthened its notifications to finance personnel regarding time reporting for *any* services provided to affiliates.

- The BOC provides several types of services to the 272 Affiliate related to small business and consumer services under a properly posted and billed work order. The BOC found that the work of two employees who had been handling data entry related to such services had been missed in these routine billings. The BOC has corrected the error and enhanced its reviews and training regarding Section 272 requirements.

Conclusion

As discussed above, in response to these findings, the BOC is implementing strengthened controls, which serve to reinforce the "substantial efforts" (Report at 54) already undertaken to prepare the 272 Affiliate to comply with the separate affiliate requirements. These additional controls confirm that there are "reasonable assurances" (*Id.*) that the BOC and the 272 Affiliate will provide the level of accuracy, completeness, timeliness and arm's length conduct required by Section 272. As to the first category of exceptions in the KPMG Report (affiliate pricing), the BOC will conduct additional training sessions and document review to ensure compliance with the FCC's valuation procedures. With respect to the second category (timely billing and accruing of transactions), the BOC is instituting new procedures, additional regular review processes, and further training to ensure procedures "reasonably designed to prevent, as well as detect and correct, any noncompliance with section 272."[14] The requirements of further expert review through Section 272(d) biennial audits following 271 authorization will supplement these controls to aid in the efforts of the BOC and the 272 Affiliate to comply with the separate affiliate requirements.

In light of the BOC's and the 272 Affiliate's strengthened controls, and the prior record of compliance by Qwest LD and the 272 Affiliate with all of the other requirements of Section 272, as confirmed by the Facilitator, the BOC respectfully requests that the Commission endorse the Facilitator's conclusion that "[t]he record demonstrates that Qwest has met . . . each of the separate affiliate requirements established by section 272 of the Telecommunications Act of 1996." Report at 7.

---

14 *SBC Texas Order* ¶ 398; *BANY Order* ¶ 405 & n.1253.

KPMG

QWEST CORPORATION

Report of Independent Public Accountants

Attestation Examination with respect to –
Report of Management on Compliance with Applicable Requirements of Section 272 of the Telecommunications Act of 1996

November 9, 2001

KPMG

707 Seventeenth Street
Suite 2300
Denver, CO 80202

Report of Independent Public Accountants

To the Management of Qwest Corporation and the regulatory utility commissions for the following states:

Idaho, Iowa, Montana, New Mexico, North Dakota, Utah and Wyoming (collectively the State Commissions):

We have examined management's assertion, included in the accompanying *Report of Management on Compliance with Applicable Requirements of Section 272 of the Telecommunications Act of 1996*, that Qwest Corporation (the Company) complied with certain aspects of Section 272 of the Telecommunications Act of 1996 (the Act) and associated Federal Communications Commission (FCC) rules and regulations (specifically Sections 272(b)(2), 272(b)(5) and 272(c)(2) of the Act, C.F.R. Section 32.27 and CC Docket No. 96-150, paragraph 122) during the period from April 1, 2001 to August 31, 2001 (the examination period). Management is responsible for the Company's compliance with those requirements. Our responsibility is to express an opinion on management's assertion about the Company's compliance based on our examination.

Our examination was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants and, accordingly, included examining, on a test basis, evidence about the Company's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe that our examination provides a reasonable basis for our opinion. Our examination does not provide a legal determination on the Company's compliance with specified requirements.

Our examination disclosed the following instances of noncompliance with certain aspects of Section 272 of the Act and associated FCC rules and regulations (specifically Sections 272(b)(2), 272(b)(5) and 272(c)(2) of the Act, C.F.R. Section 32.27 and CC Docket No. 96-150, paragraph 122) during the period from April 1, 2001 to August 31, 2001:

- We noted the following instances in which the Company did not comply with the FCC's affiliate transaction pricing rules (C.F.R. Section 32.27) during the examination period as required in Sections 272(b)(2) and 272(c)(2) for transactions between the Bell Operating Company (the Qwest BOC) and the Section 272 affiliate (the Qwest 272 Affiliate).

Description		Management's estimated impact during the examination period (pre-tax) ($ in 000s)
Services provided by the Qwest BOC:		
A. Fair market value (FMV) studies were not performed for ten real estate properties for which FMV studies were required. The ten properties were billed at fully distributed cost (FDC).	$	3
B. In pricing the service charge for access to a lab facility, FDC pricing was used instead of a required FMV amount. In this instance, FMV exceeded FDC for such service.		31
Services provided by the Qwest 272 Affiliate:		
C. FMV studies were not performed for nine real estate properties for which FMV studies were required. The nine properties were billed at FDC.		(9)
D. In developing the FDC rate for the service of leasing test equipment, incorrect data inputs were utilized.		22
Net understatement of Qwest BOC's revenue and corresponding net understatement of Qwest 272 Affiliate's expenses during the examination period related to items A through D above.		21

- We noted the following instances in which the Company did not process accounting entries and affiliate billings (including interest, as necessary) and did not reduce to writing certain services provided between the Qwest BOC and the Qwest 272 Affiliate during the examination period as required by Sections 272(b)(2), 272(b)(5) and 272(c)(2) of the Act and CC Docket No. 96-150, paragraph 122:

Description	Management's estimated impact during the examination period (pre-tax) ($ in 000s)
Services provided by the Qwest BOC:	
E. Photo identification services were provided but not accounted for, billed (including interest charges) or reduced to writing during the examination period.	$ 16
F. A certain finance service was provided but not accounted for or billed (including interest charges) during the examination period.	1
G. Data entry services regarding out-of-region long-distance orders were provided but not accounted for or billed (including interest charges) during the examination period.	54
Services provided by the Qwest 272 Affiliate:	
H. The lease agreement for fiber optical capacity was not accounted for, billed (including interest charges) or posted to the website during the examination period.	111
I. Real estate occupancy services and the use of PBX services were provided but not accounted for, billed (including interest charges) or reduced to writing during the examination period.	74
J. Audio conferencing services were provided but not accounted for, billed (including interest charges) or reduced to writing during the examination period.	2,479
K. Private line circuits for in-region interLATA official communication services were provided but not accounted for, billed (including interest charges) or reduced to writing during the examination period.	43
L. Calling card services were provided but not reduced to writing during the examination period.	9
Net understatement of Qwest BOC's expenses and corresponding net understatement of Qwest 272 Affiliate's revenues during the examination period related to items E through L above.	2,655
Net understatement of Qwest BOC's expenses and corresponding net understatement of Qwest 272 Affiliate's revenues during the examination period related to all noted exceptions.	$ 2,669

In our opinion, except for the instances of noncompliance described above, Qwest Corporation complied, in all material respects, with the aforementioned requirements for the period from April 1, 2001 to August 31, 2001.

This report is intended solely for the information and use of management of the Company and the State Commissions and is not intended to be and should not be used by anyone other than these specified parties.

KPMG LLP

Denver, Colorado
November 9, 2001

1801 California Street
Denver, CO 80202

Mark A. Schumacher
Qwest Corporation
Vice President – Corporate Controller
1801 California #2910
Denver, CO 80202

Qwest

Report of Management on Compliance with Applicable Requirements of Section 272 of the Telecommunications Act of 1996

Management of Qwest Corporation ("QC" or the "Company") is responsible for ensuring the Company's compliance with the applicable requirements of Section 272 of the Telecommunications Act of 1996 and regulations related thereto as promulgated by the Federal Communications Commission ("FCC") ("Section 272 and Related Regulations") as set forth in Section IV of the Seven-state Collaborative Group Liberty Consulting report (the "Liberty Report") dated September 21, 2001.

Management has performed an evaluation of the Company's compliance with the applicable requirements of Section 272 and Related Regulations as set forth in the Liberty Report, including those described below, for the period April 1, 2001 through August 31, 2001 (the "Evaluation Period"). Based on this evaluation, we assert that during the Evaluation Period, the Company has complied with all applicable requirements of Section 272 and Related Regulations as set forth in the Liberty Report. In particular, the Company did the following:

(a) We have implemented adequate controls to assure the accurate, complete, and timely recording in our books and records of all affiliate transactions between Qwest Corporation (QC), the BOC, and Qwest Communications Corporation (QCC), the Section 272 affiliate, in compliance with Section 272 (b)(2), Separate Books, Records and Accounts, and Section 272 (b)(5), Transactions at Arm's Length, In Writing and Publicly Available.

(b) We have implemented adequate controls to assure that the relationship between QC, as a vendor or supplier of goods and services, and QCC has been managed in an arm's length manner in compliance with the provisions of Section 272(c), Nondiscrimination Safeguards, which include consideration of what would be expected under normal business standards for similar contracts with an unaffiliated third party.

(c) We have provided reasonable assurances that a continuation of the practices and procedures examined will continue to provide the level of accuracy, completeness, timeliness and arm's length conduct required to Sections 272(b)(2) & (5) and 272(c).

(d) We have implemented sufficient control procedures to assure that an officer of QC will sign the Officer Certification required in CC Docket 96-150 in ¶122. This certification will be signed annually in concurrence with the certification letter that accompanies the ARMIS 43-03 report filed with the FCC on April 1.

Qwest Corporation

Dated: November 9, 2001

Mark A. Schumacher

Vice President – Corporate Controller

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

In the Matter of Qwest Corporation's Motion for an Alternative Procedure to Manage the Section 271 Process	)))))	Case No. USW-T-00-3

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: QWEST CORPORATION	)))))	DOCKET NO. INU-00-2

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER OF the Investigation Into Qwest Corporation's Compliance with Section 271 of the Telecommunications Act of 1996	))))	Docket No. D2000.5.70

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Qwest Corporation Section 271 Compliance Investigation	)))))	Case No. PU-314-97-193

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Qwest Corporation for Approval of Compliance with 47 U.S.C. § 271(d)(2)(B)	)))))	Docket No. 00-049-08

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

IN THE MATTER OF THE APPLICATION OF QWEST CORPORATION REGARDING 271 OF THE FEDERAL TELECOMMUNICATIONS ACT OF 1996, WYOMING'S PARTICIPATION IN A MULTI-STATE SECTION 271 PROCESS, AND APPROVAL OF ITS STATEMENT OF GENERALLY AVAILABLE	)))))))	DOCKET No. 70000-TA-00-599

BEFORE THE NEW MEXICO REGULATION COMMISSION

IN THE MATTER OF Qwest Corporation's Section 271 Application and Motion for Alternative Procedure to Manage the Section 271 Process	))))	Utility Case No. 3269

AFFIDAVIT OF

STATE OF)
)ss.
COUNTY OF)

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 and am responsible for ensuring Qwest Corporation's regulatory accounting compliance with Section 272 of the Telecommunications Act of 1996 ("the Act").

The KPMG LLP attestation identified some transactions with Qwest Communications Corporation ("the 272 Affiliate") that were neither properly processed nor posted. Qwest Corporation ("the Qwest BOC") is correcting all of the identified discrepancies by posting the transactions on the website where needed and by billing and booking these transactions in the October and November accounting records.

Qwest BOC has also implemented and is in the process of implementing several new internal controls intended to provide reasonable assurance that intercompany transactions initiated by the Qwest BOC are identified, reduced to writing, accurately processed and posted. Specifically, the Qwest BOC has put in place or will have in place by December 3, 2001 the following controls for the identified discrepancies:

Discrepancy A: Fair market value ("FMV") studies were not performed for ten real estate properties for which FMV studies were required. The ten properties were billed at fully distributed cost ("FDC").

This discrepancy occurred because work orders were priced without a review for proper determination of whether FMV or FDC should have been used. A new control is being implemented that requires the Business Unit Affiliate Manager's (BUAM) supervisor review the calculation to ensure both a FDC and a FMV analysis has been completed. Any work order without this support will not be processed by the BUAM. This enhanced control is designed to ensure that a FMV study is performed, proper pricing is applied, and that the work order will be processed accurately. The Regulatory Accounting organization will expand its control sheets to provide additional detail which will allow them to verify that an FMV and FDC study has been performed for all services.

Discrepancy B: In pricing the service charge for access to a lab facility, FDC pricing was used instead of a required FMV amount. In this instance, FMV exceeded FDC for such service.

This discrepancy was not discovered on a timely basis because information was informally shared over the telephone and back up support was not received by the FCC Regulatory Accounting organization. Current controls will be enhanced to require supervisor review of the control sheet verifying on a quarterly basis that all documentation has been received.

Discrepancy E: Photo identification services were provided but not accounted for, billed (including interest charges) or reduced to writing during the examination period.

This discrepancy was discovered during the annual re-pricing of affiliate services. After the merger, the duties of the Real Estate department were expanded to issue badges for the 272 Affiliate. As a result, the data necessary for proper billing was not included on the application form and no billing was taking place. Employees at the access control centers will be retrained to ensure that a valid department or responsibility code will be provided.

Discrepancy F: A certain financial service had been provided but not accounted for or billed (including interest charges) during the examination period.

This discrepancy occurred because providing the service was a one time event with a minimal amount of time required to complete the service. Monthly requests for billing information have been strengthened to remind employees all time, no matter how minimal, needs to be reported.

In addition to the specific controls listed above, Qwest is initiating additional training that will reinforce compliance requirements with Section 272(b)(2) and Section 272(b)(5).

I hereby swear and affirm that the statements and data contained in the attached audit are true and correct to the best of my knowledge and belief.

MARIE E. SCHWARTZ

SUBSCRIBED AND SWORN before me this 15 day of November, 2001.

Notary Public

My Commission Expires:
March 17, 2004

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

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

In the Matter of Qwest Corporation's Motion for an Alternative Procedure to Manage the Section 271 Process	**Case No. USW-T-00-3**

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: QWEST CORPORATION	DOCKET NO. INU-00-2

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

IN THE MATTER OF the Investigation Into Qwest Corporation's Compliance with Section 271 of the Telecommunications Act of 1996	**Docket No. D2000.5.70**

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION

Qwest Corporation Section 271 Compliance Investigation	**Case No. PU-314-97-193**

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Qwest Corporation for Approval of Compliance with 47 U.S.C. § 271(d)(2)(B)	**Docket No. 00-049-08**

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

IN THE MATTER OF THE APPLICATION OF QWEST CORPORATION REGARDING 271 OF THE FEDERAL TELECOMMUNICATIONS ACT OF 1996, WYOMING'S PARTICIPATION IN A MULTI-STATE SECTION 271 PROCESS, AND APPROVAL OF ITS STATEMENT OF GENERALLY AVAILABLE	**DOCKET No. 70000-TA-00-599**

BEFORE THE NEW MEXICO REGULATION COMMISSION

IN THE MATTER OF *Qwest Corporation's Section 271 Application and Motion for Alternative Procedure to Manage the Section 271 Process*	Utility Case No. 3269

AFFIDAVIT OF JUDITH L. BRUNSTING

STATE OF)
)ss.
COUNTY OF)

Judith L. Brunsting declares as follows:

My name is Judith L. Brunsting. My business address is 198 Inverness Drive West, 2nd floor, Englewood, Colorado, 80112. I am Senior Director of 272 Business Development in Qwest Corporation.

The KPMG LLP attestation identified several transactions where costs incurred on behalf of Qwest Corporation (" the Qwest BOC") were neither properly processed nor posted. Qwest Communications Corporation (" the 272 Affiliate") corrected all of the identified discrepancies by posting the transaction on the website and by billing or booking these transactions by November 15, 2001, with the exception that catch up billing for all discrepancies other than Discrepancy H are being billed in November, 2001, and a $9000 adjustment for Discrepancy C that is being booked in November 2001.

The 272 Affiliate has also implemented and is in the process of implementing several new internal controls intended to provide reasonable assurance that intercompany transactions initiated by the 272 Affiliate are identified, reduced to writing, accurately processed and posted. Specifically, the 272 Affiliate has put in place or will have in place by December 3, 2001 the following controls for the identified discrepancies:

Discrepancy C: FMV studies were not performed for nine real estate properties for which FMV studies were required. The nine properties were billed at FDC.

This discrepancy occurred because task orders were priced without a review for proper determination of whether Fair Market Value ("FMV") or Fully Distributed Cost ("FDC") should be used. A new control is being implemented that requires the Business Unit Affiliate Manager's ("BUAM") supervisor review the calculation to ensure both an FDC and an FMV analysis have been completed. Any task order without this support will not be processed by the BUAM. This control is designed to ensure that a FMV study is performed timely and the invoice will be processed accurately. Additionally, a 272 checklist is being established to track all new services provided by the 272 Affiliate to the Qwest BOC. The Director-Corporate Accounting, Qwest Services Corporation ("QSC") will have responsibility for monitoring the checklist to ensure that all items are completed in a timely manner prior to signature.

Discrepancy D: In developing the rate for the service of leasing test equipment, incorrect data inputs were utilized.

This discrepancy resulted from the 272 Affiliate not having its own FDC model to determine pricing. To expedite billing, the 272 Affiliate used an alternative method to arrive at an FDC rate that was incorrect. An FDC model that is compliant with the FCC's affiliate rules has now been developed and will be used for all the 272 Affiliate pricing.

Discrepancy H: The lease agreement for fiber optical capacity was not accounted for, billed (including interest charges) or posted to the website during the examination period.

This discrepancy occurred because after the merger, personnel unfamiliar with affiliate billing requirements inadvertently stopped billing for this pre-merger agreement. A new control has been implemented for the Controller of Qwest Network Construction Services ("QNCS") to inform the 272 Affiliate of any new or proposed transactions. Additionally, the Director-Corporate Accounting will request a review of the billing system quarterly to identify new transactions from QNCS.

Discrepancy I: Real estate occupancy services and the use of PBX services were

provided but not accounted for, billed (including interest charges) or reduced to writing during the examination period.

This discrepancy occurred because of a lack in communications between the Human Resources department ("HR"), the Real Estate organization, and the BUAM. To ensure that all intercompany real estate services are properly captured, the following new controls will be developed by December 13, 2001 and implemented by December 31, 2001. HR will now send a report of any changes in legal entity to Real Estate who will distribute the information to the BUAM. The BUAM will be responsible for identifying the potential impact on other affiliates or agreements. Additionally, the Real Estate organization will perform quarterly reviews and notes changes to the BUAM.

Discrepancy J: Audio conferencing services were provided but not accounted for, billed (including interest charges) or reduced to writing during the examination period.

The discrepancy occurred because the employee responsible for accounting and billing did not follow company policies. Personnel changes were made and company policy is being enforced and followed. This service is now being provided by a third party vendor. Any decision to provide this service internally again in the future will be made only if an acceptable billing solution can be found.

Discrepancy K: Private line circuits for in-region interLATA official communication services were provided but not accounted for, billed (including interest charges) or reduced to writing during the examination period.

The issue for this service was determining how to issue a bill when the systems were not accepting data which then resulted in no billing, no written agreement and no posting. This occurred because a Section 271 protection was built into the ordering system so in-region interLATA services could not be offered. To facilitate proper billing in the future, a manual process was implemented to identify all circuits and rates being used for official service. In order to ensure that accurate billings are processed on a timely basis, this information has been entered into a database which will feed the monthly billing system.

Discrepancy L: Calling card services were provided but not reduced to writing during the examination period.

This discrepancy was discovered by comparing services listed on the website to billings. It was not discovered on a timely basis however. To improve the timeliness of reducing services to writing a 272 checklist is being established to track all new services provided by the 272 Affiliate to the Qwest BOC. The Director-Corporate Compliance will have responsibility for monitoring the checklist to insure that all items are completed in a timely manner prior to signature. Additionally, both entities will deploy additional training to all involved organizations and employees.

I hereby swear and affirm that the statements and data contained in the attached affidavit are true and correct to the best of my knowledge and belief.

Judith L. Brunsting

JUDITH L. BRUNSTING

SUBSCRIBED AND SWORN before me this 15th day of November, 2001.

Notary Public

My Commission Expires:

DAWN S. DALE NOTARY PUBLIC STATE OF COLORADO

2/7/04

CONTINUATION

[1]

Scan ~ ~ # Pgs [ ]

DECLARATION OF PHILIP J. JACOBSEN

I, PHILIP J. JACOBSEN, declare that:

I am a Certified Public Accountant and a partner of KPMG LLP ("KPMG"). My business address is 707 17th Street, Suite 2300, Denver, Colorado 80202. KPMG, with over 103,000 professionals, provides services to clients through member firms in 152 countries. I am a member of the Management Assurance Services practice at KPMG and am the lead partner in that practice for services provided to clients in the communications industry.

During my 13-year career, I have been almost exclusively involved in financial, regulatory and cost accounting matters in the telecommunications industry. I have served as an auditor for and consultant to clients in the telecommunications industry and currently am a partner in our firm's telecommunications industry practice in the areas of assurance and advisory services.

PURPOSE OF DECLARATION AND SUMMARY CONCLUSION

Qwest Corporation engaged KPMG to perform the necessary testing to enable me to make this declaration. This declaration will address the testing that KPMG professionals performed, under my direct supervision, relating to affidavits filed by Ms. Marie Schwartz and Ms. Judy Brunsting on November 15, 2001 (the "Affidavits"). The Affidavits discuss actions taken or to be taken by Qwest Corporation (the "Qwest BOC") and Qwest Communications Corporation (the "Qwest 272 Affiliate") (collectively "Qwest") to address the findings set forth in KPMG's Report of Independent Public Accountants dated November 9, 2001("KPMG Report"). The KPMG Report was issued in connection with the attestation examination performed regarding Qwest Corporation's assertion of management with respect to its compliance with certain aspects of Section 272 of the 1996 Act and related FCC rules and regulations. The attestation examination was performed as a result of the recommendation of the Multistate Facilitator, The Liberty Consulting Group, in its report dated September 21, 2001 (the "Liberty Report").

Specifically, the Affidavits addressed new controls and enhancements to existing controls that the Qwest BOC and the Qwest 272 Affiliate had implemented or would be implementing to address the issues detailed in the KPMG Report. In the Affidavits, it was stipulated that the new controls and control enhancements would be in place by December 3, 2001, with the exception of two new controls that are scheduled to be implemented by December 31, 2001.

In summary, Qwest implemented the specific controls as stipulated in the Affidavits, as well as controls that address Discrepancy G from the KPMG Report, which was not specifically addressed in the Affidavits. Certain controls scheduled to be implemented subsequent to December 3, 2001 (items 7 and 8 from the Brunsting affidavit) were not tested. Additionally, Qwest has corrected all discrepancies identified in the KPMG Report by posting the transactions to the Qwest website and by billing or booking these transactions. Our testing was directed only at the new controls and control enhancements discussed herein and did not include an assessment of the overall design and effectiveness of such new controls and control enhancements.

SCOPE OF DECLARATION

The new controls and control enhancements discussed in the Affidavits and addressed in this declaration are as follows:

Marie Schwartz Affidavit (related to Qwest's BOC)	*To Be Implemented By*	*KPMG Report Discrepancy Reference*
1. The Business Unit Affiliate Manager ("BUAM") supervisor will review the calculation to ensure both a fully distributed cost ("FDC") and fair market value ("FMV") analysis has been completed.	December 3, 2001	A
2. The Regulatory Accounting organization will expand its control sheets to provide additional detail which will allow them to verify that a FMV and FDC study has been performed for all services.	December 3, 2001	A
3. Regulatory Accounting supervisor to review control sheets verifying on a quarterly basis that all documentation has been received.	December 3, 2001	B
4. Employees at the access control centers will be retrained to ensure that a valid department or responsibility code will be provided.	December 3, 2001	E
5. Monthly requests for billing information have been strengthened to remind employees that all time, no matter how minimal, needs to be reported.	December 3, 2001	F
6. Qwest is initiating additional training that will reinforce compliance with Section 272(b)(2) and Section 272(b)(5).	December 3, 2001	All

Judy Brunsting Affidavit (related to Qwest's 272 Affiliate)	*To Be Implemented By*	*KPMG Report Discrepancy Reference*
1. QCC corrected all of the identified discrepancies by posting the transaction on the website and by billing or booking these transactions by November 15, 2001, with the exception that catch up billings, for all discrepancies other than Discrepancy H are being billed in November 2001 and a $9,000 adjustment Related to discrepancy C that is being booked in November 2001.	December 3, 2001	All
2. The Business Unit Affiliate Manager ("BUAM") supervisor will review the calculation to ensure both a fully distributed cost ("FDC") and fair market value ("FMV") analysis has been completed.	December 3, 2001	C

Judy Brunsting Affidavit (related to Qwest's 272 Affiliate)	To Be Implemented By	[illegible] Report Discrepancy Reference
3. A 272 checklist is being established to track all new services provided by the Qwest 272 Affiliate to the Qwest BOC. The Director-Corporate Accounting, Qwest Service Corporation ("QSC"), will have responsibility for monitoring the checklist to ensure all items are completed in a timely manner.	December 1, 2003	[illegible]
4. A FDC model that is compliant with the FCC's affiliate rules has now been developed and will be used for all the Qwest 272 Affiliate pricing.	December 1, 2003	[illegible]
5. The controller of Qwest Network Construction Services ("QNCS") will inform the Qwest 272 Affiliate of any new or proposed transactions.	December 1, 2003	[illegible]
6. The Director-Corporate Accounting will request a review of the billing system quarterly to identify new transactions from QNCS.	December 1, 2003	[illegible]
7. HR will now send a report of any changes in legal entity to Real Estate who will distribute the information to the BUAM. The BUAM will be responsible for identifying the potential impact on other affiliates or agreements.	December 31, 2003	[illegible]
8. The Real Estate Organization will perform quarterly reviews and note changes to the BUAM.	December 31, 2003	[illegible]
9. Personnel changes were made and Company policy is being enforced and followed. This service is now being provided by a 3rd party vendor.	December 1, 2003	[illegible]
10. A manual process was implemented to identify all circuits and rates being used for Official Communication Services ("OCS"). In order to ensure that accurate billings are processed on a timely basis, this information has been entered into a database which will feed the monthly billing system.	December 1, 2003	[illegible]
11. A 272 checklist is being established to track all new services provided by the Qwest 272 Affiliate to the Qwest BOC. The Director-Corporate Accounting QSC will have responsibility for monitoring the checklist to ensure all items are completed in a timely manner.	December 1, 2003	[illegible]
12. Both entities will deploy additional training to all involved organizations and employees.	December 1, 2003	[illegible]

Schwartz No. 1 – The Business Unit Affiliate Manager ("BUAM") supervisor will review the calculation to ensure both a fully distributed cost ("FDC") and fair market value ("FMV") analysis has been completed. ***(Related to discrepancy A in the KPMG Report)***

Description of Control

The Qwest BOC has implemented a new control whereby the supervisor of the BUAM responsible for managing real estate services (space and furniture rental) provided to the Qwest 272 Affiliate must perform a review for each component of the service (e.g., each building) to ensure that a FMV study was conducted and compared to FDC for proper pricing of the service based on the FCC's affiliate transaction rules.[1] Any work order without this support will not be processed by the BUAM.

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
The written policy setting forth the control.	Read the new policy, noting that it set forth the specific steps to be taken by the real estate services BUAM and the BUAM supervisor.
Signed statements from the real estate services BUAM and real estate services BUAM supervisor indicating their knowledge of the new control.	Read the signed statements, noting that the steps to be performed per the signed statement agreed to the new policy and that the real estate services BUAM and BUAM supervisor signed the statement.
Contact information for the real estate services BUAM and BUAM supervisor.	Interviewed the real estate services BUAM and BUAM supervisor to verify that they had been made aware of the new control by December 3, 2001 and that they had signed the statement.

Conclusion

Based on the testing performed, the control requiring the real estate services BUAM supervisor to review for FDC and FMV comparison had been implemented as of December 3, 2001.

[1] 47 CFR 32.27.

Schwartz No. 2 – The Regulatory Accounting organization will expand its control sheets to provide additional detail which will allow them to verify that a FMV and FDC study has been performed for all services. ***(Related to discrepancy A in the KPMG Report)***

Description of Control

The Qwest BOC has implemented a control enhancement whereby the Regulatory Accounting organization will expand its control sheets to provide additional detail, which will allow them to verify that a FMV and FDC study has been performed for all services. The Regulatory Accounting organization expanded the control sheets to add language that requires a review for work orders related to managing real estate services (space and furniture) provided to the Qwest 272 Affiliate. This review will be performed for each component of the service (e.g., each building) to ensure that a FMV study was conducted and compared to FDC for proper pricing of the service based on the FCC's affiliate transaction rules.

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
The written policy setting forth the control.	Read the new policy, noting that it includes language which states for real estate services, a comparison of FMV to FDC for each pricing component must be performed. Additionally, we interviewed the Regulatory Accounting organization personnel and determined that they were aware of the control enhancement.
Access to expanded control sheets.	Reviewed the expanded control sheets noting the addition of language which requires that a FMV study be performed for each affiliate-billed property.

Conclusion

Based on the testing performed, the control concerning updated control sheets had been implemented as of December 3, 2001.

Schwartz No. 3 – Regulatory Accounting supervisor to review control sheets verifying on a quarterly basis that all documentation has been received. ***(Related to discrepancy B in the KPMG Report)***

Description of Control

The Qwest BOC has implemented a control enhancement whereby the Regulatory Accounting supervisor will increase the frequency of control sheet reviews for required pricing information from an annual to quarterly basis. The Regulatory Accounting supervisor will now review control sheets each quarter for required information instead of only during the re-pricing period.

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
The written policy setting forth the control.	Read the new policy, noting it includes language which states that the Regulatory Accounting supervisor will review control sheets on a quarterly basis for required information.
Contact information for Regulatory Accounting personnel.	Interviewed the Regulatory Accounting supervisor responsible for control sheet reviews noting that the supervisor is aware of the control.

Conclusion

Based on the testing performed, the control requiring a quarterly review of control sheets by the Regulatory Accounting supervisor had been implemented as of December 3, 2001.

Schwartz No. 4 – Employees at the access control centers will be retrained to ensure that a valid department or responsibility code will be provided. ***(Related to discrepancy E in the KPMG Report)***

Description of Control

The Qwest BOC has implemented a new control whereby employees at the access control centers will be retrained to ensure that a valid department or responsibility code will be provided. The training will enforce the requirement to provide a department or responsibility code to track and bill for Photo ID services related to employees that receive photo ID badges.

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
Access to new training material.	Read the new training material, noting it includes a statement that the responsibility code (RC) or department code (DC) are required information and must be obtained prior to the issuance of the ID badges.
Access to listing of employees that are required to attend training and acknowledgement forms stating whether training was received.	Reviewed the listing of employees required to attend training. Reviewed acknowledgement forms and received email confirmations from employees that attended the training acknowledging they are aware of the policy.

Conclusion

Based on the testing performed, the control that employees at the access control centers will be retrained to ensure that a valid department or responsibility code will be provided was implemented as of December 3, 2001.

Schwartz No. 5 – Monthly requests for billing information have been strengthened to remind employees that all time, no matter how minimal, needs to be reported. ***(Related to discrepancy F in the KPMG Report)***

Description of Control

The Qwest BOC has implemented an enhanced control whereby monthly requests for billing information have been strengthened to remind employees that all time, no matter how minimal, needs to be reported.

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this control enhancement:

Received from Qwest	KPMG Testing
The written policy setting forth the control.	Read the new policy, noting that this policy indicated all time must be reported.
Contact information for the QC Senior Finance/Business Analyst responsible for requesting billing information.	Interviewed the QC Senior Finance/Business Analyst to verify that an e-mail was sent as of December 3, 2001 that included a reminder that all time must be reported.
E-mail sent to QC finance business function owners reminding them that all time must be reported.	Reviewed the e-mail confirming that it reiterated the policy that all time, no matter how minimal, must be reported.

Conclusion

Based on the testing performed, the control enhancement concerning the reminder that all time must be reported had been implemented as of December 3, 2001.

Schwartz No. 6 – Qwest is initiating additional training that will reinforce compliance with Section 272(b)(2) and Section 272(b)(5). ***(Related to all discrepancies in the KPMG Report)***

Description of Control

Qwest has implemented a control enhancement whereby additional training will be initiated that will reinforce compliance with Section 272(b)(2) and Section 272(b)(5).

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this control enhancement:

Received from Qwest	KPMG Testing
The BUAM Section 272 and Affiliate Transaction Refresher Training materials.	Reviewed the BUAM Section 272 and Affiliate Transaction Refresher Training materials. The training included references to requirements with respect to Section 272(b)(2) and Section 272 (b)(5).
Training schedule and target audience.	Reviewed the training schedule. Section 272 and Affiliate Transaction Refresher Training for BUAMs occurred on November 28, 2001.
Contact information for QC's Director of 272 Compliance to explain how requirements to attend the training were communicated.	Interviewed QC's Director of 272 Compliance who indicated that the QC Director of FCC Regulatory Accounting had sent an e-mail to all BUAMs requiring that they attend this mandatory training.
Acknowledgement forms completed by the BUAMs acknowledging that they understood the BUAM Section 272 and Affiliate Transaction Refresher Training that was presented.	Reviewed the acknowledgement forms and received e-mail confirmations from all of the BUAMs with Section 272 responsibilities. All BUAMs who either attended the training on November 28, 2001 or reviewed the training materials acknowledged that they understood the BUAM Section 272 and Affiliate Transaction Refresher Training materials.

Conclusion

Based on the testing performed, the control enhancement to initiate additional training to reinforce compliance with Section 272(b)(2) and Section 272 (b)(5) had been implemented as of December 3, 2001.

Brunsting No. 1 – QCC corrected all of the identified discrepancies by posting the transaction on the website and by billing or booking these transactions by November 15, 2001, with the exception that catch up billings for all discrepancies other than discrepancy H are being billed in November 2001 and a $9,000 adjustment Related to discrepancy C that is being booked in November 2001. ***(Related to all discrepancies in the KPMG Report)***

Description of Control

QCC has corrected all of the identified discrepancies by posting the transactions on the website and by billing or booking these transactions in November 2001.

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
Evidence (e.g., invoices, journal entries, posting summaries) that all postings, billings, and bookings that took place to correct the identified discrepancies that occurred.	Reviewed invoices, journal entries, and posting summaries which were made to correct the identified discrepancies. We considered the general ledger accounts to which the journal entries were posted and whether if parallel entries were made to each affiliates' books. Also, we evaluated if the journal entries booked were consistent with management's estimates in the KPMG Report. Lastly, the Qwest website was reviewed to determine if postings had occurred to correct the identified discrepancies.

Conclusion

Based on the testing performed, QCC has corrected all of the identified discrepancies by posting the transactions on the website and by billing or booking these transactions in November 2001.

Brunsting No. 2 – The Business Unit Affiliate Manager "BUAM" supervisor will review the calculation to ensure both a fully distributed cost "FDC" and fair market value "FMV" analysis has been completed. ***(Related to discrepancy C in the KPMG Report)***

Description of Control

The Qwest BOC has implemented a new control whereby the supervisor of the BUAM responsible for managing real estate services (space and furniture rental) provided to the Qwest 272 Affiliate must perform a review for each component of the service (e.g., each building) to ensure that a FMV study was conducted and compared to FDC for proper pricing of the service based on the FCC's affiliate transaction rules. Any task order without this support will not be processed by the BUAM.

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
The written policy setting forth the control.	Read the new policy, noting that it set forth the specific steps to be taken by the real estate services BUAM and the BUAM supervisor.
Signed statements from the real estate services BUAM and real estate services BUAM supervisor indicating their knowledge of the new control.	Read the signed statements, noting that the steps to be performed per the signed statement agreed to the new policy and that the real estate services BUAM and BUAM supervisor signed the statement.
Contact information for the real estate services BUAM and BUAM supervisor.	Interviewed the real estate services BUAM and BUAM supervisor to verify that they had been made aware of the new control by December 3, 2001 and that they had signed the statement.

Conclusion

Based on the testing performed, the control requiring the real estate services BUAM supervisor to review for FDC and FMV comparison had been implemented as of December 3, 2001.

Brunsting No. 3 – A 272 checklist is being established to track all new services provided by the Qwest 272 Affiliate to the Qwest BOC. The QSC Director of Corporate Accounting will have responsibility for monitoring the checklist to ensure all items are completed in a timely manner. ***(Related to discrepancy C in the KPMG Report)***

Description of Control

A new control has been implemented whereby a 272 checklist is being established to ensure that all necessary information required to process all new or amended services provided by the Qwest 272 Affiliate to the Qwest BOC. The QSC Director of Corporate Accounting will have responsibility for monitoring the checklist to ensure that all items are completed in a timely manner prior to signature.

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
The written policy setting forth the control	Read the new policy, noting that a checklist to ensure that the process establishing or amending a service is followed in a timely manner.
Contact information for the QSC Director of Corporate Accounting.	Interviewed the QSC Director of Corporate Accounting. The QSC Director of Corporate Accounting stated that he will be responsible for completing and monitoring the checklist for new task orders and amendments to existing task orders to ensure that all necessary information required to process task orders and amendments is completed in a timely manner prior to signature.
The new checklist established to track all new services provided by the Qwest 272 Affiliate to the Qwest BOC.	Reviewed the new checklist, noting the information required to be collected to complete the process of establishing a new or amended task order.

Conclusion

Based on the testing performed, the control described above had been implemented as of December 3, 2001.

Brunsting No. 4 – An FDC model that is compliant with the FCC's affiliate rules has now been developed and will be used for all the Qwest 272 Affiliate pricing. ***(Related to discrepancy D in the KPMG Report)***

Description of Control

The Qwest 272 Affiliate has implemented a newly developed FDC model to be used by the Qwest 272 Affiliate when pricing its services.

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
The written policy setting forth the control.	Read the new policy, noting it states that each of the nonregulated affiliates has its own FDC pricing model and also explains this process for using this model for pricing services.
The newly created model.	Reviewed the model noting it was designed to calculate FDC.
Training material sent to the user of the model.	Reviewed the training material sent to the users of the model, noting it stated FDC must be calculated using the affiliate's FDC model and provided references to identify the location of the updated MAT on the Qwest intranet website.
Contact information for QSC Director of Corporate Accounting.	Interviewed the QSC Director of Corporate Accounting noting that the model was created for developing FDC pricing for QCC services. Reviewed training material noting it discussed that each affiliate has its own FDC pricing model.

Conclusion

Based on the testing performed, the control that a new FDC model has been developed that meets the FCC requirements used by the Qwest 272 Affiliate had been implemented as of December 3, 2001.

Brunsting No. 5 – The controller of Qwest Network Construction Services ("QNCS") to inform the Qwest 272 Affiliate of any new or proposed transactions. ***(Related to discrepancy H in the KPMG Report)***

Description of Control

The Qwest 272 Affiliate has implemented a new control whereby the QNCS Controller will send telephone and/or email notification to the QSC Director of Corporate Accounting notifying them of any new or proposed service to be offered by the Qwest 272 Affiliate to the Qwest BOC.

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
The written policy setting forth the control.	Read the new policy, noting it states that the QNCS Controller to inform the QSC Director of Corporate Accounting of any potential QCC to QC transactions that come to the QNCS Controller's attention.
Contact information for the QSC Director of Corporate Accounting and the QNCS Controller.	Discussed the new policy with the QNCS Controller and the QSC Director of Corporate Accounting noting that they were both aware of the new control.

Conclusion

Based on the testing performed, the control that the QNCS Controller will inform the QSC Director of Corporate Accounting of new or proposed services had been implemented as of December 3, 2001.

Brunsting No. 6 – The Director-Corporate Accounting will request a review of the billing system quarterly to identify new transactions from QNCS. ***(Related to discrepancy H in the KPMG Report)***

Description of Control

The Qwest 272 Affiliate has implemented a new control whereby the QSC Director of Corporate Accounting will request on a quarterly basis that the QNCS Controller perform an inquiry of transactions in the billing system to identify new services from QNCS.

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
The written policy setting forth the control.	Read the new policy, noting that it states that the QSC Director of Corporate Accounting will send a formal request, on a quarterly basis, to the QNCS Controller to review the billing database in order to identify transactions for services from QNCS.
Contact information for the QSC Director of Corporate Accounting and the QNCS Controller.	Discussed the new policy with the QNCS Controller and the QSC Director of Corporate Accounting noting that they were both aware of the new control. Additionally, reviewed copies of screen prints from the billing system with the QSC Director of Corporate Accounting and the QNCS Controller noting that they were both familiar with the information required to fulfill this control.

Conclusion

Based on the testing performed, the control described above had been implemented as of December 3, 2001.

Brunsting No. 9 – Personnel changes were made and Company policy is being enforced and followed. This service is now being provided by a 3rd party vendor. ***(Related to discrepancy J in the KPMG Report)***

Description of Control

QCC has implemented a new control whereby audio conferencing services are now being provided by a third party vendor. Additionally, personnel changes were made and follow-up with employees will be conducted on a monthly basis.

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
The written policy setting forth the policy associated with a third party vendor will provide audio conferencing services.	Read the new policy which was communicated to Qwest employees through e-mail. Qwest employees received these e-mails on November 5, 19, and 28, 2001 stating that audio conferencing services should be changed from the Qwest 272 Affiliate to the third party provider by November 30, 2001. Additionally, the Chief Financial Officers (CFO) of all Qwest business units received an e-mail from the Qwest CFO and the Qwest Controller on December 3, 2001 stating that it is the responsibility of each CFO to ensure compliance with regulatory requirements within the business units.
The contract with the third party vendor supplying Qwest with audio conferencing services and associated invoice from the third party vendor to Qwest for the performance of services.	Reviewed the contract with the third party vendor which states that that they will provide audio conferencing services to Qwest. The effective date of the contract is July 23, 2001 and the contract expires August 31, 2002. Additionally, the November 30, 2001, third party invoice was reviewed that showed that audio conferencing services were billed to Qwest by the third party vendor.
Contact information for QC's Director of FCC Regulatory Accounting regarding the personnel changes that were made.	Interviewed QC's Director of FCC Regulatory Accounting regarding the personnel changes that were made. The employee who was responsible for the processing of the bill and ensuring that it was recorded was relieved of her duties prior to December 3, 2001.

Received from Qwest	KPMG Testing
Contact information for the Director of Purchasing-Procurement, Lead Finance/Business Analyst-Procurement, and Senior Director – Customer Financial Services to determine how compliance with the new policy will be monitored.	Qwest management represented that they will review all audio conferencing activity beginning November 30, 2001 on a monthly basis. Qwest management will follow-up with employees that fail to use the third party vendor and reinforce that Qwest policy must be followed.

Conclusion

Based on the testing performed, personnel changes were made, a third party vendor has been contracted to provide audio conferencing services, and a control requiring employee follow-up had been implemented as of December 3, 2001.

Bruasting No. 10 – A manual process was implemented to identify all circuits and rates being used for Official Communication Services ("OCS"). In order to ensure that accurate billings are processed on a timely basis, this information has been entered into a database which will feed the monthly billing system. ***(Related to discrepancy K in the KPMG Report)***

Description of Control

QCC has implemented a new control whereby private line circuits (and associated rates) used for OCS will be identified manually to ensure timely collection of the data for billing purposes.

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
The new policy setting forth the requirement that all private line services from QCC to QC must be compliant with Section 271 and 272 rules.	Reviewed the policy that was verbally communicated to Qwest vice presidents in the finance, network, and facilities cost business functions prior to December 3, 2001 and reviewed the e-mail sent by the Executive Director Federal Regulatory Strategy on December 5, 2001 reminding management that all private line services from QCC to QC must be compliant with Section 271 and 272 rules. This e-mail was sent to Qwest vice presidents in the finance, network, and facilities cost business functions which are responsible for providing and accounting for private line services to Qwest affiliates.
Documentation for the process flow of the manual process to identify all circuits and rates used for OCS and how the new database will be populated and data fed into the billing system.	Reviewed the process flow documentation for the manual process that has been developed. Discussed it with the QC Director of FCC Regulatory Accounting, Internal Communications-Contractor, and Senior Director-Customer Financial Services noting it was the process used to identify all circuits and rates uses for OCS.
Contact information in order to interview for the QC Director of FCC Regulatory Accounting and Internal Communications-Contractor.	Interviewed the QC Director of FCC Regulatory Accounting and Internal Communications-Contractor noting that they were aware of the process used to identify all circuits and rates uses for OCS.
Contact information the Senior Director – Customer Financial Services.	Interviewed the Senior Director – Customer Financial Services regarding the billing of circuits manually identified. We noted that a process has been developed to load circuit and rate information received from the Internal Communications – Contractor into the QCC billing system in order to bill QC.

Conclusion

Based on the testing performed, the control requiring a manual process was implemented to identify all circuits and rates being used for OCS. Also, to ensure that billings are processed on a timely basis, this information has been entered into a database which will feed the monthly billing system. This control was implemented as of December 3, 2001.

[illegible] No. 11 – A Section 272 checklist is being established to track all new services provided by the Qwest 272 Affiliate to the Qwest BOC. The Director-Corporate Accounting QSC will have responsibility for monitoring the checklist to ensure all items are completed in a timely manner. ***(Related to discrepancy L in the KPMG Report)***

Description of Control

A new control has been implemented whereby a 272 checklist is being established to ensure that all necessary information is collected that is required to process all new or amended task orders provided by the Qwest 272 Affiliate to the Qwest BOC. The QSC Director of Corporate Accounting will have responsibility for monitoring the checklist to ensure that all items are completed in a timely manner prior to signature.

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
The written policy setting forth the control	Read the new policy, noting that a checklist to ensure that the process establishing or amending a service is followed in a timely manner.
Contact information for the QSC Director of Corporate Accounting.	Interviewed the QSC Director of Corporate Accounting. The QSC Director of Corporate Accounting stated that he will be responsible for completing and monitoring the checklist for new task orders and amendments to existing task orders to ensure that all necessary information required to process task orders and amendments is completed in a timely manner prior to signature.
The new checklist established to track all new services provided by the Qwest 272 Affiliate to the Qwest BOC.	Reviewed the new checklist, noting the information required to be collected to complete the process of establishing a new or amended task order.

Conclusion

Based on the testing performed, the control described above had been implemented as of December 3, 2001.

[illegible] No. 12 – Both entities will deploy additional training to all involved organizations and employees. *(Related to all discrepancies in the KPMG Report)*

Description of Control

Qwest is initiating additional training to reinforce compliance with Section 272(b)(2) and Section 272(b)(5).

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
The training plan to reinforce compliance requirements with Section 272(b)(2) and Section 272(b)(5).	Reviewed the training plan for Section 272 Reinforcement and Supplemental Training noting that the materials provided guidance regarding Section 272(b)(2), 272 (b)(5), and 272(c)(2) requirements. The materials indicate that training will be delivered through the Qwest 272 website and an acknowledgement form will be required from each employee who has been targeted for the training. Additionally, the employee will have one week after receiving the e-mail to review the training materials and to sign the acknowledgement form.
Contact information for QCC's Director of 272 Business Development who was responsible for developing the Qwest training plan to reinforce compliance requirements with Section 272(b)(2) and Section 272(b)(5).	Interviewed QCC's Director of 272 Business Development regarding when the plan was developed and the targeted audience for the training noting that the plan was developed prior to December 3, 2001. The targeted audience for the training will be QCC, QC, and QSC management employees. The proposed schedule is to complete the training by the end of January 2002.

Conclusion

Based on the testing performed, additional training to reinforce compliance with Section 272(b)(2) and Section 272(b)(5) had been implemented as of December 3, 2001.

In addition to the controls implemented above, Qwest management requested that KPMG review the following [illegible] control that was not part of the Schwartz and Brunsting affidavits:

KPMG Report Discrepancy G – Data entry services regarding out-of-region long-distance orders were provided but not accounted for, billed (including interest charges) or reduced to writing during the examination period.

Description of Control

The Qwest BOC initiated additional training to reinforce compliance with Section 272(b)(2) and Section 272(b)(5).

KPMG Testing

KPMG received from Qwest the following documentation and performed the following tests regarding this new control:

Received from Qwest	KPMG Testing
The written policy setting forth the control.	Read the new policy, noting that this policy indicated all time must be reported.
The BUAM Section 272 and Affiliate Transaction Refresher Training materials.	Reviewed the BUAM Section 272 and Affiliate Transaction Refresher Training materials. The training included references to requirements with respect to Section 272(b)(2) and Section 272 (b)(5).
E-mail communication to the Business Unit CFOs.	Reviewed the e-mail dated December 3, 2001 to Business Unit CFOs noting it stated the emphasis on compliance with Section 272 regulatory rules.

Conclusion

Based on the testing performed, additional training to reinforce compliance with Section 272(b)(2) and Section 272 (b)(5) had been implemented as of December 3, 2001.

SUMMARY CONCLUSION

In summary, based on the testing performed above, it is my opinion that the Qwest BOC and the Qwest 272 Affiliate have implemented the new controls and control enhancements that were scheduled for implementation by December 3, 2001, as stipulated in the Affidavits. All systems of internal control, no matter how well designed and operated, are inherently limited, such as control breakdowns caused by human judgment in decision making, human errors or mistakes, management override and fraud. While no internal control system can guarantee that all control objectives are achieved, the new controls and control enhancements (discussed above) implemented by Qwest appear to strengthen the overall control environment with respect to Section 272 compliance and should minimize the types of findings presented in the KPMG Report.

This concludes my declaration.

I declare under penalty of perjury that the foregoing is true and accurate to the best of my knowledge and belief.

Executed this 14th day of December 2001.

Philip J. Jacobsen

SUBSCRIBED AND SWORN before me this 14th day of December 2001.

Notary Public

My Commission Expires:

ride the light

Qwest.

Code of Conduct

06-30-00

[illegible] does not represent an employment contract and [illegible] Qwest and employee. Unless covered [illegible] with Qwest is at-will, which [illegible] employee may terminate the relationship at [illegible]

[illegible]

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 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.

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.

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.

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 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.

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.

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

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.

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.

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.

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.

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).

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 (1-800-654-2525 or 1-866-UNICALL). 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.

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 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.

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 information obtained.

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.

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.

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.

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.

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.

"Information" is a very broad term that includes written documents, e-mails and technical data, among other things, along with the ideas, plans and processes that Qwest uses in its business every day. You must take measures to properly categorize all Qwest information that is not intended to be available to the public.

Qwest puts information in certain categories so that it can be used for specific business purposes. Information that is classified as Internal or Confidential must be used for Qwest business only, and must not be discussed or disclosed to people outside of the company, including family, without proper authorization.

Information that comes to Qwest from customers, suppliers and competitors as part of its business should be treated as Confidential. Make sure that you understand and comply with the special rules that apply to Qwest regarding customer proprietary network information. Failure to do so may break the law, and could break promises made by Qwest to safeguard the information that others make available to Qwest as part of Qwest's business relationships. It can also cause Qwest to lose certain rights to intellectual property.

You must safeguard non-public information, whether it is categorized as Internal or Confidential, by keeping it secure, limiting access to those who have a need to know, and avoiding discussion of non-public information in public areas. Because non-public information about Qwest does not belong to you, it cannot be used for your personal gain.

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.

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

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.

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.

— Access customer accounts, records and reports only for authorized business purposes.

— 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.

— 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.

— 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, unethical or deceptive activities to obtain business. You must accurately represent Qwest products and services. You must not order Qwest products and services on behalf of a customer without that customer's authorization.

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

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.

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 Corporate Compliance.

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.

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 to 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.

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.

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.

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

These requirements cover:

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

All employees are responsible for knowing the Qwest affiliate company they work for, and understanding any restrictions that may exist for dealing with employees of other Qwest affiliate companies.

Under Section 272 of the Telecommunications Act, Qwest Corp., or the Bell Operating Company, and Qwest Communications Corp., the long distance provider and designated 272 affiliate, must maintain separate employees, conduct business with each other at arm's length and post transactions to the Internet. There are other restrictions that apply to the interaction between Qwest Corp. and Qwest Communications Corp., including prohibitions on certain network-related services that Qwest Communications Corp. may provide to Qwest Corp., or that any Qwest affiliate may provide to Qwest Communications Corp.

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

Contact Policy and Law or Regulatory Accounting for questions regarding the relationships or business dealing between Qwest affiliates.

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.

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.

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.

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.

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 303-896-0126

Procurement 303-992-2470

Records Management 303-458-2239

Regulatory Accounting 303-896-5997

Security 1-888-879-7328

UNIcall (Reporting claims and EHS assistance) 1-800-654-2525

. . . . or 1-866-UNICALL

CONTINUATION

[2]

Scan ~ ~ # Pgs [ ]

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

1801 California Street
Denver, CO 80202

BEFORE THE NEBRASKA PUBLIC SERVICE COMMISSION

In the Matter of Qwest Corporation, Denver, Colorado, seeking approval of its revised Statement of Generally Available Terms (SGAT) pursuant to Section 252(f) of the 1996 Telecommunications Act.	Application No. C-1830 C-2537

Held on July 9, 2001, at the Nebraska Public Service Commission, 300 The Atrium, 1200 "N" Street, Lincoln, Nebraska, commencing at 9:34 a.m.

A P P E A R A N C E S

Commissioners: MR. FRANK LANDIS
MS. ANNE BOYLE
MR. LOWELL JOHNSON
MR. ROD JOHNSON

For the Commission: MR. CHRIS A. POST
Legal Counsel
300 The Atrium
1200 "N" Street
P.O. Box 94927
Lincoln, NE 68509

For Qwest: MR. CHUCK STEESE and

MS. JILL VINJAMURI
Attorney at Law
1650 Farnam Street
Omaha, NE 68102-2186

For AT&T: MR. RICHARD WOLTERS
Senior Attorney
Suite 1524
Western Region
1875 Lawrence Street
Denver, CO 80202

For Cox Nebraska Telecom: MR. JON C. BRUNING
Legal Counsel
1079 North 204th Avenue
Elkhorn, NE 68022

C E R T I F I C A T E

I, Julie A. Pell, Certified Shorthand Reporter, do hereby certify that the within and following complete transcript contains all the evidence requested to be transcribed by me, and the rulings of the commission thereon, from the proceedings had in or at the hearing of the foregoing cause in said court; and that said complete transcript is a correct and complete transcription of the evidence requested to be transcribed from the record made at the time of said proceedings or trial.

Dated this 19th day of July, 2001.

JULIE A. SCHNEIDER-PELL
Certified Shorthand Reporter
General Notary Public

MS. SCHWARTZ: Okay. This next slide is actually one of the most important slides in my presentation today, and that talks about our history of Section 272 compliance, the significant events or milestones for us.

The first bullet point, Qwest Long Distance, our old 272, has been processes in place to be 272 compliant from the beginning. So from 1996, from the release of the Telecommunications Act to today, we have had a compliant Section 272 affiliate. And that's very important to remember.

The next significant milestone was when this commission found Qwest Long Distance to be compliant in the 1998, 1999 time frame. The next significant event for us last year was, of course, the Qwest, US WEST merger.

And that merger triggered a decision for us to designate a new 272 affiliate, which is the next bullet here, the transition to our new Section 272 affiliate, QCC, which we talked about earlier. And that transition took place in the first three months of this year. And we'll talk more about that.

And that finally then brings us to today. We have all processes in place to make QCC a compliant Section 272 subsidiary. So once again, Qwest Corporation, formerly US WEST Communications, has consistently had a compliant 272 subsidiary since the release of the act. And that's very important.

So a little bit more detail about Qwest Long Distance, again, formerly US WEST Long Distance. It was our first Section 272 affiliate. We plan to operate QLD primarily as a long distance reseller.

Again, it's been compliant from 1996 to today. And we do plan to dissolve it sometime in the second or third quarter of this year. Qwest Long Distance establishes a five-year history of 272 compliance for Qwest Corporation. And, again, the Nebraska Public Service Commission found QLD to be compliant in 1999.

What were the impacts of the Qwest merger transition? As everyone in this room, I think, is aware, this merger had significant impacts on all operational areas of our business. Excuse me.

It was a merger between two very different multi-national companies. One was a local service provider, the other a long distance company. It required the integration of unregulated corporate culture to regulated culture, and it triggered a decision in the third quarter of last year to reassess what company would be our designated 272 affiliate. And then it also created some one-time disruptions in our accounting controls.

We realized that a merger of this size would trigger some one-time mistakes, and we were ready to address those with strengthened controls. We made corrections immediately, as soon as they were known.

The merger resulted in strategic changes, employee realignments and other operational changes that we had to execute in compliance with all relevant regulation. And Ms. Brunsting will talk about these transition activities in a little bit more detail.

Finally, the impacts of the Section 272 transition. The -- again, the merger resulted in a decision to move to a new 272 affiliate. QCC was identified in January of this year to be our new 272 sub. It will operate primarily as a facility -- facilities-based provider versus a reseller like Qwest Long Distance.

We had to take the 272 controls that we had in place for Qwest Long Distance and overlay those onto -- or, excuse me, to QCC. And in addition, we strengthened the existing 272 controls we had in place and, finally, turned up QCC as our one Section 272 affiliate on March 26th of this year.

And that coincided with the unveiling of the 272 web site for QCC. And as I understand it, [illegible] spent a great deal of time in 1998 talking about the 272 web site.

Congress gave the BOCs one year to make these 272 affiliates compliant. We made QCC compliance ready in three months, all while maintaining QLD as our compliant 272 subsidiary.

So now that we understand the merger conditions and also how the Section 272 transition have impacted us and created some one-time hiccups in our processes, let's talk about the critical 272 requirements.

AT&T was the only party to file comments on our direct testimony regarding our ability to comply with Section 272. And they raised concerns in the following areas: 272(a), the separate affiliate requirement; 272(b), the structural and transactional requirements; 272(c), the nondiscrimination safeguards; 272(e), the fulfillment of certain requests; and then finally, 272(g), the joint marketing provisions.

We're prepared to offer even more evidence in this proceeding to show the existence and processes and controls that ensure compliance in each of these areas.

272(a), separate affiliate. QC, the BOC, can only offer interLATA long distance service through a separate affiliate. We talked about that earlier. We satisfy this requirement by establishing QCC as our 272 affiliate. They're separate affiliates of QSC, which we saw earlier in the chart.

And QC does not own stock in QCC, the 272, nor does the 272 own any stock in the BOC. We've satisfied the FCC's prima facie test in previous approval orders for establishing a separate affiliate, and AT&T concurred with this in their testimony.

272(b), the structural and transactional requirements. This section creates the separation between the BOC and the 272. And it assures that the BOC and the 272 are operating independently and QCC is not receiving any preferential treatment that would give them unfair advantage in the market.

We can demonstrate compliance readiness in the five key provisions designed to ensure separateness: That we operate independently; that we have separate books, records and accounts; that we have separate officers, directors and employees; that creditors of the QCC may not have recourse to the assets of the BOC, and they don't; and that all of our transactions are at arms length, reduced to writing and posted on the internet.

(b)(1), operate independently. QC, the BOC, and QCC, the 272, cannot and do not jointly own any network facilities or the land or buildings on which those facilities are placed. There can be no transfer of any network facilities between the two companies, and there haven't been.

There can be no operation, installation or maintenance, or OINM, on the BOC's facilities by the 272. nor can there be OINM performed on the 272's facilities by QC or any other Qwest affiliate. Excuse me.

Finally, QC cannot provide discriminatory access to network service. We satisfy the operate independently requirement by monitoring asset transfers and through the extensive training of our network leaders and personnel.

QC does not perform OINM for QCC and vice versa. And AT&T did not -- excuse me -- dispute our compliance with (b)(1) in their testimony.

Section 272(b)(2), separate books, records and accounts. QCC, the 272, must maintain books, records and accounts that are separate from the books, records and accounts of QC, the BOC.

The BOC uses separate financial systems, controls and edits. And we have our separate general ledger system that is also maintained at a separate location. QC, the BOC, has a separate chart of accounts from QCC, the 272. And QC, the BOC, of course, follows USOA.

AT&T contests our compliance with 272(b), but agrees that we have a separate chart of accounts and understands that we have separate software maintained at separate locations, so their concerns are unfounded.

We have sufficient processes in place to maintain separate books, records and accounts. And we satisfy the FCC's tests from previous 271 approval orders.

In terms of additional 272 requirements, compliance with GAAP and accrual accounting. This is another area that AT&T has raised issues.

All publicly traded companies are required to follow GAAP, as are we. The parent and -- excuse me -- the QC undergo regular financial audits. QC, the BOC, starts with GAAP and overlays additional FCC and state requirements.

And as you know, GAAP uses materiality tests in assessing compliance. And this is actually where I would go to our second exhibit, but we don't have copies ready here today, Mr. Steese? I don't believe yet.

MR. STEESE: They should be here any moment.

MS. SCHWARTZ: Okay. Okay.

MR. STEESE: And once they are, I'll distribute those.

MS. SCHWARTZ: Okay. Great. Excuse me. So AT&T maintains that it's inappropriate to use materiality with regard to GAAP; however, the FCC has recognized the use of materiality in GAAP in Part 32, under 32.26.

All Qwest companies follow GAAP. And dozens of professional accountants are employed by the company to ensure that GAAP is followed. We've got an unqualified audit opinion from our auditors. And that will be presented as an exhibit here today. Excuse me.

272(b)(3), separate officers, directors and employees. QC, the BOC, and QCC, the 272, must have separate officers, directors and employees. QC employees who perform functions supporting QCC are required to report their time so that the 272 can be billed appropriately under FCC pricing rules.

AT&T contested our compliance with (b)(3) due to some pretransition reporting structures and our loaned employee practices, but in the -- I believe it was the seven-state workshop, we voluntarily modified our loaned employee policies, which Ms. Brunsting will talk about further, to -- excuse me. I'm losing my voice this afternoon -- to limit the duration to four months.

So we will not -- so as I mentioned, we voluntarily changed our loaned employee policy to limit the duration to four months. And that was found to be acceptable by AT&T.

Again, we've satisfied the FCC's test in the New York and Texas orders for compliance with separate officers, directors and employees by making our officers list public, which we did in our testimony -- in my testimony and the testimony of Ms. Brunsting. And that will be provided as an Exhibit Number 3 here today. And then by also comparing payroll registers to ensure that no employee appears on the payroll registers of the BOC and the 272 simultaneously. And, finally, by having strict employee transfer and hiring policies, which Ms. Brunsting will talk about in more detail in her direct testimony.

MS. SCHWARTZ: That's correct.

272(b)(4), I'll just touch on briefly, requires that creditors of the 272 may not have recourse to the assets of the BOC. And they do no not.

We've satisfied the no recourse requirement of Section 272 by reviewing all of our debt agreements and through the training efforts that we've undertaken. And AT&T did not dispute our -- our assertion of compliance with 272(b)(4) in their testimony.

272(b)(5) is perhaps the most contentious, if you will, area of Section 272. And that requires that transactions be at arms length, reduced to writing and posted on the internet. And they are.

All transactions between the BOC and the 272 must be reduced to writing. And we document those transactions by tariff, by stand-alone agreement or by service agreements.

All transactions between the two companies must be posted to the internet within ten days, and they are. Rates terms and conditions of every transaction must be publicly available to assure the accounting safeguards are maintained and to make them available to third parties just as we've just talked about.

And all transactions are reviewed by the Section 272 compliance oversight team, of which I am a member. And we fashion that team after FCC -- or, excuse me, SBC's compliance committee.

We satisfy the requirements of 272(b)(5) by documenting all of our transactions. We conduct them subject to the part 32.27 affiliate pricing ruling. And we post them to the internet within ten days.

We also reconcile or transactions to the CAM, the CAM audit spreadsheets, and to the ARMIS reports that are filed with the FCC. And that's also consistent with the FCC's test for 272(b)(5) compliance that -- that have appeared in previous approval orders such as Bell Atlantic-New York and Texas.

And this is -- excuse me, this is the point where I would be sharing Exhibits Numbered 4 and 5 that show that we have posted our transactions for both QCC and QLD within ten days.

272(b)(5), the ten-day posting requirement, a little bit more detail about that. AT&T maintains that we should have posted transactions with QCC, the new Section 272 affiliate, before it was named the 272 affiliate in January of 2001.

So they maintain in their testimony and in oral arguments that even though we've designated the 272 affiliate here, it wasn't known until this point that we should have actually been posting in this time frame.

Once we did designate QCC as the 272 affiliate in the first quarter, we did go back and retroactively post any activity that took place since the merger, but as you can see, it would have been impossible to be posting any 272 transaction prior to actually naming QCC as the 272 subsidiary.

It's also important to note that AT&T ignores the need for a transition period to make a

272 affiliate compliant. You know, once we named QCC the 272 affiliate here, we couldn't actually impose the processes that would make it compliant until after -- until we actually designated it. And it took us three months to do that. And as I mentioned earlier, the FCC gave all the BOCs, in the Telecommunications Act, one year.

We've always met the ten-day requirement for QLD. And this commission agreed with that assertion in the 1999 time frame. We've continued to meet the ten-day requirement for QCC, our new 272 subsidiary, since we turned up the new web site on March 26th of this year. And, again, we'll provide some exhibits that provide some more detail about the -- what's actually available on the web site.

More about the 272(b)(5) requirements. Sufficiency of posting detail. This is very important. In Bell Atlantic-New York, the FCC rejected AT&T's assertion that Bell Atlantic's internet postings did not contain sufficient detail to show that Bell Atlantic would comply with Section 272(b)(5). And this can be found in paragraph 413.

The FCC concluded that the following must be included in internet postings, and we comply with this. The number and type of personnel assigned to the project, the level of expertise of such personnel, special equipment used to provide the service, and the length of time required to complete the transaction.

AT&T has maintained that Qwest should post actual transaction volume, for example, how many employees actually purchased a human resource service that might be available on the internet. The FCC concluded that volume does not matter or is not required in internet postings. And we can see that in the SBC Texas order.

We satisfied the FCC's definition of sufficiency when we post our transactions to the internet. And, again, we'll provide some exhibits in this proceeding that will allow you to actually observe that sufficiency.

Docket No TC01-165
Qwest Corporation
Exhibits of Marie E. Schwartz
Exhibit MES-272-25
April 2, 2002

MS. SCHWARTZ: Thank you. In terms of our performance in 272(b)(5) and how we're posting transactions to the internet and are we posting actually from -- accurately, we've been monitoring this is on monthly basis. We reconcile both our accruals and also the billing information that Mr. Steese just asked me about.

The first opportunity that we had to actually monitor and analyze accounting data for QCC, our new 272 subsidiary, was actually in the -- in the last month. So we identified the transactions in the January and February time frame. We -- we then reduced those to writing.

We posted those on the new internet site which we turned up on March 26th, and then prepared bills and so forth to -- to issue associated with those services. So the first month that we had an opportunity to analyze real accounting data was in March.

And we found that we had a discrepancy rate between what we had on the internet and what we actually billed of 12 percent. We corrected those discrepancies in the following month, in April.

When we analyzed our April data, we had a discrepancy rate of less than one percent. When we monitored our May data, we had a discrepancy rate of less than one percent. So we are now showing that we have a sustained level of improvement in our discrepancy level and that we are prepared to continually update the record in these proceedings to ensure that that sustained performance is -- is maintained.

So as I mentioned, we reconcile all of our -- our billing and accrual information on a monthly basis. And we adjust for any discrepancies in the month following those -- those discrepancies.

We did expect issues in the first month of processing. And as I mentioned, we've eliminated virtually all of our discrepancies in the third and fourth months. And it's important to note, I think, that the discrepancies that AT&T lists in their testimony were actually found by our controls.

We provided them with an analysis that said, here are the differences between what we've posted and what we have on the Internet. So we were on top of those and were prepared to make those corrections.

A very important piece of guidance that the FCC gave us on Section 271(d)(6) can be found in the Texas order. And that says that BOCs must demonstrate that they have internal control mechanisms reasonably designed to prevent as well as detect and correct any noncompliance with 272. And that can be found in photograph 398.

And we believe that we have demonstrated that we have the appropriate internal controls to demonstrate the compliance to satisfy both the FCC and the state of Nebraska.

MR. STEESE: Ms. Schwartz, before you continue, let me ask one or two questions here as well. In January I think you said we identified QCC as our new 272 or to be our new 272 affiliate; is that correct?

MS. SCHWARTZ: That's correct.

MR. STEESE: And then over the next couple of months you said, we went about identifying all transactions that existed between QCC, the new 272 affiliate, and QC, the Bell Operating Company; correct?

MS. SCHWARTZ: I believe that's what I said, yes. That's correct.

MR. STEESE: I know Ms. Brunsting will get into this in some detail, but since you mentioned it, can you just briefly describe what steps Qwest went through to identify those transactions and then how they were posted or -- and why they were posted in March on the internet?

MS. SCHWARTZ: Yes. And I'd like to add a clarification to my statement, Mr. Steese, that we had -- we had identified transactions, of course, through the affiliate transaction rules between QCC and the BOC in the post merger time frame. And that was a time frame, you know, frankly, full of a lot of turmoil at the corporation as we went through those strategic changes.

But we were not comfortable that we had captured all of them. So we went through another wave and actually hired Arthur Andersen as loaned staff. We brought in additional accounting professionals to come in and help us conduct over a 150 interviews with leaders in the business to ensure that we had captured all of the transactions.

So, you know, we felt that it was -- it was very important that we get our arms around this. And so we actually went through two waves to ensure ourselves that we had captured all of the services associated with QCC.

Once those services were identified, then, we went through the normal -- the internal processes that we have to document our affiliate transactions and created a separate web site for GCC and posted those transactions to the web site and then began our monthly -- our monthly reconciliation process to ensure that the information on the internet actually agreed to the agreements, the written agreements that were formulated between the two companies.

MR. WOLTERS: Okay. Now, I believe you said you -- I'll call it a policy, instituted a new policy where you would not loan employees between the BOC and QCC for more than a four-month period at any one time; is that correct?

MS. SCHWARTZ: That's correct.

MR. WOLTERS: And I believe you said -- well, let me back up. The present loaning of employees, is that covered under the existing agreement posted to the web site.

MS. SCHWARTZ: Yes, it is.

MR. WOLTERS: Now, under your new policy, will you post those -- the loaning of those employees independently of the existing agreements?

MS. SCHWARTZ: To the extent that a new service were offered that were not -- that was not covered under a previous or existing task order or work order on the internet, yes, there would be a new posting.

MR. WOLTERS: But to the extent it's covered by an existing task order or agreement, it was not your testimony to institute a policy to post those specific employee loan arrangements?

MS. SCHWARTZ: Could you clarify your question, please, Mr. Wolters?

MR. WOLTERS: Okay. I think right now what you've said is that the existing loaning of employees is being done under existing contracts?

MS. SCHWARTZ: Any -- any employees that were loaned, per se, historically or today -- and I would have to verify whether or not that is in existence -- are covered -- are posted on the internet. So, for instance, there was some interim services that we talked about earlier. Those are all posted.

MR. WOLTERS: But --

MS. SCHWARTZ: So any -- any -- any service at all that we provide to the 272 or the 272 provides to us has been documented and is on the internet to the extent that -- that we have that information.

MR. WOLTERS: But I'm getting to the specific, we'll call it, transaction of Employee A. You loan Employee A from the BOC to QCC. Are you going to post that transaction, we'll call it?

MS. SCHWARTZ: You mean, for instance, if the employee's name was Joe Smith?

MR. WOLTERS: Right.

MS. SCHWARTZ: Would I post Joe Smith? No. I -- we would speak to his level of expertise, his or her level of expertise, how long that particular employee was going to be loaned, for instance. And we know that that that's a period not to exceed four months now. What the rate would be and so forth.

So to the extent that AT&T or any other carrier wanted to purchase that level of expertise at that price, they would be able to do that. But to the extent that Sally Smith are being loaned and Joe Smith and so forth, we're not going to post each of those individual transactions, as we discussed earlier.

MR. WOLTERS: Okay. You're just going to post the task order that says you may loan employees under these rates, terms and conditions?

MS. SCHWARTZ: That's correct.

MR. WOLTERS: Okay. Let's go back to the hypothetical Mr. Steese used about payroll services. I believe he -- you basically said that if you had -- were going to use payroll services, you'd just post it once, but you wouldn't post the billing every month on the amount of the payroll services that were used that month; correct?

MS. SCHWARTZ: We would be posting the amount -- the amount of payroll services used that month to the extent that was reflected in the rate. Because every single month we go through and we reconcile the rate that we have on the internet with the rate that is actually billed to make sure that they are the same at all times.

So to the extent that amount equals rate so that third parties can avail themselves of the same service at that rate, yes, it would be posted.

MR. WOLTERS: I'm confused now 'cause I understood that you would not post the amount of payroll services consumed on a monthly basis to the internet.

MS. SCHWARTZ: The -- the volume is -- would that be a clarification of your --

MR. WOLTERS: Well, I don't want to get stuck with the word "volume." I want to get down to the amount of services. If, during this particular month, you used 500 hours of payroll services, you would not post the price and the amount of hours on a monthly basis; correct?

MS. SCHWARTZ: The price would be posted and the 500 hours, which the FCC has specifically referred to as volume in SBC Texas, which would be protected under confidential agreement and not required to be posted, correct, would not be posted. And that has been referred to as volume.

MR. WOLTERS: Okay. But Qwest -- and US WEST used to post that information to its web site; would that --

MS. SCHWARTZ: That's correct.

MR. WOLTERS: And then when SBC came out, you decided to no longer post it?

MS. SCHWARTZ: It became clear that the FCC did not require and actually -- actually honored the RBOCs -- the confidential nature of volume information and did not -- specifically did not require it to be posted, but we are making it available under confidential agreement.

MR. WOLTERS: So it's you're -- what you've done is you basically looked at what you were doing in the past. And when SBC came out, you said -- Qwest basically said, well, we're not going to do what we did in the past because we don't think we have to, so we're just going to only post from now on the contracts and the tasks and the work orders?

MS. SCHWARTZ: I would say that to the extent that any approval orders come out, and there have been five, we continue to benchmark ourselves in every aspect of 272 to ensure that our processes and procedures are consistent with the processes and procedures of other companies who have been found to be compliant.

COMMISSIONER LANDIS: May I --

MR. WOLTERS: So what you've done is basically said, we're going to do the minimal amount we have to do to comply with 272?

MS. SCHWARTZ: I wouldn't characterize it that way.

MR. WOLTERS: What's "benchmarking" mean?

COMMISSIONER LANDIS: Let me jump in with a question here, if I might, while it's still on my mind. If AT&T asked for that specific information, even though you don't post it to the web site, you would make it available to them under a confidentiality agreement?

MS. SCHWARTZ: That's right. That's correct, Mr. Landis.

COMMISSIONER LANDIS: Is that true of any other IXE out there?

MS. SCHWARTZ: That's correct.

COMMISSIONER LANDIS: If it requests that information with that degree of specificity, you would provide it?

MS. SCHWARTZ: That is correct.

COMMISSIONER LANDIS: That's your testimony?

MS. SCHWARTZ: That is correct.

COMMISSIONER LANDIS: Okay. I wanted get that -- the question occurred to me. I'm not --

MR. WOLTERS: That's fine.

MR. POST: And, Ms. Schwartz, just one follow-up on that. Earlier during oral argument, I this came up. That would be true post-271 approval as well?

MS. SCHWARTZ: That's correct.

MR. WOLTERS: I have no more questions.

MS. SCHWARTZ: That's -- that's correct. Exhibit Number 4, we appear to be missing the bottom of the exhibit which shows -- I believe it -- yeah. I believe we're missing the bottom. Anyway, I can kind of walk through this.

Basically, this is the history of posting for Qwest Long Distance for, you know, basically that entire time period. All of the transactions and amendments that were posted to the internet with regard to Qwest Long Distance, were they posted within the ten-day posting period?

And as I indicated earlier, I believe that this exhibit comes down to an average posting time of I want to say 5.2 days or something to that effect. It's -- I'm certain it's less than six days. So that's Exhibit Number 4.

Number 5 is the same type of document for Qwest Communications Corporation describing all of the work orders and task orders that were posted to internet, whether or not they've been posted within ten days. And so all of the transactions, you know, basically excluding all of the catch-up transactions and the transactions that we turned up on March 26th. Everything since March 26th has been posted in an average of 4.7 days.

MR. STEESE: Is it acceptable if I stand for one moment and point to this?

COMMISSIONER LANDIS: Yes.

MR. STEESE: I want to talk about that very issue for just one moment, focusing on Exhibit Number 5. If you look in the far right-hand column, there's a column called "Signed to Post Days"; correct?

MS. SCHWARTZ: That's correct.

MR. STEESE: And that shows the number of days from when the transaction was signed to when it was physically posted on the internet; correct?

MS. SCHWARTZ: That's correct.

MR. STEESE: And if you go down that column, there are a number of transactions that have numerical days there; correct?

MS. SCHWARTZ: That's correct.

MR. STEESE: And that would signify any transaction that postdated March 26th of this year transaction between QC and QCC; correct?

MS. SCHWARTZ: That's correct.

MR. STEESE: However, if you look during this transition where we've identified QCC as our 272 affiliate until the point where we actually got our web site up and running about two and a half months later, three months later, somewhere in there, and in -- during that period of time we identified the transactions and then turned up the web site all at one time with all known transactions already posted; correct?

MS. SCHWARTZ: That's correct.

MR. STEESE: And in that particular case, we don't include that in the average posting days; correct?

MS. SCHWARTZ: That's correct.

MR. STEESE: And the reason is because it would be physically impossible to identify all the transactions, create the web site, et cetera, all within ten days from identification of the QCC 272 affiliate; right?

MS. SCHWARTZ: I believe it would be impossible, and I also don't believe it would be a meaningful number.

MR. STEESE: And then in addition, we didn't only post going back to January 1 of this year, we actually went all the way back to the merger dates to post all transactions between QC and QCC; correct?

MS. SCHWARTZ: That's correct. We were very -- if I could expand, Mr. Steese. We were very conservative in our application of 272 onto QCC. We wanted to ensure that we gave -- basically we gave an appearance of conservation.

We weren't -- we didn't have anything to hide from the merger date to the time that we designated the 272. We went back to the merger date. We identified all those transactions, and we posted them and made them public onto the internet.

MR. STEESE: And one of the reasons we

did this was to give not only interexchange carriers like AT&T, but the commission an indication that we didn't do things we should not have in an effort -- let me put it a different way.

We didn't delay identification of our 272 affiliate so we could do some improper things in advance; correct?

MS. SCHWARTZ: That's absolutely correct.

MR. STEESE: That's all the redirect that I have.

MS. BRUNSTING: Uh-huh. All right. I'm employed by Qwest Communications Corporation, the 272 affiliate, as a senior director, 272 business development. I represent the 272 affiliate.

Previously I held the position of director of regulatory and network for Qwest Long Distance, the previous 272 affiliate, and from the creation of Qwest Long Distance, premerger US WEST Long Distance, we had structured that company as a separate entity that would provide interLATA long distance service upon the BOC's receipt of 271 approval.

The company has the -- had the processes in place and experience in following the separateness requirements of maintaining separate books, having separate employees and documenting all transactions with the BOC.

We identified processes, put controls in place to operationalize the business, all within meeting the separateness requirements of Section 272.

In November of 1998, evidence of 272 understanding and compliance was presented to the commission here. On April 9th, 1999, the Nebraska commission found that the 272 affiliate satisfied Section 272 of the act.

We had the opportunity to test these processes prior to the merger. I was a part of all of those activities for four years. The key learning is Section 272 operating guidelines require timely monitoring of processes and flexible controls to be able to react to change processes which are caused or to reflect those process changes which are caused by market changes and product introductions.

In the summer of 2000, upon completion of the merger between US WEST and Qwest, the previous 272 affiliate, US WEST Long Distance, was renamed Qwest Long Distance.

In the fall Qwest revisited the business plans and began initiation of internal discussions as to which legal entity would offer interLATA services in region.

In mid January Qwest Communications Corp., QCC, was identified as the 272 affiliate. I led plans to take processes and controls from the premerger 272 affiliate and quickly implement those same processes into the newly identified 272 affiliate.

Some employees were moved from one Qwest entity to another. Documentation of all transactions between the 272 affiliate and the BOC were completed and transactions were posted. Operational plans were put in place for processes to continue to comply with Section 272.

Let me just take a minute to give you a sense of the detailed work activities that occurred during the January to March -- through March time frame, which is part of the transitional period as was described by Ms. Schwartz.

Operating authorities and certificates were validated. The asset records were reviewed to ensure no joint ownership of facilities, land or buildings existed. The senior leadership of the network organization and key employees received specific requirements and training of operation, installation and maintenance, OINM, by the BOC, or the 272 on each others network.

Processes and controls were put in place for bill payment and expenditure controls. Separate financial reporting was created and system access was validated to ensure protection of the information.

In order to ensure separate officers, directors and employees, processes were created to identify if an employee were an officer or a director of the 272, the -- the status of that employee was that they could not also be an officer, director or employee of the BOC.

Some employees were realigned to other legal entities to assure compliance. Training was extensively completed and inventory of floor space completed to ensure physical separation guidelines were in place for the employees of the 272 affiliate and the BOC.

All contracts were reviewed, validating that there were no recourse claims to BOC assets as a part of those agreements. A guideline for new contract development and the use of recourse language had to be put in place also.

Key contacts for the request of service between the 272 affiliate and the BOC were identified and processes for documenting those services were implemented.

We continue to respond to employee questions regarding 272. The section 272 affiliate is an organization of over 2,000 employees. The employees are primarily located in Ohio, Virginia, Colorado, Minnesota, and numerous other out-of-region locations.

The organization has divisions responsible for network, operations, which includes provisioning and engineering, sales, customer service and marketing.

The 272 affiliate currently has operating authority to conduct business in all 50 states, and the 272 affiliate, today, provides interLATA origination of service in 36 states outside the 14-state region.

Ms. Schwartz has reviewed all of the requirements of Section 272. I would like to focus on three specific areas where additional efforts were -- have occurred by the 272 affiliate.

Section 272(b)(2) requires that the 272 affiliate have separate books, records and accounts. The 272 affiliate established and maintains a separate chart of accounts and follows GAAP.

We maintain books, records and accounts separate from the BOC. We have separate internal financial controls and separate assets documented and tracked in our records. The 272 affiliate and the BOC do not share accounting systems. They use PeopleSoft systems which actually operate in different locations.

Section 272(b)(3). The 272 affiliate has no officers, directors or employees that are also officers, directors or employees of the BOC. The 272 affiliate's employees report to division leaders which report to the officer team of the 272 affiliate.

I'd like to give you some further

examples of how the 272 affiliate is separate from the BOC. The 272 affiliate pays applicable taxes and fees separate from the BOC. The 272 affiliate complies with all state and FCC reporting requirements separately from the BOC. And the 272 affiliate has its own payroll.

Following the announcement of the 272 affiliate, Qwest implemented a program whereby employees of the 272 affiliate, the BOC, and the services company would receive a color identifier, a dot. This dot would distinguish which company or legal entity they represented. The dot was to be placed on the employee's ID badge and on their office name plate.

Employees at that same time then received guidance on the protection of information and how to do business with the BOC and the 272 in compliance with all of these rules.

This program to raise awareness by employees of complying with the requirements in order to reenter the long distance market were hugely successful. I still continue today to receive calls from employees that are concerned they don't have a dot or they would like to know how to get their dot.

With all the changes that occur with the merger, this activity assisted in identifying for employees the legal entity and the organization they were a part of and the protection of necessary information that goes with this knowledge.

Finally, to ensure we remain compliant with Section 272 requirements, the 272 --

MR. STEESE: One second, Ms. Brunsting. Before you get to that point, I want to ask you one more question, if I could, about 272(b)(3).

MS. BRUNSTING: Okay.

MR. STEESE: When we identified QCC as a long distance affiliate in January, were there any -- people who were an officer or a director of both QC and QCC?

MS. BRUNSTING: There could have been. And there were probably cases where they might be an employee of QCC, but an officer of one of the other entities, but only between the transition period of January into March. They were all aligned after March.

MR. STEESE: And so -- and you ran this effort to make sure --

MS. BRUNSTING: Yes, I did.

MR. STEESE: -- to make sure the

employees were properly aligned?

MS. BRUNSTING: Were realigned, yes.

MR. STEESE: Wait till I finish my question. And then so as of the end of March when we turned up our web site, at that point the clear separation between officers, directors and employees was also made plain as well?

MS. BRUNSTING: Yes, it was.

Finally, to ensure that we remain compliant with the 272 requirements, the 272 affiliate educates all of their employees on the requirements of Section 272 within ten days of employment.

All current employees have received training and complete an annual compliance review. Employees that have compliance issues receive information on who they can contact to get answers and also report potential violations.

Understanding 272(c), which is the nondiscrimination requirement of the BOC. The 272 affiliate requests products and services through the BOC sales executive. The sales executive, as with any other carrier, contacts the necessary business unit and a manager of the BOC regulatory accounting group.

The 272 affiliate has an employee responsible for the negotiations and administration of agreements with the BOC as well as our agreements with other suppliers.

To conclude my summary, the 272 affiliate and the previous 272 affiliate, which this commission found met 272, are separate affiliates created according to the requirements of Section 272.

We have shown that there are processes in place, a structure created and knowledge of those requirements to remain compliant with Section 272. We'd like to recommend that you find we continue to meet Section 272. And I thank you for this opportunity to share this information.

MR. WOLTERS: AT&T has one witness, Mr. Cory Skluzak. Mr. Skluzak has not been previously sworn.

COMMISSIONER LANDIS: Mr. Skluzak, if you'll raise your right hand?

CORY SKLUZAK,

Of lawful age, being first duly cautioned and solemnly sworn as hereinafter certified, was examined and testified as follows:

(Witness' response to oath - "I do.")

COMMISSIONER LANDIS: Very well, sir. Would you state your name and spell it, please?

MR. SKLUZAK: My name is Cory Skluzak, C-O-R-Y, Skluzak is S-K-L-U-Z-A-K, with AT&T.

COMMISSIONER LANDIS: Okay. Thank you.

MR. WOLTERS: Do you have a short presentation to give?

MR. SKLUZAK: I do. And as I'm gathering

my paper here, I'd like to apologize for the informality of my dress. I thought I was going to workshop today, so I mean no disrespect. So...

COMMISSIONER LANDIS: We understand that. This is Nebraska. It's not New York. If you look around the room --

MR. SKLUZAK: Well, I'm from South Dakota, so this is dressing up for me.

COMMISSIONER LANDIS: Yeah. We're neighbors then. Go ahead with your summary.

MR. SKLUZAK: I talk about the importance of Section 272 in my affidavit dated June 13th and how it can act as a tripwire and how failure to comply with Section 272 constitutes independent grounds for denying a Section 271 application. I don't want to rehash that in detail.

I conducted a -- three separate on-site reviews of basically accounting documentation, billing detail, as Qwest calls it, that was provided by Qwest. And these were actual accounting transactions.

My predecessor at AT&T, Warren Fisher, conducted two other reviews. So altogether the two of us conducted five on-site reviews. I -- my testimony only goes as to my three reviews, the initial one, which was conducted sometime in August 2000.

It was then followed up in April of this year because of the passage of time and the change in entities to QCC. And then my supplemental was my third on-site review. And it's confusing when I talk about this in my testimony, but if you want to just frame it as one, two, three, initial, follow-up and supplemental. The supplemental was needed because on follow-up, the second phase, I didn't receive all the accounting detail for QCC, but I subsequently did.

Either -- I believe it was Ms. Schwartz stated that accounting detail or billing detail is available to AT&T or to any IXE who so wishes. However, we had to go through data -- formal data requests. We simply couldn't waltz over there into Qwest's headquarters and see those. So whatever impact that may have, we had to go through a formalized data request to see this information.

Most of my testimony deals with my findings from these three on-site reviews. Now, the purpose of my testing was to put Qwest's and -- Qwest LD's and QCC's assertions of compliance to the test.

The FCC has basically dictated that paper promises cannot satisfy a BOC's burden of proof regarding Section 272. Regarding Section 272(b)(2), accounting treatment, I write in my testimony regarding the fact that GAAP, which is generally accepted accounting principles, are not being followed as required by the FCC.

And GAAP goes beyond whether something is accrued or not. It also goes as to timely accounting. I made the conclusion that the entities are not accruing from month to month or from year to year, and certainly not recording in a timely fashion.

For example, I have a couple of examples where there were services from January to December of a calendar year and they didn't bill for those monthly services until December. So they didn't bother billing accruing form from January to February, February to March, et cetera, until the end of the year.

Section 272(h) is the transition period. And I don't believe I -- I speak of this in my affidavit, but Ms. Schwartz speaks as to it. And I would just like to point out as perhaps a matter of clarification or -- or confusion that 272(h) states that with respect to any activity in which a Bell Operating Company is engaged on the date of enactment of the Telecommunications Act in 1996, such companies shall have one year from such date of enactment to comply with requirements of this section.

And from a legal standpoint, I am unsure of that gives carte blanche to Qwest to have a continuing transition period or if there's a date certain point there. I just raise that as an issue for the Nebraska commission.

I also speak in regard to 272(b)(2) that I did not find proper recording amounts to the FCC ARMIS reports. And you can see that in my testimony. The only entry on the 2000 ARMIS report for Qwest that I found was 1.5 million dollars of services sold by Qwest to QCC.

Materiality I did not speak of in my affidavit. And I would just like to address that here. Ms. Schwartz speaks as to the concept of materiality in generally accepted accounting principles. And at a previous workshop I was asked about that materiality.

And I can now state to you, I know that GAAP does look at materiality as a concept, but we have to remember that materiality under the financial accounting standard board rules, the FASBs, and other accounting rules is tempered by such things as relevance and timeliness.

So you can't just say, well, the materiality concept is there, therefore, our errors are excused because of that. And I would also like to point out that in Ms. Schwartz's own exhibit, which I believe is Exhibit MES-8 in her affidavit, what that is, is a copy of the biennial audit procedures.

And on page six there's this statement: The agreed upon procedures, the AUP, engagement is not based on the concept of materiality; therefore, the practitioner must report all errors or discrepancies discovered.

Regarding Section 272(b)(5), which is the public disclosure transactions, as has already been discussed, there's a ten-day posting requirement. The reason for this is twofold. First is to allow other IXEs, such as AT&T and others, the needed information to determine usage.

And the second one should not be lost in the discussion here today, is to allow the FCC to determine compliance with safeguards. Therefore, when Qwest states that they are going to propose something to allow AT&T to decide whether they want to hire an officer or a director on the same provisions, that's not the only reason for posting. It's also to allow the FCC to make sure that their safeguards are being properly adhered to.

A big issue here is at what point was the QCC required to start adhering to Section 272 requirements. On pages 50 and 52 of my testimony, I list several examples, A through G, running on page 51 and then onto page 52, where AT&T feels that QCC actually was acting as a Section 272 affiliate prior to then.

And certainly the process was started much, much, much prior to January 1st, 2001, or mid March or whatever the date was that QCC was identified as the new 272 affiliate. And so our position is that those transaction should have been properly recorded within a ten-day time period, well before March 26th, 2001.

COMMISSIONER LANDIS: What would you have this commission do or Qwest do to rectify that? The transactions have occurred. They've now been posted retroactively. The world knows about them. And you're saying, well, they should have done it, but how do we handle that assertion of yours? What do we do with it?

MR. SKLUZAK: Well, I -- now, see, that's a good point. And obviously you can't go back and change what's already been accomplished in history. But the FCC dictates that you take a look at past behavior as well as a present behavior as an indicator of whether Qwest will meet their paper promises.

So I guess I trot these examples forward in my testimony and today as indications that they have not been properly adhering with the requirements.

Separation of employees. It seems to AT&T that Qwest's strategy in this area seems to be the -- to do the bare minimum, to pass the form testing without meeting the substance, a form over substance and, therefore, a circumvention of controls.

Ms. Brunsting talked about the colored dots, but we would state that colored dots do not prevent off-the-record transactions with revolving-door policy of employment. And this -- the new policy of, I guess, the four months period was brought up after AT&T first brought it up in the first day of the multistate proceedings.

I'm skipping through here because I -- I know we -- I don't want to rehash everything that's in my testimony.

In summary, the FCC -- and this is what the chairman was getting to. The FCC has stated that the past and the present behavior of the BOC applicant is highly relevant because such behavior provides the best indicator of whether the applicant will carry out the requested authorization in compliance with the requirements of Section 272.

Once again, the purposes -- the purpose of my reviews of accounting transactions was to put Qwest's paper promises or assertions to the test. My conclusion was that they were not conscientious in following the rules.

US WEST LD, Qwest LD and QCC are three entities that this commission should look at. You should not forget that US WEST LD is also a part of the equation when you look at the past history of compliance.

I encourage the state commissioners and the staff to spend some time reviewing the many examples of noncompliance whereas presented in my testimony. It makes for tedious reading, but it is important to go beyond Qwest and QCC's mere paper promises. Thank you.

COMMISSIONER LANDIS: I have a question for you, and then we'll pass to the other commissioners.

MR. SKLUZAK: Certainly.

COMMISSIONER LANDIS: You stated in your testimony you have a concern about not using separate software at separate facilities for something, and I think it was payroll items?

MR. SKLUZAK: Yes.

COMMISSIONER LANDIS: What do you think the requirements are to satisfy the 272 requirement with respect to software or having it in separate facilities?

MR. SKLUZAK: Well, it's my understanding that Qwest is performing payroll functions for QCC. I -- I would say that that's -- that's one part of evidence. And then you take the fact that there's -- there's many employees dedicated 100 percent of the time as between the two entities. There's much migration of employees between the two entities.

And so taken all together, it's a

circumvention of the separation of employees, directors requirement.

As far as your direct question, what would I recommend? I would recommend that they wouldn't -- wouldn't do that so as not to circumvent those rules. For example, QCC could perform their own payroll functions.

COMMISSIONER LANDIS: If the -- if they had an arrangement that you could get, the confidentiality agreement, that would tell you how many employees are doing the payroll function and who they are and the hours and how they're being reimbursed, would that satisfy that kind of concern, or in all instances are they going to have to have two separate -- can there -- can there be contracting between the two entities as long as it's disclosed and made available to you?

MR. SKLUZAK: Well, my concern would not be so much that AT&T would go over to Qwest and ask to perhaps use Mr. Nacchio's services. It would go as to that second concern on the Section 272 safeguards. And that would be to allow the FCC to make sure that its safeguards are not being circumvented or not being adhered to.

So as far as AT&T going over and taking a look at the billing detail, I -- I guess the FCC could do the same thing, but if they were posted to the internet site, it would be much easier for the FCC to do that.

COMMISSIONER LANDIS: Okay. Commissioner Johnson?

COMMISSIONER ROD JOHNSON: (Shaking head side to side.)

COMMISSIONER LANDIS: Commissioner Boyle?

COMMISSIONER BOYLE: Have you testified in other hearings?

MR. SKLUZAK: I have.

COMMISSIONER BOYLE: In the Texas and New York, did you testify?

MR. SKLUZAK: No. When I refer to testifying in other -- I've been in other workshops for Section 272 in Arizona and the multistate and in -- and other hearings were on other non-Section 272 matters.

COMMISSIONER BOYLE: But you didn't participate in it outside of the Qwest territory?

MR. SKLUZAK: That's correct.

COMMISSIONER LANDIS: Commissioner Lowell Johnson?

COMMISSIONER LOWELL JOHNSON: No.

COMMISSIONER LANDIS: Well, then we'll move to the commission staff and then to you -- oh, no. We'll move to you, Mr. Steese. It will be your turn.

MR. WOLTERS: I have no questions.

COMMISSIONER LANDIS: Hearing adjourned. Okay. Go ahead.

MR. POST: I don't have any questions.

COMMISSIONER LANDIS: No questions. Mr. Steese?

MR. STEESE: Sure. I have a few questions here for Mr. Skluzak. Good to see you again. You said that you wanted to make a point of saying that you couldn't just waltz over and see this underlying material. You actually had to issue a data request. Do you recall that?

MR. SKLUZAK: That's correct.

MR. STEESE: And in this particular case, the reason why you wanted to review this material was so you could make presentations in proceedings just like this; fair?

MR. SKLUZAK: Yes.

MR. STEESE: And Qwest has made it abundantly clear to you, I know, in the seven-state workshop, correct, that the reason why we require a data request is so we, for purposes of these proceedings, could keep track of the review that was going on for purposes of legal proceedings; correct?

MR. SKLUZAK: As far as "abundantly clear," I guess my answer would be no. What -- was that your intention when -- when you spoke as --

MR. STEESE: You don't recall?

MR. SKLUZAK: No, I don't recall.

MR. WOLTERS: I don't recall it either, Chuck, but that's -- that could have been made. I just don't remember it being posed quite that way to us.

MR. STEESE: We can move on to the next issue then. You said 272(h), which says the BOCs have a year from the date of passage of the act to come into compliance with the 272. You talked about that previously.

You would acknowledge, would you not, that companies like the old US WEST are not precluded from merging with another company?

MR. SKLUZAK: No. That's correct.

MR. STEESE: That's correct. And you would agree, would you not, that if there's a merger and a decision is made that you have to transition or you plan to transition to a new 272 affiliate, it will take some period of time to get that accomplished; fair?

MR. SKLUZAK: Yes.

MR. STEESE: And so certainly it cannot happen instantaneously? There has to be some amount of transition time; correct?

MR. SKLUZAK: Yes.

MR. STEESE: When you look at Section 272(b)(2) -- and I'm going to describe what each of these are for the commission because we all know them very well, but the section numbers don't mean as much to others. This is the separate financials requirement; correct?

MR. SKLUZAK: Yes.

MR. STEESE: And here you would agree, would you not, that QC, the BOC, and QCC use separate accounting software? You would agree with that, wouldn't you?

MR. SKLUZAK: Well, I -- I don't know if I would. I thought I heard Ms. Brunsting say that both entities use PeopleSoft.

MR. STEESE: They each maintain separate accounting software; correct?

MR. SKLUZAK: I don't know. I guess I'd

CONTINUATION

[3]

Scan ~ ~ # Pgs [ ]

have to go back and refresh my memory by reading Ms. Schwartz and Ms. Brunsting's testimony.

MR. STEESE: Well, just really brief, you recall giving testimony in the 271 docket in the seven-state; correct?

MR. SKLUZAK: Yes.

MR. STEESE: And on page 192 you say, and I quote, "According to the testimony filed by Ms. Brunsting about QCC, the 272 affiliate accounting and finance functions are performed by the services company, which is not the BOC."

And I guess that's why I was confused when you tell me that the BOC is performing the separate payroll functions -- is performing the payroll functions. So I guess payroll is not accounting and financial functions? Are we talking past each other?

Because I thought there you very clearly said you understood that there was separate accounting software systems being used by each.

MR. SKLUZAK: Okay. I guess I'm confused now. Today I'm under the impression that Qwest Services Corporation is providing the financial software, is that true, to the BOC and to QCC?

MR. STEESE: I'm asking if you know

whether the systems, the accounting software that maintains QCC's financials is separate from that which maintains QC's, the BOC's?

MR. SKLUZAK: I guess I don't know today.

MR. STEESE: You would agree, would you --

COMMISSIONER LANDIS: Well, if I might interject here, Mr. Steese? Seeings how neither one of you seem to know, but the record is unclear on this, could you provide an answer in writing to Mr. Post at some point in time?

MR. STEESE: We can provide Ms. Brunsting as a brief rebuttal --

COMMISSIONER LANDIS: Bring her back up? Okay. Just so we don't leave today with a question that we can get an answer to.

MR. STEESE: And you would agree, would you not, that QC and QCC, the 272 and the BOC, they have separate charts of accounts; correct?

MR. SKLUZAK: They do.

MR. STEESE: And in terms of your focus on (b)(2), the separate financials, you've spent a tremendous amount of effort focusing on the transition period between the date of the merger and March 26th, correct, in your testimony?

MR. SKLUZAK: But -- but that wasn't my only focus.

MR. STEESE: I'm just asking, you spent a tremendous amount of time focusing in on that particular point on (b)(2); correct?

MR. SKLUZAK: I spent as much time on that as I did on a prior period, too.

MR. STEESE: Are you aware of any failure of QC or QCC to accrue for any transaction post March 26th of 2001, when the transition was complete?

MR. SKLUZAK: I haven't done any testing prior -- or post March 26th, so I am unaware.

MR. STEESE: Let's focus next on (b)(3), separate officers, directors and employees. Are you aware of any circumstance post March 26, 2001, where there is any officer, director or employee of QC or QCC that is the same?

MR. SKLUZAK: Inasmuch as I have not done any testing post March 26th, the answer would be no.

MR. STEESE: Okay. And Commissioner Landis asked the question about employee sharing earlier. Let me talk about that very briefly. You would agree, would you not, that employee sharing is not prohibited? It needs to be policed; correct?

MR. SKLUZAK: Yes.

MR. STEESE: And so there is some amount of employee sharing that is perfectly acceptable by the -- according to the FCC?

MR. SKLUZAK: I guess have -- I don't know if they've made a distinct ruling on that or if that's by inference, perhaps, are you asking?

MR. STEESE: I'm asking if it's your understanding that some amount of employee sharing is acceptable according to the FCC.

MR. SKLUZAK: I guess my answer to that would be I don't know, because to the extent it is out there, it would be by inference. I haven't seen any announcement on it.

MR. STEESE: One moment. And, again, I'm reading on the top of page 294 from the multistate. And you said, "You know, I would agree with Mr. Steese or characterizing what he said, it would be nonsensical not to have any transferring of employees between these two, but it needs to be properly policed."

Do you remember giving that testimony?

MR. SKLUZAK: Well, I -- I don't remember it, but I -- I take it it's an accurate portrayal of what I said.

MR. STEESE: And to the extent that an employee sharing arrangement occurs and the employee that is shared is a QC, BOC, employee, then what Qwest would need to do is post a transaction with rates, terms and conditions on the web site, disclosing, so that way if AT&T or some other IXE wanted to get similar services at the same rates, terms and provisions, they could do so; correct?

THE WITNESS: Well, no. That's not correct. And once again, that underlines what I was trying to say to the commission is, the second purpose of posting is so that the FCC can determine that their safeguards are not being circumvented.

MR. STEESE: So what was incorrect about my statement?

MR. SKLUZAK: You said just so that the -- AT&T or the interexchange carriers can, so that -- that's one purpose of two purposes.

MR. STEESE: So we -- Qwest Corporation, the BOC, would be obligated to post on the web site the rates, terms and conditions; correct?

MR. SKLUZAK: Correct.

MR. STEESE: When you look at your testimony, you spent time talking about how Qwest Communications Corporation, or QCC, and Qwest LD have failed to post transactions within ten days; correct?

MR. SKLUZAK: Correct.

MR. STEESE: And that's based on what we've talked about with Ms. Schwartz in her direct, that being that you believe it's insufficient for a Bell Operating Company to post one large transaction, then conduct business under it month to month; correct?

MR. SKLUZAK: Among other things.

MR. STEESE: But you think that would be inappropriate?

MR. SKLUZAK: Yes.

MR. STEESE: Have you reviewed the SBC web site?

MR. SKLUZAK: No.

MR. STEESE: Are you aware of whether SBC posts monthly transactions or whether they just post one broad transaction and then provide services, much like Qwest is offering today?

MR. SKLUZAK: Based on, I believe, Ms. Schwartz's testimony in previous workshops, I have been made aware of that.

MR. STEESE: But you have not looked to see whether that's accurate or not?

MR. SKLUZAK: No.

MR. STEESE: You also spent some time talking about billing errors that Qwest identified for the month of March; correct?

MR. SKLUZAK: Yes.

MR. STEESE: Have you looked in the April, May time frame, after the initial transition was complete, to see whether or not the billing information was properly being tracked?

MR. SKLUZAK: No.

MR. STEESE: Do you dispute Ms. Schwartz's testimony that there is less than one percent inaccuracy in each of those months?

MR. SKLUZAK: In which months are those?

MR. STEESE: For April and May.

MR. SKLUZAK: Once again, inasmuch as I did no testing, I could not dispute those.

MR. STEESE: Are you aware of any situation after March 26, 2001, when the transition was complete, where Qwest failed to post a transaction on the internet within ten days?

MR. SKLUZAK: Once again, the same answer as before, no.

MR. STEESE: Earlier today I thought I heard you say, and I think I read it in your testimony as well, that you believe Qwest's obligation to post transactions between QC and QCC began sometime before January of 2001. Did you say that?

MR. SKLUZAK: I did.

MR. STEESE: And you would acknowledge, would you not, that in the seven-state proceeding you testified that there was no such obligation until January 1 of 2001?

MR. WOLTERS: I'm going to interject here. I --

COMMISSIONER LANDIS: Object or interject?

MR. WOLTERS: Interject. I think if you look further in the record, AT&T said that it was reviewing whether it believed from a legal matter that there was an obligation to post effective date of the merger.

MR. STEESE: I'd still like an answer to my question, if I could?

COMMISSIONER LANDIS: Sure.

MR. STEESE: You testified to that point

in the seven-state, didn't you?

MR. SKLUZAK: I probably did.

MR. STEESE: One other point. You have in your prefiled testimony with respect to 272(c)(1), which is part of the nondiscrimination provisions, that you have concerns about (c)(1). In the multistate you testified that those concerns have gone away. I'm not sure which it is at this point. I just want to know the timing of your filing here, when it was vis-a-vis the workshop.

Do you still have concerns about (c)(1)?

MR. SKLUZAK: If you'll allow me a moment to briefly review that. And I'm looking at page -- pages 60 through 64 of my prefiled testimony. So as not to dismiss what I wrote there, I would state that paragraph 132 is the pertinent paragraph that the commission would want to look at.

Perhaps, Mr. Steese, what you're getting at is -- well, no, I -- I'm not sure what you are getting at.

MR. STEESE: I'm reading here, and maybe I'm misunderstanding it, Mr. Skluzak, but on page 152 of the transcripts in the multistate you say, and I quote, "I wrote a comment to the effect that we cannot determine compliance with 272(c)(1) until we receive all information. Since the writing of that comment, I received sufficient information so that would not block a determination as to compliance with 272(c)(1)."

And so I'm wondering, since I think this is more recent, that now your concerns about Section 272(c)(1) have gone away.

MR. SKLUZAK: I -- they haven't. And without going onto a proprietary record here, I would just point the commission's attention once again to paragraph 132 where I have limited my concern, if you will, in response to what was brought up in the multistate to that particular paragraph.

MR. STEESE: So is there anything that's happened since the multistate? Maybe I'm not understanding.

MR. SKLUZAK: Well, I believe in the multistate that the transcript will reveal that we did discuss these specific examples that I talk about in paragraph 132.

MR. STEESE: Okay. Let me look at that quick. We can -- you're talking about the reference to a separate affiliate, and the name of it is US WEST Advanced Technologies?

MR. SKLUZAK: That's correct.

MR. STEESE: And so here you think that the obligations of Section 272 extend beyond the BOC and the 272 to yet a wholly separate affiliate? Is that what you're saying?

MR. SKLUZAK: I discuss in paragraph 129 of my testimony, footnote 125, the chain transactions. And I believe that you, Mr. Steese, questioned me extensively on the chain transaction rules, which is in the multistate transcript.

MR. STEESE: I'll let the record stand as it is, then. Moving on to 272(e), the separate special requirements, if you will. In past 271 decisions, all the FCC has required here is a statement from the BOC that it will impute access if that's been deemed adequate for 272(e); correct?

MR. SKLUZAK: Well, I don't want to be rushed here in agreeing with you. That's -- that's certainly one of the indications of compliance with this section. And Qwest has now put such a -- such a statement in their testimony, but without spending the commission's time looking through this, I guess I can't agree with you right off the top of my head.

MR. STEESE: Okay. That's fine. We'll

move on to the last area, 272(g), a separate -- or, excuse me, joint marketing requirements.

Here, Mr. Skluzak, you're -- you've said that you think heightened scrutiny should be placed on Qwest visa vis other BOCs with respect to Section 272(g); correct?

MR. SKLUZAK: That's correct.

MR. STEESE: And so you would acknowledge that Qwest is meeting 272(g) today. If the same rules that apply to Texas and New York were applied to Qwest, they would comply, but you think something more needs to be done to Qwest; fair?

MR. SKLUZAK: Well, I don't think that is a fair statement. The FCC takes a look at these applications on a case-by-case basis. So, therefore, maybe Qwest is not meeting Section 272(g) given Qwest's past history, also US WEST's past history of getting involved in Section 271 interregion long distance.

MR. STEESE: I don't think you answered my question. I'm saying if the same tests that were applied to New York and Texas were applied to Qwest, Qwest meets 272(g), doesn't it? And you're asking for some heightened scrutiny because of what you're concerned about, past practice?

MR. SKLUZAK: Well, I can't answer that yes or no. Once again, it's on a case-by-case basis. Did Bell Atlantic, did SBC have the past history of getting involved in 271 and violating Section 271? I don't think so. So it's a different case.

MR. STEESE: I still don't think you're answering the question. What you're basically saying is you can't directly draw an analogy; is that what you're saying?

MR. SKLUZAK: Yes.

MR. STEESE: Just give me one more moment. I don't think I have any more.

COMMISSIONER LANDIS: Okay.

MR. STEESE: That's all the questions that I have.

COMMISSIONER LANDIS: Any redirect?

MR. WOLTERS: Just a couple of questions. Mr. Skluzak, Mr. Steese asked you a number of questions regarding a transition and whether a company should have some time to transition before -- when it becomes a Section 272 affiliate.

Do you remember those questions?

MR. SKLUZAK: I do.

MR. WOLTERS: Now, do you believe

tran- -- this so-called transition period gives the Section 272 affiliate the right to not comply with the 272 obligations that are set forth in the act under the FCC's orders? Does that transition that you talk about give them a waiver during that period?

MR. SKLUZAK: No. I -- I don't think waiver language is anywhere involved in Section 272(h).

MR. WOLTERS: So what you're -- so when you look at a transition, you believe -- it's your testimony that they should go through the transition prior to becoming a Section 272 affiliate or after they become a 272 affiliate?

MR. SKLUZAK: After --

MR. WOLTERS: Excuse me? What --

MR. SKLUZAK: Could you rephrase the question?

MR. WOLTERS: My point is, is that you may agree there's a transition period, but do you believe the transition period should happen before they become a Section 272 affiliate?

MR. SKLUZAK: Oh, yes.

MR. WOLTERS: I have no further questions.

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF COLORADO

Docket No. 97I-198T - Workshop 7

* * *

IN THE MATTER OF THE INVESTIGATION OF US WEST COMMUNICATIONS, INC.'S COMPLIANCE WITH §§ 271(c) OF THE TELECOMMUNICATIONS ACT OF 1996.

Pursuant to notice to all parties of interest, the Technical Workshop was held at 8:35 a.m., July 24, 2001, at 3898 Wadsworth Boulevard, Lakewood, Colorado, before Facilitators Hagood Bellinger and Martin Shees.

APPEARANCES

(As noted in the transcript.)

MS. SCHWARTZ: Now that we understand who the BOC is and who the 272s are, and hopefully we do, let's talk about the separate affiliates -- the specific 272 requirements.

272(a), separate affiliate, means that the BOC has to offer -- must create a separate company to offer long-distance from, and we have.

272(b) are the structural and transactional requirements that we must operate the 272 separate from the BOC, and we do.

272(c) contains the nondiscrimination safeguards. We must treat -- the BOC must treat the 272 just like any other interexchange carrier, and we do.

272(d), the biannual audit provisions. Once we have authority to offer long-distance service, we're required to obtain a 272 audit every two years and that will begin one year after we have 271 authority, and we're prepared to do that.

272(e), fulfillment of certain requests contains special nondiscrimination safeguards provisions that we're prepared to follow.

272(f) contain the sunset rules and that talks about when 272 actually expires.

272(g), finally, are the joint

marketing provisions. Those discuss how we can market both local and long-distance service together, and we're prepared to follow those requirements.

The next slide is probably the most important slide of my presentation this morning. That talks about the significant events or milestones in our 272 history.

The first bullet that I circled on a chart that appears behind me here, Qwest Long-distance, or US West Long-distance before the merger, has been a compliant Section 272 subsidiary since the release of the Act. We have always had a compliance Section 272 subsidiary and that's very important to remember.

The next bullet brings us to the transition in our history when we went through the Qwest-US West merger. That took place in the latter half of last year. That created some one-time challenges and disruptions in our accounting controls and we'll talk about that a little bit later.

After the merger we decided to change the designation of our 272 affiliate from Qwest Long-distance to QCC. We made that decision in January of this year and then we spent the next three months transitioning QCC to be Section 272 compliant.

That brings us to where we are today,

that QCC is a compliant Section 272 subsidiary as well as Qwest Long-distance.

A little more about Qwest Long-distance. We plan to operate it as a reseller as opposed to -- as a reseller, I should say. Again, it's been compliant since 1996 to the present. We're planning to dissolve it later this year and Ms. Brunsting will talk more about that.

One more time, Qwest Long-distance establishes a five-year history of Section 272 compliance for Qwest Corporation.

Now that we understand the impacts of long-distance as a compliant Section 272 subsidiary for five years, let's talk about the Qwest merger.

As most if you know, it had significant impacts on all operational areas of our business. It was a merger between two very different multinational companies. One was a local service provider, the other a long-distance company. It required the integration of a nonregulated culture with a regulated culture. Again, it triggered a decision in the third quarter of last year for us to reassess our designated Section 272 affiliate. Then it also created some one-time disruptions in our accounting controls.

We realize that a merger of this size

would trigger some one-time disruptions and we were ready with strength and controls and we made corrections immediately as they became known. As a matter of fact, almost all of the discrepancies that appear in AT&T's testimony were discovered by Qwest's internal controls and provided to AT&T a summary control report, and those discrepancies were subsequently corrected in the following month. We'll talk about those as well.

The Qwest merger resulted in strategic and employee realignments and other operational arrangements we had to execute in compliance with all federal and state regulation.

What were the impacts of the Section 272 transition, the merger resulted in a decision to change our designated 272 affiliate. The new Section 272 affiliate, Qwest Communications Corp., was identified or named in January of last year -- 2001, January of this year.

Again, QCC will be a facilities-based provider versus a reseller by Qwest long-distance. We had to overlay the Section 272 controls that we had in place at Qwest Long-distance onto QCC and then we further strengthened those controls through learnings that we had in the Qwest merger transition. We turned

24

up QCC as a compliant Section 272 affiliate on March 26 of this year. Congress gave the BOCs one year to make their 272 affiliates compliant when they released the Act. We made QCC a compliant 272 subsidiary in just three months, all while maintaining Qwest's Long-distance as a compliant 272.

Now that we understand how the merger transition in the Section 272 transition for QCC created some one-time disruptions in our processes, let's talk about the specific and critical 272 requirements.

MS. SCHWARTZ: 272(b)(1), operate independently. QC, the BOC, and QCC the 272 cannot and do not jointly own any network facilities or the land or buildings on which those facilities are placed. There can be no transfer of any network facilities from QC, the BOC, to QCC the 272, there can be no operation, installation or maintenance, or OI&M, on QC or the BOC's facilities by the 272. Conversely, there can be no OI&M performed on QCC's or the 272 facilities by the BOC or any other Qwest affiliate, for that matter.

QC cannot provide any discriminatory access to network service. We've satisfied the operate independently requirement by monitoring all of our network assets transfers and through the extensive training we've conducted with our network leaders and staff personnel. QC doesn't perform any OI&M for QCC or vice versa. AT&T did not dispute our compliance with 272(b)(1).

(b)(2), separate books, records and accounts. QCC, the 272, must maintain books, records, and accounts that are separate from the books, records, and accounts of the BOC, or QC. QC, the BOC, uses separate financial system, controls, edits, and we have separate general ledger systems that are maintained at separate locations that Ms. Brunsting can talk about in a little more detail. QC, the BOC, has a separate chart of accounts from QCC the 272.

AT&T contested our compliance with (b)(2) but agrees we have separate charts of accounts, and those were filed in my direct testimony and also the testimony of Ms. Brunsting, and those were marked as exhibits 7-Qwest-1 and 7-Qwest-3. They also understand that we use separate versions of PeopleSoft and that those separate softwares are maintained at separate physical locations. So their concerns are unfounded. We have sufficient processes in place to

maintain separate books, records, and accounts and we satisfied the FCC's test from previous approval orders.

Another issue that came up in AT&T's testimony was compliance with GAAP. What's important to remember here, all publicly traded companies are required to follow GAAP. The parent and QC, the BOC, undergo regular financial statement audits. As most of you know, the BOC starts with GAAP, Generally Accepted Accounting Principles, and we overlay additional FCC and Colorado state-specific requirements. GAAP uses materiality in assessing compliance. AT&T has maintained that it's inappropriate to use materiality when assessing GAAP, but even the FCC recognized the use of materiality in GAAP in Part 32.26. FCC Part 32.26 is a cite to the FCC rules, for those of you who aren't familiar with that cite.

All Qwest companies are required to follow GAAP, and they do. We have dozens of professional accountants employed by the company to ensure we follow GAAP. That's part of my job. We also have an unqualified audit opinion from the company's auditors for QC, the BOC, and QCI. We entered those as Exhibits 7-Qwest-6. 7-Qwest-6, the first page is the audit opinion of Arthur Anderson for Qwest Corporation, the BOC. The following two pages contain the auditor's opinion for QCI, the parent company, showing that the two companies follow GAAP.

Moving on to 272(b)(3), separate officers, directors, and employees. Again, QC, the BOC, and QCC the 272 must have separate officers, directors, and employees. Any BOC employee who performs functions for the 272 is required to report their activity so that QCC can be billed appropriately under FCC pricing rules found in Part 32.27.

AT&T contested our compliance with (b)(3) due to pre-272 transition structure and loaned employee practices. We voluntarily modified our loan employee practices to limit the duration to four months. We've satisfied the FCC's test used in both New York and Texas for compliance with separate officers, directors, and employees by making our officer list public filed in our testimony, by comparing payroll registers to ensure that no employee appears on both payroll simultaneously, and by having strict employee transfer and hiring policies that spell out the 272 requirements as well as maintain the confidential information of the BOC.

272(b)(4) I'll touch on briefly. Again, that creditors of QCC the 272 may not have recourse to the assets of QC and BOC and they do not.

We satisfied the no recourse requirement of Section 272 by reviewing all of our debt agreements, and I was a part of that review through extensive training efforts to ensure those requirements are understood and complied with. AT&T did not dispute our compliance with 272(b)(4).

272(b)(5) is probably the most contested area of compliance with Section 272. That requires that transactions be at arm's length, in writing, and posted to the Internet. All transactions between the 272 and the BOC must be reduced to writing and we've documented those by tariff, by standalone agreement, or by service agreement. All transactions between the two companies must be posted to the Internet within 10 days, and they are. Rates, terms, and conditions of every transaction must be made publicly available to ensure that the accounting safeguards are being maintained and to make them available under the same rates, terms, and conditions to third parties. All transactions on the Web site are reviewed by the Section 272 compliance oversight team of which I'm a member, and we fashioned our oversight team after SBC's compliance committee.

We've satisfied the Section 272(b)(5) requirements by documenting all of our transactions,

conducting them subject to the Part 32.27 FCC pricing rules, and posting them to the Internet within 10 days. We reconcile all of our transactions to the cost allocation manual, we reconciled them to the CAM audit spread sheets and to the ARMIS reports which are filed at the FCC on an annual basis. This is consistent with the FCC's test where (5)(b) compliance in previous 272 approval orders.

More about the 10-day posting requirement. AT&T maintained we should have posted transactions for QCC even before it was named a 272 affiliate in January of 2001. They also ignored our need to make the 272 -- the new 272 affiliate 272 compliant. Again, that took us about three months to ensure.

Qwest has always met the 10-day requirement for Qwest Long-distance, our old 272 affiliate, and we continue to meet the 10-day requirement for QCC, our new 272 affiliate, since we turned up the QCC or new 272 Web site on March 26th of this year.

We can go to two exhibits that were provided in this proceeding, 7-Qwest-7 and 7-Qwest-8.

7-Qwest-7 is the Qwest long-distance Internet posting record and that basically computes the time interval

between the date the document was signed or executed and the date we posted it. If you go down to the bottom right-hand corner you can see that the average posting time for QLD transactions was 6.7 days.

Moving on to 7-Qwest-8. It's laid out in pretty much the same fashion. That is the Internet posting record for QCC, the new 272 affiliate. Again, computing the days between the days that ensued between when the agreement was executed and when it was posted to the Internet, for QCC we had an average posting time of 4.7 days. In both cases clearly below the 10-day posting requirement.

MS. JENNINGS-FADER: For clarification, is that calendar days or business days?

MS. SCHWARTZ: Calendar days.

MS. JENNINGS-FADER: Thank you.

MS. SCHWARTZ: Moving on, more about (b)5. Sufficiency of posting detail.

The FCC gave us guidance in the Bell Atlantic New York order where they rejected AT&T's assertion that Bell Atlantic standout postings did not contain sufficient detail to show that Bell Atlantic would comply with 272(b)(5). That can be found in paragraph 13. The FCC concluded that the following must be posted: Number and type of personnel assigned to the project, level of expertise of such personnel, any special equipment used to provide the service, and the length of time required to complete the transaction.

AT&T has maintained that we should post actual transaction involvement. For example, to the extent we have a human resource service posted with the appropriate rate, terms, and conditions that include number and type of personnel, level of expertise and so forth, they also would like us to post confidential information that will show how many employees have actually purchased the human resource service.

The FCC concluded that volume doesn't have to be posted to the Internet.

MR. WOLTERS: What paragraph is that? The SBC Texas?

MS. SCHWARTZ: I believe it would be on or around 4-13, but I can verify that for you. That should be in my testimony.

MR. WOLTERS: Okay. That's fine.

MS. SCHWARTZ: That's New York. I can get back to you with that, Mr. Wolters, but I believe it's in my direct testimony.

We do satisfy the FCC's requirement for

sufficiency and we can refer to two more exhibits in

this proceeding today, 7-Qwest-9 and 10.

7-Qwest-9 comes from the Qwest long-distance or old 272 affiliate Web page. The first page provides an overview of the Web site. I'll walk you through the document and you can read this at your leisure. The next few pages contain the current transactions or transactions that are in effect today; the master services agreement, for instance, which provides general guidelines as to how the two companies will conduct their business, and then actual work orders and task orders or the specific agreements that have been executed between the two companies.

The same sort of detail is available in 7-Qwest-10 for QCC, the new 272 affiliate. An overview page that basically describes the companies and the Internet site -- on the third page of that exhibit you can see the actual work orders and task orders that are currently in effect today and you'll find quite a bit more volume on the QCC Web site since we've been winding down LB, the old 272 affiliate. Then examples of services that are actually being provided today in the case of QCC, there are descriptions for human resource services and then also for the shared space and furniture rental agreements.

Moving on that to slide 20. What has

our performance been with regard to accuracy with our transactions for QCC and posting those to the Internet? The FCC has historically measured accuracy in terms of discrepancies between the prices that are posted on the Web and the prices that are actually billed back and forth between 272 affiliate and the BOC.

In the chart that I provide here, you can see the 272 transition period, the January, February, March time frame that we talked about earlier when we were making QCC 272 compliant. The first month we actually had accounting data to review was in the March time frame. In March we had a discrepancy rate between what we had posted on the Web and what we actually were preparing to bill of 12 percent. We expected some one-time problems that first month, and we were ready with strength and controls and we had additional staff ready to review transactions. We've gotten our discrepancy rate down to zero in April, to zero in May, and preliminary review of June data appears very good as well. As soon as that's available, we'll provide that to AT&T and update the record.

We reconcile all of our transactions

with our 272 companies on a monthly basis, both what we bill and accrue. We adjust any differences in the month following discovery.

Once again, we did expect issues in the first month of processing, but we were ready with strength and controls and we've gotten our discrepancy rate down to zero.

The best way to sum up Section 272(b)(5) is with more guidance from the FCC and SBC Texas where they said that BOCs must demonstrate that they have internal control mechanisms that are reasonably designed to prevent as well as detect and correct any known compliance with Section 272. We've demonstrated that we have the appropriate controls in place to satisfy both the FCC and state requirements.

MS. WAYSDORF: Would the rates that are billed under that contract between the affiliate and the BOC and any discrepancies between the actual rates that were billed, assuming there were, hypothetically, and the rates that are listed in the contract or contained in the contract, would that then be included in the calculation that's done monthly as described on your slide 20 so that if, at this point in time, the contract said that piece of dark fiber was $10 a month but it actually got billed at $5 a month, would that come out in this sort of form and would that information be available to others?

MS. SCHWARTZ: Yes. Any service that you see on that exhibit, we're reconciling all services on a monthly basis. That reconciliation is not public information. It's not required to be public but it has been -- will continue to be made available in this proceeding as long as it's open.

MS. DOBERNECK: I'm interested in the accounting controls to determine discrepancies and things of that nature.

MS. SCHWARTZ: Absolutely. We did move a lot of folks into the 272 area to focus directly on identifying services, on pricing services, and then also reconciling services. In addition, we hired a team of accounting professionals from Arthur Anderson to come in and they conducted I believe over 150 interviews of personnel in each of our business units to ensure that we had identified any services that were being purchased from or provided to the 272. So those would be some examples of where we ramped up resources in order to implement 272 accounting controls.

MR. BELLINGER: I believe you said you were going to cover this later anyway? Could we wait until we finish the presentations and go back to questions?

MS. DOBERNECK: I'm happy to wait.

MR. BELLINGER: Why don't we find this in your other presentation.

MS. SCHWARTZ: I had a few more pages to go there.

Prior to doing that. Mr. Wolters had asked earlier about the cite in SBC Texas for the FCC, starts to get into the discussion of volume and confidential agreements and so forth. That starts at paragraph 405 and continues to 407.

Back to slide 22 where we talk about the 272(c), nondiscrimination safeguards. We talked about that in our discussion earlier, that QC, the BOC, must and does make available goods, services, facilities and information that it provides to the 272 to other long-distance carriers at the same rates, terms, and conditions. We demand straight compliance with 272(c) by insuring that QCC, the 272, obtains information and services from the BOC through the same processes as other interexchange carriers. That would be through the sales executive team contacts. QC, BOC, must post transaction between the two companies to the Internet site, and we talked at length about that, and that all agreements between the BOC and the 272 are reviewed by that 272 oversight -- compliance oversight team that I discussed earlier that I'm a member of.

All BOC employees are required to treat QCC, the 272, like any other exchange carrier and we've demonstrated we have sufficient controls in place to satisfy 272(c).

On slide 23 I'll touch on the biannual audit in the interest of time. We talked about that earlier as well. Once we have 271 authority we'll have a 272 joint and federal state audit. Every two years that will begin in the first 12 months of operation. It's very important to know that this is not the only place where Section 272 compliance will be assessed. It will be continually assessed through 272 biannual audit process and the FCC has placed heavy reliance on the existence of the biannual audit in each of its 271 approval orders.

Wrapping up, we've provided sufficient evidence on the record to prove we are 272-compliant ready. We've had compliant Section 272 subsidiary since 1996; that was Qwest Long-distance. We successfully transitioned to a new 272 this year, QCC. We've demonstrated that we have sufficient controls in place to comply with Section 272, an FCC requirement. We'll continue to supplement the record in this proceeding regarding the 272(b)(5) Web discrepancies we talked about in detail.

Finally, we'll reaffirm our 272 compliance through the first biannual audit and thereafter as long as 272 is in place.

We've demonstrated that our 271 authority will be carried out in compliance with Section 272 and that's the FCC's test. We ask that you find we have met the burden of proof in showing Section 272 readiness.

Thank you.

MS. WAYSDORF: I have one very quick question. It's just a follow-up on Mana's questions. And Ms. Brunsting, when you testified that every employee receives this training within 10 days of employment, and then it's part of their annual compensation, I would assume that's what you meant. When you say, "every employee," do you mean every employee of the company or every employee of the 272 affiliate, of QCC?

MS. BRUNSTING: Currently today, every new employee has an orientation training package that they take. It not only covers 272, it covers other anti-trust issues, other protections, so that the telecommunication question included 272 on that, because we do feel it's important that every employee have an overview of 272.

Now, if I move into the 272 affiliate, I will then be given access to a more in-depth, detailed training or overview package. Similarly, if I were a network employee in the local company or the BOC, I have another, more specific, defined set of training that's available to me on the Web.

MS. WAYSDORF: Do the employees of the BOC, Qwest Corporation, also receive this more in-depth training on 272 issues?

MS. SCHWARTZ: To the extent that they have direct dealings with the 272 subsidiaries. So, for instance, in the wholesale organization, where the account team contacts reside, they do undergo more specific targeted 272 training. So, just to recap, all

Qwest employees are trained on Section 272 in the annual compliance training. Within 10 days, if they were new hires, and depending on what their specific job functions are, they may have more targeted 272 training.

MS. WAYSDORF: The more in-depth training you said is available on the Web, is that voluntary? Is that a requirement then, that if I were, for example, if an employee moves into Qwest's QCC, you said that more in-depth training is available. By available, it means, you know, you can take advantage of it, if you choose to, or is it a requirement when you are moving into that subsidiary?

MS. BRUNSTING: It is a requirement for those managers to ensure that their employees partake of that additional coverage. It's a requirement that they have that. Likewise, the annual compliance training. That's a requirement that they are covered on that.

MS. WAYSDORF: Thank you.

MR. WOLTERS: Mr. Brunsting, is that dot under laminate or on top of the laminate?

MS. BRUNSTING: It's on top, so your dot

can fall off.

MR. BELLINGER: Then your presentation.

MR. SKLUZAK: I will do that. Ms. Brunsting, I guess I was surprised, and I may have misheard you, but when the question was asked, what sort of services does Qwest Service Corporation provide, I thought I heard you say product design, planning and/or development service.

MS. BRUNSTING: Uh-hum.

MR. SKLUZAK: So, to QCC?

MS. BRUNSTING: Yes.

MR. SKLUZAK: The reason I am surprised is, I guess I was under the impression -- in my direct testimony, I talk about this, starting on page 67, that QC, the BOC, was providing those sort of services to QCC.

MS. BRUNSTING: Prior to the announcement of the new 272 affiliate, and during that transition period from January through March, there were product development and implementation services being provided by QC to the BOC to the 272. After that date, the product development services have all been centralized at the service company level. There are some product managers that reside -- that solely work on local service, for instance. They're in QC, okay? But the product development functions and planning are held at the services company.

MR. SKLUZAK: QSC.

MS. SCHWARTZ: If I could just add, Mr. Skluzak, that list of services was attached in my supplemental affidavit, filed on June 4, to -- there's an exhaustive list of those services.

MR. BELLINGER: Okay. Any one have any further questions then?

MR. MUNN: Hagood, I think Ms. Schwartz would like to respond to some of the allegations made by -- Mr. Skluzak just made now on the record.

MR. BELLINGER: Okay. Mana.

MS. JENNINGS-FADER: I am sorry. Mr. Skluzak, then also Qwest, I am not asking this just of one person. Is there anyone at AT&T who -- or any other CLEC who would like to address -- has any thoughts about the loaned employee policy, the limitation of the policy to four months loan from one company to another. Whether --

MR. SKLUZAK: Rick may want to chime in here, but I will just give you my thoughts on that. We think it's a step in the right direction. I pointed this out in my direct testimony, that it's a free flow of employees, first of all, moving back and forth, which actually is a separate but tangential issue, but also this policy of loaning employees that are 100 percent dedicated for big amounts of time goes against the spirit of Section 272(D) as to separation of employees. If you are going to have actual true separate entities, how can you have an employee that's 100 percent dedicated that originated from QC going to

QCC. This was brought up in lots of detail in the multi-state, and I believe either Ms. Schwartz or Ms. Brunsting, I can't remember which, brought up this formal policy subsequent to that discussion. So, I think it's a step in the right direction. But that does not excuse the past behavior and what's occurring. You will still need to take that into consideration.

MS. JENNINGS-FADER: And then I would like to add -- I meant to ask this earlier and I apologize for not doing so. Could you -- could Qwest explain the derivation of what used to be -- what was the policy, if any, with respect to the loaning of employees for 100 percent dedication as among and between the affiliates. Why Qwest went to four months, and then if Qwest has any plans to reduce that four-month period even further, or is Qwest satisfied with the former time period? So I would like to have a little discussion on that.

MS. BRUNSTING: Okay. The previous 272 affiliate, Qwest Long Distance, over it's probably four years in existence, I don't know of any examples where 100 percent of an employee's time was fully dedicated or that employee was then loaned to the BOC affiliate. If they provided services to the BOC, and the agreement was placed out on the Internet, it certainly was not

100 percent of their time. Their time was charged accordingly, et cetera.

During the transition period, from July 2000 through March, when we identified the new 272 affiliate, in order to correctly allocate a number of the costs, that there are several work orders out there that would indicate we had employees aligned in certain entities, that, therefore, 100 percent of their time was being employed or dedicated to the BOC or the 271. It is our intention, at the onset of putting that policy in place, that would prohibit that loaning, was so that in future transition period reorganizations, however, that we continue to not utilize that loaning of employees or the sharing of employees, and that we would minimize that to a particular service or a part of a certain activity that an employee was providing, because it does, over time, appear to be sharing.

MS. JENNINGS-FADER: Could you explain -- first of all, I understand you talked about QC -- excuse me, the prior 272 affiliates to the BOC. What about from the BOC back to the prior 271 affiliate?

MS. BRUNSTING: I believe we received service from particular --

(Discussion off the record.)

MS. JENNINGS-FADER: Okay. Well, let's

see if we can reconstruct this. Let's go back to the question, which was my question to Qwest about the affiliates, the use of employees by the old Section 272 -- the use of the old 272 affiliate employees by Qwest Communications -- no, Qwest Corporation, the BOC. Okay? And you had some explanation about what that sharing or employee loans or whatever you want to call it may have been, so just repeat that, please.

MS. BRUNSTING: Okay. The services that were previously provided by Qwest Long Distance to the BOC, or by the BOC to the 272 affiliates, premerger, those services were always reduced to writing and posted on the Internet. The types of service that were included there were financial type analysis services. There were some public media type of services that were provided back from the 272 affiliate to the BOC.

What I would say is that, to my knowledge, there was no 100 percent designation of an employee that was on loan to the BOC from the 272, or from the BOC to the 272, both directions.

MS. JENNINGS-FADER: I am sorry.

MS. SCHWARTZ: I would just like to add a cite out of the nonaccounting safeguard order that

Ms. Brunsting had referred to earlier. I am just going for read from this cite. It's in paragraph 179. And it appears on page 9 of my rebuttal affidavit. "We also decline to impose the prohibition of sharing of services other than operation, installation and maintenance services on policy grounds. We find that if we prohibit the sharing of services, other than those restricted pursuant to 272(B)(1), the O&M, the BOC and Section 272 affiliates would be unable to achieve the economies of scale and skill inherent in offering an array of services."

MS. JENNINGS-FADER: Okay. Now, thank you. With respect to the -- I don't believe this answer is now on the record. Can you explain to the commission, please, why the duration -- the policy duration on loaning of employees is four months?

MS. BRUNSTING: A time period was selected to best continue to meet some efficiencies within the corporation. And four months seemed to be an appropriate time period that we could utilize and manage, so that it would be reduced to writing, however, and posted on the Internet. It was one control we could put in place with the time period and manage and control.

MS. SCHWARTZ: I would just like to add that loaning employees is not specifically prohibited by the FCC. So we felt that we had some discretion

there. And it's my understanding that the workshop processes have been kind of give and take. So this was something that we came to the table with to reduce our loaned employee duration times to four months. So, it was a give on our part.

MS. JENNINGS-FADER: Now, with respect to the four months, is that, as I have understood you so far to say, that the prior practice was not to loan 100 percent of an employee's time, but rather to split the employees' time in some way, as a past practice, correct?

MS. BRUNSTING: That was the general understanding, yes.

MS. JENNINGS-FADER: Is that the current practice? That these loans are not 100 percent of an employee's time?

MS. BRUNSTING: The current is, yes. No 100 percent of an employees' time for more than four months at any 12-month period.

MS. JENNINGS-FADER: There's been a change from the past practice?

MS. BRUNSTING: It's an actual policy now.

MS. JENNINGS-FADER: That's not my question. There's been a change from the past

practice? In the past, the policy was not to loan 100 percent of the time. The current practice is that, one, it is possible to loan an employee up to four months for 100 percent of that employee's time?

MS. BRUNSTING: It was always possible to loan -- to utilize an employee for, let's say, up to 12 months in any -- as long as you had it reduced to writing and posted on the Internet. We didn't have a policy that foreclosed that.

MS. JENNINGS-FADER: To do 100 percent of an employee's time up to a year?

MS. BRUNSTING: I do not know of any instance where 100 percent of an employee's time was used.

MR. MUNN: That was her discussion, is that it doesn't occur, the 100 percent of the time.

MS. JENNINGS-FADER: Mr. Munn.

MR. MUNN: Didn't occur.

MS. JENNINGS-FADER: I appreciate that, the fact that you are attempting to help me to understand the witness's testimony. But I would like to talk to the witness about this, because I want to understand what the past policy was and whether the current practice and policy is changed from the past policy. So, let's talk about the past policy.

MS. BRUNSTING: There was not a formal policy.

MS. JENNINGS-FADER: So, one could have had an employee -- this is what I am trying to understand.

MS. BRUNSTING: Yes.

MS. JENNINGS-FADER: One could have had an employee who was, quote, loaned, unquote, to a separate affiliated corporation, the 272 affiliates to the BOC, for 100 percent of that employee's time, up to 12 months. That was the prior policy. Am I correct?

MS. BRUNSTING: That situation could occur, yes.

MS. JENNINGS-FADER: Whether it did, in fact, occur is a different question, but the policy was that.

MS. BRUNSTING: Yes.

MS. JENNINGS-FADER: The current policy, whether or not it occurs, is --

MS. BRUNSTING: Is that the time period is restricted.

MS. JENNINGS-FADER: To four months.

MS. BRUNSTING: To four months. I cannot, 100 percent of the time, utilize an employee for another area for more than four months out of any

12. It's a reduction.

MS. JENNINGS-FADER: Okay. Now I am curious to know, given the list of services performed from the Qwest Services Corporation, shown on Exhibit MES-6, of Exhibit 7-Qwest-3, why is it necessary to have -- what efficiencies are gained from the loan of employees as between the BOC and the 272 affiliate, given the nature of what I think is happening at the service level.

MS. SCHWARTZ: Exactly. I think what Ms. Brunsting has alluded to is that this practice is pretty uncommon. Doesn't happen very often. And, so, there hasn't been -- there hasn't been an, I guess, a lot of emphasis or question or concern around past practices. And to the extent that AT&T mentioned some concerns, that were primarily out of those one-time transactions that took place during the transition period, we basically volunteered to limit our policy to four months. But, again, in either case, the transaction would be posted on the Internet and made available to third parties at the same rate, terms and conditions, but it's pretty uncommon and for the reasons just mentioned; that a lot of the services are actually being provided out of the services company.

MS. JENNINGS-FADER: Right. So, now my

question is, why is there a policy that allows loan of employees at all, notwithstanding the fact that the FCC has not prohibited the practice. Let's put that to the side. What is Qwest's reason for wanting to have the ability to do this loaning?

MS. BRUNSTING: It is a position, on our part, to best and most extensively have the opportunity to utilize our employees in other areas. And also, under certain circumstances, to make that publicly available, but to manage our business.

MS. JENNINGS-FADER: Thanks.

MR. SKLUZAK: Can I make a comment, just a follow-up on this line of questioning?

MR. BELLINGER: Sure.

MR. SKLUZAK: As regarding this employee-sharing policy, there's lots of mention of posting, making publicly available. That implicates Section 272(B)(5), which encompasses the posting and also Section 272(C), which is the nondiscrimination safeguards. But the scope of what I was talking about, this employee lending, is 272(B)(3), which is the independence of employees, and as you probably noted in my testimony, I stated that it went against the spirit, against the substance of this independence that is required by the FCC as far as employees between QCC and

QC. So, I don't want a red herring to be introduced, that we publicly posted, therefore, it's okay, still keep on the 272(B)(3) aspect.

MS. JENNINGS-FADER: Then, if that's true, why, in your opinion, hasn't the FCC prohibited the policy in its entirety?

MR. SKLUZAK: They may indeed, when Qwest makes their application to them.

MS. JENNINGS-FADER: Let's talk about applications that have been granted.

MR. SKLUZAK: Okay.

MS. JENNINGS-FADER: I believe Qwest is correct when it says there's no FCC rule or other requirement that bans the practices entirely. Why, in your opinion, is that true?

MR. SKLUZAK: Perhaps this has never been brought before the FCC. Perhaps there wasn't this incident of 100 percent employee-sharing between two entities. I am not sure.

MR. WOLTERS: And perhaps no company has gone and done as extensive an analysis as we have.

MS. JENNINGS-FADER: I am sorry. I missed the first part of your answer.

MR. WOLTERS: Maybe nobody has gone in

Docket No TC01-165
Qwest Corporation
Exhibits of Marie E. Schwartz
Exhibit MES-272-26
April 2, 2002

and done an audit, like Mr. Skluzak, to look at, on a

transaction-by-transaction basis, and found this practice.

MS. JENNINGS-FADER: Okay. Thanks.

MR. SKLUZAK: Let me say, by Mr. Wolters saying "audit," that's not a financial audit. I did testing of transactions, not a true accounting audit.

MS. JENNINGS-FADER: Okay. Thank you.

MS. SCHWARTZ: I would just like to add to the remarks about the loaned employee policy, just to make sure that we're all clear and of the understanding that to the extent that we do have employees loaned, that was limited to the duration of four months as is the current policy. It would be posted on the Internet. The rates, terms and conditions are made available to any other third party who wanted to --

MR. MUNN: It's not just posted on the Internet. It has to be made available under 271(C) to anybody in this room or outside of this room who wants the same thing.

MR. WAYSDORF: When you say that each individual employee loaned is posted. So, Joe somebody technician, I don't know what -- I am just making somebody up -- his loan would be posted, but something specific to that employee. So, assuming there were 100

such loans, there would be a 100 such postings.

MS. SCHWARTZ: It would be limited to the level of expertise, so we wouldn't be posting people's names, but we would be describing their positions and the functions that they were performing.

MS. WAYSDORF: On an individual employee basis, perhaps without a name, but to answer my other question, if there are 100 such loans, there would be a 100 separate postings.

MS. SCHWARTZ: If there were 100. I guess that question has really never come up. But, the way I would envision it is, if Judy needed three accountants, all of the same expertise level, I would envision that it would basically be that three employees at X level who are accountants and are working on this service for this duration of time.

MS. BRUNSTING: That's right. And it would also be so stated, it was a particular project that they did, so, that would have a price with it, or a particular service.

MS. WAYSDORF: Wouldn't be stated or would be?

MS. BRUNSTING: Would be. It would be

clearly identified in the work order, the service provided by the BOC to the long distance affiliate.

It's in conjunction with the service that this employee performs some function.

MS. WAYSDORF: Okay. Then how would a CLEC or a third party -- a third party would not be able to use one of those accountants, would he?

MS. SCHWARTZ: Well --

MS. BRUNSTING: My understanding.

MS. SCHWARTZ: Sure he would.

MS. WAYSDORF: My understanding, if he is out for three months.

MS. SCHWARTZ: Yes, he would. That's exactly the point.

MR. SUMPTER: Without the name?

MS. BRUNSTING: It's a service.

MS. WAYSDORF: You would loan PacWest, for example, an accountant for three months to perform, I don't know, cost allocation or something.

MS. BRUNSTING: Certain services, certain financial services, if you requested, just as we have requested certain financial services to be performed, the BOC understands and has gone through a process that would say they understand they have to provide that to any other carrier that requests it.

MR. SUMPTER: I have a follow-up

question to that. I am aware that certain individuals

in a company will have a certain degree of expertise or peculiar skill that makes them unusually valuable. And I would assume that, in these limited cases, or at least what you have described as limited cases, of borrowing employees back and forth for a short period of time, I just assumed that you were loaning a particular employee because of the skills of that employee, not just a vague general service. So without the name of the employee, how would a CLEC know that they were getting the same value for trying to obtain the same service from the BOC?

MS. SCHWARTZ: Right. I think it would depend on which employee that we're talking about, and the level of expertise, because I think we're talking about, a great deal, today, in hypotheticals. This doesn't occur very often. We haven't received one single call from one single CLEC or any other interexchange carrier asking for any of these services.

So, what we're trying to do is, I think -- at least I feel a little uncomfortable that we're speaking a lot in hypotheticals about a practice that's not very commonplace. But to the extent that it is important -- let me just add, to the extent that it

CONTINUATION

[4]

Scan ~ ~ # Pgs [ ]

is important and relevant to the decision-maker, who would be potentially interested in buying the service,

the specific level of expertise such that it was so specific that you would have to put the individual's name, I suspect that we would do that. It's just never been envisioned, I don't think, up until this point.

MS. BEWICK: I suspect one of the reasons you haven't had requests, I don't know about anyone one else in this room, this is news to me. It's not news to me that there's the loaning back and forth, but it's news to me -- I guess I never thought about it, that same ability was open to a CLEC. And somehow I am somewhat suspicious that if, in fact, I would just think that loaning between the two companies, based on a business decision that was mentioned earlier, and making the best use of that employee body is part of the business analysis that's used to determine if that loan is going to be granted, somehow I have the feeling that that same CLEC wouldn't kind of place in the same parameters as to whether or not that made sense.

So, I guess I am just sort of skeptical, if New Edge called and said I looked at your services and we would like to take advantage of borrowing someone for a four-month period of time at this same rate that they are being paid and will be paid by you, and everything else, that would stun me if that was ever granted.

MS. SCHWARTZ: But let me just add this additional distinction -- that is the rule, but the other piece of it is when we make a decision about a service that we're going to provide for another 272, we have to understand and keep in mind the likelihood that someone else is going to be interested in the service. And to the extent that we think it's high, and to the extent that we think we don't have the bandwidth to provide it, we may make a decision not to provide that to our 271, because it would put us in a position to have to offer it to others, which we're not willing to do.

MR. SUMPTER: Based on your experience, you're aware that the likelihood of somebody taking advantage of that opportunity is almost zero.

MS. SCHWARTZ: To date, that's correct.

MS. SCHWARTZ: I just want to respond to a couple of remarks that Mr. Skluzak made in his opening. There were a couple of references to, for instance, to the fact that we have strengthened processes. Now, you know, I think that's a great thing. I would hope everybody in this room would be happy to know we're continuing to look at the internal controls at Qwest with regard to Section 272. And to the extent we feel some processes need to be strengthened, then we do that. For instance, when we moved to QCC as our new 272, one of the new processes that we put in place was to monitor the network asset transfers. The LD, the old 272, didn't have any network assets. So we needed a new process at Qwest to meet the requirements of 272 to not have those network assets transfers. So that's one thing that we did. And I think that that's important to understand. I know, Mr. Wolters, I am getting hungry, so I am kind of running through this.

The other item that I wanted to mention, that Mr. Skluzak brought up, was his reference to biannual audit. And that, in the biannual audit, the agreed upon procedures engagement, and there, specifically, the auditors are specifically directed to not use the materiality when reporting discrepancies. That's fine. We have no problem with that. And that's exactly what we're doing today in our controls when we assess our Web discrepancies. We reported every single

one. However, materiality will still be used when analyzing and assessing the impact of those discrepancies. And the FCC did that in BellSouth Louisiana, when they looked at their Web discrepancies, and also in BellAtlantic New York. All Web discrepancies were reported, but materiality was used when assessing those.

I also made some notes about the loaned employee remarks. I think we hashed through that in great detail. And I guess I would just like to wrap-up and say, it is important to understand that we went through a 272 transition period. We named the 272 in January, and we took three months to make it compliant. We couldn't make it compliant on the day that we named it. We needed a transition period. And we had some disruptions during that time period, and we made some mistakes during that time period, and we have corrected them. We also had some discrepancies and issues in the merger transition. Anyone in this room, I think, that's been involved in the merger of two huge corporations, know that things don't always go smoothly. When you try to integrate policies and procedures, you have some disruption, but we have moved past that and we have corrected any of the errors that we found. And it was -- it accounted for one-time disruptions in our processes. Anything else?

MR. MUNN: No. I think that's it for Ms. Schwartz.

MR. BELLINGER: Let me ask a question.

MR. MUNN: We do have, Mana, the bigger print, easier-to-read copy of 7-Qwest-8.

MS. JENNINGS-FADER: Thank you. Ms. Schwartz, I have a question or a request. Could you explain to the commission the nine-month duration of the one-time disruption of the posting of the accounting transactions? What, first of all, was it nine months in duration and secondly, could you explain why there was that nine-month interruption?

MS. SCHWARTZ: I would actually break the nine months down into two periods, the six months from the merger to the end of the year, which we called the merger transition earlier today, and the 272 transition, because I think there are basically two different things going on there which helped to explain and understand what some of the issues were.

We did identify transactions with QCC, the new affiliate, after the merger, in that merger transition period, but, to be honest, we didn't identify all of them, and we were fearful of that. And so as soon as -- in the December time period, and as

soon as we made the decision that QCC would be the 272 affiliate, we brought in additional help to identify those transactions.

Now, we're not talking about a posting error here, because you can't post or you wouldn't be required to post transactions with your 272 affiliate before you even name a 272 affiliate. So, there were no 272 rules in place or required for QCC -- and I hope this is making sense -- in the merger transition period in the latter half of 2000. Those actually kick in once you declare your 272 subsidiary or you turn it up and you turn up the Website. That's what we did on March 26th.

MS. JENNINGS-FADER: All right. So, correct me if I am wrong. Then it's Qwest's belief that there is a zero month interval, which is a failure to account for the affiliate transactions, zero months meaning what you just said, is that for six months it was King's X because it was the merger transition period, and you hadn't named an affiliate. Then the second three months, which is the January, February and March period of 2001, is King's X because you hadn't turned up the affiliate; am I correct?

MS. SCHWARTZ: I wouldn't categorize it quite that way. I would categorize it slightly

differently, I believe, and I think that we have admitted that we didn't catch all of the affiliate transactions in the merger transition period. We made a mistake.

MS. JENNINGS-FADER: Okay. Should you have captured them all in that six-month merger transition period?

MS. SCHWARTZ: Should we have captured all affiliate transactions? I guess it depends. Sure, we should have. And when, at the end of the day, you know, one would argue whether or not we were out of compliance would be based on some level of materiality with the 32.27 pricing rules, and when you look at all of the affiliate transactions that the BOC has with all Qwest affiliates, which is how that's been measured historically, it was immaterial. We caught some but we or we identified some, but we didn't identify all, that's correct.

MS. JENNINGS-FADER: Okay. Then the 2nd three-month period, January, February, May of 2001, and admittedly my expression King's X, but, is it Qwest's position that those three months are not and shouldn't be included in the commission's review because no 272 affiliates had been identified and in Qwest's expression, turned up before the end of March?

MS. SCHWARTZ: I think that I would categorize it as you should -- we would ask that you take into account that we needed some time period to make that 271 compliance. And the FCC gave the BOCs one year to make, you know, when 272 first kicked off, and companies were naming their 272 affiliates back in the LD days, companies had a whole year to make those affiliates compliant. This is kind of new ground. I don't think any other RBOC has been through this, and we made our 272 affiliate compliant in three months. So I guess we would ask that you give consideration to the need for a transition period, which in our case was three months.

CERTIFICATE

KRISTY TURNER, JAMES L. MIDYETT, and HARRIET S. WEISENTHAL, Certified Shorthand Reporters in and for the State of Colorado, do hereby certify that we reported the foregoing proceedings in the first instance, and that later the same was reduced to typewritten form under our direct supervision and control; we further certify that the foregoing is a true and complete transcription of our stenographic notes then and there taken.

Dated ______________________, 2001.

____
KRISTY TURNER

____
JAMES L. MIDYETT

____
HARRIET S. WEISENTHAL
1580 Logan Street, OL2
Denver, Colorado 80203
(303) 894-2825

BEFORE THE PUBLIC UTILITIES COMMISSION

OF THE STATE OF COLORADO

Docket No. 97I-198T - Workshop 7

* * *

IN THE MATTER OF THE INVESTIGATION OF US WEST COMMUNICATIONS, INC.'S COMPLIANCE WITH SS 271(c) OF THE TELECOMMUNICATIONS ACT OF 1996.

CONFIDENTIAL PROCEEDINGS

Pursuant to notice to all parties of interest, the Technical Workshop was held at 8:35 a.m., July 24, 2001, at 3898 Wadsworth Boulevard, Lakewood, Colorado, before Facilitators Hagood Bellinger and Martin Skeet.

APPEARANCES

(As noted in the transcript.)

CONFIDENTIAL PROCEEDINGS

MR. TEITZEL: We're on the confidential portion of the record.

AT&T's response to Qwest's data request -- once again, Confidential 7-Qwest-22, this was discovery request 12-3, stated that as of 12/31/2000, they were serving 81,907 residential access lines over facilities owned by AT&T in Colorado.

So that is a quantity from one single provider in Colorado that would have dramatically exceeded the very conservative estimate that we had used in the other states.

MR. BELLINGER: Is that the end of your confidential?

MR. TEITZEL: Yes, it is.

MS. JENNINGS-FADER: I'm sorry, before we do this, I would appreciate it if AT&T has anything to say with respect to this response, if they could do is now while we're still in confidential, so we don't have to go flipping back and forth, confidential, not confidential.

MR. WITT: At this point we have nothing to stay about this. We certainly provided the information.

As I mentioned earlier on, we should have

asked for a higher level of confidentiality with respect to this information. Obviously that train has left the station at this point.

So we would ask for some higher level of confidentiality when AT&T releases its business data for the same.

MS. JENNINGS-FADER: Okay. But no comment with respect to this particular number of residential access lines?

MR. WITT: None.

MS. JENNINGS-FADER: Okay, thank you.

MR. BELLINGER: Okay, off confidential?

(END OF CONFIDENTIAL PROCEEDINGS.)

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

Case No. USW-T-00-3

In the Matter of US WEST Communications, Inc.'s Motion for an Alternative Procedure to Manage the Section 271 Process.

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

Docket No. INU-00-2

IN RE: US WEST COMMUNICATIONS, INC.

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

Docket No. D2000.5.70

IN THE MATTER OF the Investigation Into US West Communications, Inc.'s, Compliance with Section 271 of the Telecommunications Act of 1996.

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION
Case No. PU-314-97-193
US West Communications, Inc., Section 271 Compliance Investigation.

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

Docket NO. 00-049-08

In the Matter of the Application of US West Communications, Inc., for Approval of Compliance with 47 U.S.C. ss 271(d)(2)(B).

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

Docket No. 70000-TA-00-599

In the Matter of the Application of US West Corporation Regarding 271 of the Federal Telecommunications Act of 1996, Wyoming's Participation in a Multi-State Section 271 Process, and Approval of Its Statement of Generally Available.

BEFORE THE NEW MEXICO REGULATION COMMISSION

Utility Case No. 3269

IN THE MATTER OF Qwest Corporation's Section 271 Application and Motion for Alternative Procedure to Manage the Section 271 Process

---

Pursuant to notice to all parties of interest, Seven-State Collaborative Process, General Terms and Conditions, Forecasting and the BFR Process, was held at 8:35 a.m., June 7, 2001, at 7801 Orchard Road, Englewood, Colorado, before Facilitator John Antonuk

APPEARANCES

(As noted in the transcript.)

MS. SCHWARTZ: Good afternoon. My name is Maria Schwartz. I am a director and FCC regulatory counsel in Qwest Corporation, or the BOC. And I am in charge of our Section 272 compliance. And what I would like to do this afternoon is provide an overview that shows that we're prepared to comply with Section 272 of the act. And so that takes us into the power point presentation material that was handed out earlier. That is MES-5? Six. Okay.

On the second page of the package is a list of our affiliate definitions. And before we get into the actual Section 272 requirements. I would like to walk-through our affiliate definitions, because they can be somewhat confusing. They all sound pretty much the same.

Okay. The top box, some of you can see it in the poster board that Chuck Steese is holding up. And it's also been handed out as an exhibit that I believe is MES-12. It's the one-page corporate chart. It shows Quest Communications International, Inc. the top box, is the publicly traded parent of all Qwest affiliates. Okay. Quest Corporation, or QC, the company that I work for, used to be known as U S West Communications, Inc. And, again, that's the BOC. And here we see Quest Corporation, the BOC, is -- that's that bottom middle box on the chart.

QCC, or Qwest Communications Corporation was the long distance arm of the premerger Qwest. And that's the new Section 272 affiliate that we will be providing long distance service from. And then, finally, Qwest Service Corporation, or QSC is the parent of both QC, the BOC, and QCC, the 272. And Qwest Services Corporation is the middle box here, and that reports up into QCII, or Quest Communications International. Thank you.

MR. ANTONUK: Was that not the same

organization structure as was shown in your direct testimony?

MS. SCHWARTZ: That's correct, Mr. Antonuk.

MR. ANTONUK: There's no change on Exhibit 12 from what was contained in your prefiled testimony.

MS. SCHWARTZ: Correct. That's correct. We just included it for illustrative purposes here this afternoon. Okay. So, let's talk about the specific Section 272 requirements, and that starts on Slide 3.

Qwest Communications International has created a separate affiliate and has proposed to properly operate that affiliate in order to be permitted to offer in-region interLATA service. The Section 272 requirements are as follows: Section 272(A) is the separate affiliate requirement, and that means that we, the BOC, had to create a separate Section 272 company to offer long distance from, and we have. Section 272(B) are the structural and transactional requirements. And that means that the BOC must operate -- the BOC and the 272 must operate separately. 272(C) includes the nondiscrimination safeguards. That means that we, the BOC, must treat the 272 like any other interexchange carrier. 272(D) contains the biannual audit requirement, and that means that we'll have to undergo a special audit every two years. That will begin one year after we offer long distance service. 272(F) includes the sunset rules which address when 272 expires. And then, finally, 272(G) the joint marketing provisions, talk about how we can market local and long distance service together, once we have 271 authority.

MR. STEESE: Ms. Schwartz, you skipped over subsection E. Can you discuss that briefly?

MS. SCHWARTZ: Yes, I can. Thank you, Mr. Steese. 272(E), known as fulfillment of certain requests, contains special nondiscrimination rules that we are prepared to follow.

So, in recapping the 272 requirements, Section 272 defines the separate structure and business relationship that QC, the BOC, and QCC, the 272 affiliate, or long distance affiliate, must operate within.

The next slide talks about the significant events or milestones in Our Section 272 history, and is probably one of the most important charts in my presentation this afternoon. You can see Mr. Steese is holding up a larger copy of that. The first item in our milestones is the fact that Qwest

Long Distance, or what used to be called U S West Long Distance, has had processes in place to be Section 272 compliant since the release of the act in 1996, and has those processes in place today. So, that's where we -- Qwest CC commenced and we educate ourselves and become experienced at operating a 272 subsidiary. Then we move into two significant transition points. The Qwest/U S West merger transition, which most of you, I think, are familiar with, took place last year, from July, basically through the end of the year.

Next we moved into the transition to a new Section 272 subsidiary, QCC. So, as we went through our merger transition, we made the decision to change from Qwest Long Distance to the new 272 subsidiary. And then, finally, that brings us to today, where we know that QCC has all processes in place to be Section 272 compliant. And so, what I would like for you to do is kind of focus on this time line, as we walk through the next three slides, where we talk in more detail about these significant milestones.

But, once again, I would like to recap that Quest Corporation, formerly U S West Communications, has consistently had a compliant Section 272 subsidiary since the releasal of the act.

and this is very important.

MR. STEESE: Ms. Schwartz, very briefly. Is there a particular time frame at which AT&T is focusing in that time line?

MS. SCHWARTZ: Yes, there is, Mr. Steese, and we talk a little bit more about that as we go through transition points in detail. They have really focussed their testimony around the significant events of the merger and the Section 272 transition, okay? On Slide 8, then we talk a little bit about Qwest Long Distance. Again, that used to be called U S West Long Distance. That was our first Section 272 affiliate. It was planned to operate primarily as a long distance reseller. Again, it's been compliant from 1998 to the present.

And then, as Ms. Brunsting's discussion in her testimony, we're planning to merge LD into the new Section 272 affiliate, QCC, sometime in the second or third quarter of this year. So, once again, it establishes for us a five-year history of Section 272 compliance for Qwest Corporation. And, in terms of the impacts of the Qwest merger, I think everybody in this room understands that the Qwest/U S West merger had significant impacts on all operational areas of our business. It was the merger between two very different multi-national companies. One was a local service provider, the other a long distance provider. It required the integration of a nonregulated corporate culture with a regulated corporate culture. Then, in the merger transition, it triggered a decision for us, in the third quarter of last year, to reassess our designated 272 affiliate. The Qwest merger resulted in strategic changes, employee realignment, and other operational changes that had to be executed in compliance with all relevant state and federal regulations. And finally, the last significant milestone were the impacts of the Section 272 transition, something we just moved out of.

In the Qwest/U S West merger, we made, again, the decision to move to a new Section 272 affiliate. QCC and that affiliate was identified in January of 2001. QCC will be primarily a facilities-based provider versus a reseller, like Qwest Long Distance. We had to overlay our Section 272 controls that we had in place for Qwest Long Distance onto QCC, the new Section 272. Moreover, we strengthened the 272 controls that we had in place. And then we have turned that over to QCC, as our new Section 272 affiliate, on March 26th of this year, and that coincides with the unveiling of the QCC 272

Website.

And, as Mr. Steese mentioned earlier, we realized that a merger of this size was going to cause some hiccups and issues in our accounting processes. And AT&T talked extensively about accounting discrepancies that took place during the merger transition and during the second 272 transition, but they gave no recognition in their testimony to the fact that these were basically one-time impacts, and that we have successfully, through our controls, moved through those hiccups, if you will, and made the necessary corrections to operate on a daily basis in compliance with Section 272. Congress gave all of the BOCs one year to comply with Section 272. QCC became our 272 affiliate in only three months.

So, now that we understand how the merger transition and Section 272 transition had some one-time impacts to our controls and processes in Section 272, let's talk about the critical Section 272 requirements. And this is on Slide 8. AT&T was the only party to comment on Quest Corporation's direct testimony concerning our ability to comply with Section 272. And their primary concerns were raised in the following areas common to 272(A), the separate affiliate requirement, 272(B), the structural and transactional provision, 272(C), the nondiscrimination provisions, and 272(G), the joint marketing requirements. We're prepared to offer evidence in this proceeding to show the existence of processes and controls that ensure compliance in each of these areas.

Moving to Slide 9, 272(A), the separate affiliate requirement. QC, or the BOC, may only offer in-region interLATA long distance from a separate affiliate, and we have satisfied this requirement by establishing QCC as our Section 272 affiliate. As we saw earlier on the corporate structure chart, QC and QCC are separate affiliates of QSC, or Qwest Services Corporation. QC, the BOC, does not own any stock in QCC. The 272 affiliate does, QCC, own stock in the BOC. Qwest satisfies the FCC's prima facie test for preapproval order for establishing a separate affiliate, and AT&T concurred with the statement in their direct testimony.

272(B), the structural and transaction requirements. This section creates structural separation between the BOC and the Section 272 affiliate. It assures that these two companies are operating independently; that QCC, the 272, is not receiving preferential treatment that would give it an unfair advantage in the market.

We can demonstrate compliance readiness in these five key provisions designed to ensure separateness. We can show we operate independently; that we have separate books, records and accounts; that we have separate officers, directors and employees; that creditors of our 272 have no recourse to the assets of QC or the BOC; and that all of our transactions are at arm's length, reduced to writing and posted on the Internet.

B(1), operates independently. QC, the BOC and QCC, the 272 do not jointly own network facilities or the land or buildings where those facilities are placed. There can be no transfer of any network facilities from QC to QCC, and there have not been any such transfers. There can be no operation, installation or maintenance, commonly referred to as OI&M, of QC or the BOC facilities by QCC, the 272. Nor can OI&M on QCC facilities BOC be performed by the BOC or any of the other Qwest affiliates, for that matter. QCC cannot provide discriminatory access to network service. We have satisfied the to operate independently requirement, because we monitor asset transfers on a quarterly basis to ensure that we have transferred no network assets between the two companies, and through the extensive training that we have conducted with our network leaders and also our network technicians. QC did not perform any OI&M for QCC or vice versa.

B(2), the separate books and records and accounts requirements. QCC, the 272, must maintain books and records and accounts separate from the books and records and accounts of QC, the BOC. The BOC uses separate financial system controls and edits. We have separate general ledger software that's also maintained at a separate location. We have a separate chart of accounts from the 271. As most of you know, or some of you may know, the BOC follows USOA, or the Uniform System of Accounts while the 272 follows GAAP. QC has sufficient processes in place to maintain separate books, records and accounts, and we satisfy the FCC test from previous approval orders.

B(3), separate officers, directors and employees. QC and QCC must have separate officers and directors and employees, and we do. QC, or the BOC employees who perform functions supporting the 272 are required to report their time so that QCC can be billed appropriately under FCC affiliate pricing rules. Conversely, if QCC performs work for QC, they must report their time and we must bill accordingly. We have satisfied the FCC's test for compliance with separate officers, directors and employees by making our officers list public in the testimony that I filed and the testimony filed by Ms. Brunsting by the fact that we have compared payroll registers to ensure that no employees appear on both payrolls at the same time, and by having strict employee transfer and hiring policies, which I will just touch on briefly. Creditors of QCC may not have resource to QC assets. We have satisfied the no-recourse requirement of Section 272 by reviewing all debt agreements and through extensive training efforts, and AT&T did not dispute our claims of compliance with 272 before.

272(B)(5). 272(B)(5) on the slide appears to be the most critical area of 272 compliance. And, again, that requires that transactions be at arm's length, reduced to writing and posted on the Internet, and they were. All transactions between QC and QCC must be reduced to writing. Our transactions are documented by tariff, by standalone agreement, or service agreements, and we'll talk more about that as we go through our issues list. All transactions between QC and QCC must be posted on the Internet within 10 days. And they were. And we'll talk more about some performance data to prove that as we go through our issues list. Rates, terms and conditions of every transaction must be publicly available to ensure that accounting safeguards are maintained, and they are. All transactions are reviewed by a Section 272 compliance oversight team, of which I am a member. We satisfy Section 272(B)(5) by documenting all transactions, by conducting them subject to the Part 32.27, affiliate pricing rules, and posting them to the Internet within 10 days. We reconcile all transactions to the CAM, or Cost Allocation Manual, to the CAM audit spreadsheets, and to the ARMIS reports, which are all filed with FCC on an annual basis, consistent with the FCC's test for 272(B)(5) compliance.

Let's talk about our performance in Section 272(B)(5), and in terms of our transactions for QCC. If we look at the spreadsheet or chart, there again, the January/February first quarter time frame of this was our 272 transition period. So the first opportunity that we had, after we identified all of our 272 transactions, to analyze and impose some controls on real accounts data was in the March time frame. So, we went through and we matched our -- the price that we had on the Web with the prices that we billed our affiliates, and found that we had a 12 percent discrepancy rate in terms of our total 272 affiliate revenue. In the second month, in April, we had zero discrepancies. And we're committed to continuing to update records in this proceeding to show a sustained level of performance in this area; that we have the ability to keep our discrepancies to a minimum.

MR. ANTONUK: Can you stop for just a second and tell me, generally, how you define what you meant by a "discrepancy?"

MS. SCHWARTZ: Discrepancy, Mr. Antonuk, would be a difference between the price that we have posted on the Web and the price that was used in the actual detail or invoice used to generate the bill.

MR. ANTONUK: So, it's just a difference in the price. It's not a difference in -- it wouldn't reflect differences in other terms and conditions that are posted, like due date for payments, application late charges.

MS. SCHWARTZ: Not in this case, that's correct.

MR. ANTONUK: Okay. Thanks.

MS. SCHWARTZ: Okay. So, once again, we reconcile all of our transactions monthly. That includes the transactions that we bill and also the transactions that we accrue. And any differences that we find are adjusted in the month following discovery. Once again, we expect some issues in the first month of processing, but, virtually, all of our discrepancies between the Web and the amounts billed were eliminated in Month 2.

AT&T mentions these discrepancies extensively in their testimony. Our controls found that first, however. What appears in their testimony were analysis and spreadsheets and reports that we created out of our control process and provided to them. The FCC stated over and over, in approval orders, that BOCs must demonstrate internal control mechanisms reasonably designed to prevent as well as detect and correct noncompliance with Section 272. And I think that's very important to remember.

MR. ANTONUK: That -- and, again, sorry to interrupt -- that 12 percent discrepancy rate, is that for the first quarter of 2001 or is that the March specific rate?

MS. SCHWARTZ: That was accounting data that was processed in the March time frame. 272(C) the nondiscrimination safeguards. QC, or the BOC, must and does make available goods, services and facilities and information it provides to the 272 to other long distance carriers at the same rates, terms and conditions. How do we demonstrate compliance with Section 272(C)? QCC must obtain information and services through the same BOC processes as other interexchange carriers. QCC must obtain any other services through a QC or BOC sales executive team in the same manner as other interexchange carriers. We must post transactions between the two companies on the Internet, and we do.

All new agreements with the 272 are reviewed by the compliance oversight team. QC employees must treat QCC or the 272 like any other long distance carriers. We have demonstrated that we have sufficient controls and processes in place to satisfy 272(C).

272(D), the biannual audit. Again, a very important control in the 272 process. We will obtain a special audit of Section 272 compliance to begin one year after we start offering long distance service, and that will take place every two years thereafter. The FCC has continued to place reliance on the existence of an audit in all of their approval orders. So, it's very important to understand that this is not the only place that Section 272 compliance will be tested and demonstrated.

272(E), fulfillment of certain requirements. The BOC is prohibited from providing any facilities, services or information concerning the provision of access to QCC and unless those same items are made available to other interLATA -- other providers of interLATA service under the same terms and conditions. We're prepared to obtain the biannual audit and we're also prepared to comply with the nondiscriminatory requirements of Section 272(E).

So, what does all of this mean? We have provided sufficient evidence on the record to prove Section 272 readiness. We have had a compliance Section 272 subsidiary since the release of the Telecommunications Act in 1996, Qwest Long Distance. We successfully transitioned to a new Section 272 subsidiary this year, QCC. We have continued to demonstrate that we have sufficient controls in place to comply with Section 272. We'll continue to supplement the record in this proceeding regarding our 272(B)(5) transactions to prove our controls continue to work to keep Web discrepancies to a minimum. And we'll reaffirm our Section 272 compliance through the first biannual audit; and thereafter as long as Section 272 is in place.

We have demonstrated, once we have Section 271 authority, we will carry it out in compliance with Section 272, and thus we have satisfied the FCC's test, and we ask that you find us in compliance with Section 272. Thank you.

MS. BRUNSTING: My name is Judith L. Brunsting. I am employed by Qwest Communications Corporation as Senior Director, 272 Business Development. I represent the 272 affiliate. Previously I held the position of Director of Regulatory and Network for Qwest Long Distance, the previous 272 affiliate. From the creation of Qwest Long Distance, premerger U S West Long Distance, we structured the company as a separate entity created to provide interLATA long distance service upon the BOC approval of Section 271. The company had experience in the separateness requirements of company books, employees, and transactions. We identified processes, controls, to operationalize the business and meet separateness requirements of 271. We had the opportunity to test these processes prior to the merger. I was a part of all of these activities for four years.

Key learnings. 272 needs controls and monitoring, because, as the market changes, and new products are introduced, it will impact the processes that we have in place. In the summer of 2000 months, upon completion of the merger between U S West and Qwest, the previous 272 affiliate, U S West Long Distance's name changed to Qwest Long Distance. In the fall, Qwest revisited business plans initiating internal discussions as to which legal entity would offer the interLATA services in-region. In mid-January, QCC or Qwest Communications Corporation was identified as the 272 affiliate. Plans were quickly implemented to create processes and controls to meet the 272 requirements. Employees were aligned in the appropriate Qwest entity, documentation of all transactions between the 272 affiliate and the BOC were completed. Transactions were posted. Employees were trained, all ensuring the separateness requirements of Section 272.

The 272 affiliate is an organization of

approximately 2000 employees. Employees are located predominantly in Ohio, Virginia, Colorado and Minnesota; however, there are numerous other locations outside of the 14 states where QCC employees reside. The organization has divisions responsible for network, operations, including provisioning, engineering, sales, customer service and marketing. The 272 affiliate currently has operating authority to conduct business in all 50 states, and it also provides interLATA origination in 36 states outside the 14-state region.

Ms. Schwartz has reviewed all of the requirements of Section 272. I would like to focus on three areas where additional efforts have occurred and been put in place by the 272 affiliate. Section 272(B)(2) requires the 272 affiliate to have separate books, records and accounts. The 272 affiliate established and maintains a separate chart of accounts and follows GAAP. We maintain, separate from the BOC, books, records and accounts. We have separate internal financial controls and separate assets documented and tracked in our records.

Section 272(B)(3). The 272 affiliate has no officers, directors or employees that are also officers, directors and/or employees of the BOC. The 272 affiliate employees report to division leaders, which report to the officer team of the 272 affiliate. Further example of how the 272 is separate from the BOC are, the 272 affiliate pays applicable taxes and fees separate from the BOC. The 271 complies with state and FCC reporting requirements separately from the BOC. And the 272 has its own separate payroll.

Following the announcement of the 272 affiliate, Qwest implemented a program whereby employees of the 272 affiliate, the BOC and the services company would receive a clear identifier, a dot, to distinguish which company they represented. It would be a visual indicator to other employees as to which companies all employees represented. Employees then received guidance on the use of information and how to do business between the BOC and the 272 affiliate in compliance with the rules.

MR. STEESE: Ms. Brunsting, really quickly, the dot. How was the dot implemented? Where does it go?

MS. BRUNSTING: The dot is implemented on the upper corner of our I.D. badge, and it is also located on our office tags. So, I, for instance, as a representative of QCC, have a red dot on my badge, which I will show you in just a minute, and also on my name tag at my office. The local company, or the BOC, has a blue dot. The services company, or the parent company of QC and QCC, has a yellow dot. The program -- this program, to raise awareness by employees of complying with requirements in order to reenter the long distance market, was hugely successful. Much to my surprise, I am now fondly referred to as the "Dot Person," and continue to receive calls from employees in other Qwest entities as they want to know when they will receive their dots also.

Finally, to ensure we remain compliant with Section 272, the 272 affiliate educates all employees on the requirements of Section 272 within 10 days of employment. All current employees have received training and complete an annual compliance company review. Employees that have compliance issues receive information on who they can contact to get answers and report potential violations.

Lastly, 272(C), understanding the nondiscrimination requirements of the BOC. The 272 affiliate requests products and services through the BOC sales executive. That sales executive, as with any other carrier, contacts the necessary business units and a manager of the BOC regulatory accounting team. The 271 affiliate has assigned an employee responsible for the negotiation and administration of agreements with the BOCs, as well as with other suppliers.

To conclude my summary --

MR. STEESE: Before you conclude, one more question. During this transition, from the January to the March time frame, where we have identified QCC as the new affiliate, and our transitioning to making it 272 compliant, what was your role in that process?

MS. BRUNSTING: I led the effort to maintain the previous Qwest long distance separate 272 affiliate and led the effort to identify those work activities and those processes that would need to be put in place to bring QCC into compliance.

MR. STEESE: Thank you.

MR. SKLUZAK: My name is Corey Skluzak,

and I am AT&T's witness on Section 272 matters. I filed a direct or reply piece of testimony, and then followed up on that about two and a half weeks later with the supplemental piece.

First off, I would like to talk a little bit about the importance of this particular section. Section 272 can act as a trip wire, if you will, to discriminatory behavior by Qwest, or QCC, if the compliance is properly structured and vigorously enforced. Now, Section 272 is important to protect Qwest's consumers, per the FCC, or any BOCs consumers from paying higher prices for local services because of improper cross-subsidization of the 272 affiliate, which is now QCC, formerly Qwest LD. It's also important to protect the competitive long distance landscape once QCC gains 271 approval, so that we don't see havoc wrecked on the interLATA in-region long distance. And failure to comply with Section 272, I may add, constitutes an independent grounds, according to the FCC, for denial of the Section 271 application.

Major parts of my testimony are devoted to my findings as a result of three separate on-site reviews and contemporaneous testing while I was on those on-site reviews at Qwest headquarters. One caveat here is the FCC has noted that paper promises cannot satisfy a BOC's burden of proof. In other words, you have to have more than just paper assertions. My purpose on these on-site reviews was to put Qwest and QCC's assertions, and also Qwest LD's assertions of compliance to the test, if you will. My predecessor at AT&T on 272 matters also conducted reviews. He conducted two separate reviews, so altogether, the two of us were over there five times conducting on-site reviews.

My initial on-site review was somewhere in August of 2000, when this matter was first on the docket. I followed up in April, after the change to the 272 affiliate, and because of the passage of time. And then I supplemented a few weeks later, because a certain amount of accounting data was not provided to me, but it was subsequently, and that was the subject of my supplemental testing. So --

MR. ANTONUK: That was in May?

MR. SKLUZAK: That was -- I believe it was in late April, perhaps first few days in May. I have the date specific in my testimony. I don't want readers of these testimonies to get confused by all of these various on-site reviews. Just keep in mind it was initial follow-up and supplemental, thus three phases as far as my involvement. Most -- once again, most of my two pieces of testimony dealt with findings from these on-site reviews.

Ms. Schwartz mentioned that perhaps one of the most important sections that is in dispute is Section 272(B)(2), and that also includes the accounting treatment. It is still my conclusion that GAAP is not being followed by QCC as required by the FCC. They are not accruing, based on what I looked at from month to month or from year to year. And they were not recording in a timely fashion. And sometimes, in some of these examples, we're seeing lags of up to 12 months in timely recording of accounting data.

Especially egregious to QCC is on pages 12 through 14 of my supplemental testimony. I discussed the complete failure to book billable transactions between Qwest and QCC for a nine-month period, beginning in July of 2000. Now Ms. Schwartz, both today and in her testimony, discussed the fact of transition periods. But I don't know of any FCC ruling that would allow Qwest, or any BOC, a waiver from the 272 requirements simply because they're transitioning. Also, under 272(B)(5), QCC --

MR. ANTONUK: Excuse me. I want to make sure I understand -- I am with you before you get too far ahead of me. The findings you just talked about was that services were provided that were not billed until nine months after they were provided.

MR. SKLUZAK: That's correct. And I think they were finally billed in March of this year. So, we're talking going back to July of 2000.

MR. ANTONUK: Okay. Thanks. I understand now.

MR. SKLUZAK: Also, Qwest does not properly record amounts to the FCC ARMIS reports. There's much talk in the testimony of Qwest and QCC as to the audit by Arthur Andersen of ARMIS reports. I went on-line in the FCC and looked at those ARMIS reports. What I found was only one entry, on the 2000 ARMIS reports, for Qwest for approximately 1.5 million of services sold by Qwest to QCC. I saw no entries whatsoever for services going the other way, i.e. QCC to Qwest. This is on page 13 of my supplemental testimony.

272(B)(5) also deals with public disclosure of transactions. As has been mentioned here today, there's a 10-day posting requirement to the Website. The purpose of this is to allow other IXE, AT&T, MCI, whoever, the needed information to determine whether they want to always make available or rather purchase certain services or facilities. Also, this is to allow the FCC to determine compliance with various accounting safeguards. What Qwest and QCC are actually doing is they're posting blanket agreements to the Web, and then they follow-up with task orders and work orders. And I believe Ms. Schwartz or perhaps Ms. Brunsting talked about task and work orders. One is for services flowing to QCC. The other is for services flowing from QCC. Expenses and revenues of QCC. So they post these blanket agreements, master service agreements, and other names, but they do not post the individual billable transactions. For example, if QCC actually sends 25 of its people over to Qwest to work on marketing, the actual billing takes place, the actual timing takes place, that actual transaction, that billable transaction, you will never find on the Websites.

Now, ironically, you used to be able to, because a reconciliation, once upon a time, was posted, I believe, for '96, '97, up until '99. Per data request, I believe they said, starting January 1st, 2000, that is no longer the case as far as specific billable transactions. They do not timely post work orders and task orders. None of the task and work orders for QCC, since becoming a 272 affiliate, were posted prior to the end of March 2001. My reference is page 9 of my supplemental testimony. This is especially alarming, given that U S West and Qwest have been professing compliance with the 10-day posting rule and five separate on-site reviews found numerous examples again and again and again. A concrete example, page 11 of my supplemental testimony, Item F. Qwest was using QCC's network equipment for almost nine months, starting from July 2000, but the task order was not posted until the end of March 2001. This means that any competitor who may have wanted to use this service wouldn't have known about it until it was posted.

Separation of employees is another area that is at issue. May I interject here. I am just hitting some highlights. I am not going into my opening presentation, into joint marketing, or 272(E), but that does not mean that it's still not an issue. Separation of employees. Qwest strategies in this area seem to be -- to devote many resources to find the bare minimum to pass the form test. They haven't even been getting that right. Here's some specific examples of this. Example one, page 17 of my supplemental testimony, Item E. Joseph Nacchio -- by the way, let me stop right here. I am about ready to discuss some confidential matters. So, I don't know if you want to take that up here.

MR. STEESE: So as long as we understand what we're briefing, that's fine. The first issue raised by AT&T we call Issue 272-1. I am just going to call them Issues 1 through 20 from now on. Basically, it amounts to a claim that we didn't meet our separate affiliate requirements because they didn't believe we met, basically, our 272(B) obligations. And here we certainly understand that's an issue that AT&T has raised, but since we're going to go into the 272(B) issues -- we must satisfy the Section 272(B) to meet the requirements of Section 272 -- it would be our recommendation that we leave this issue aside and move onto the substantive issues. Is that acceptable, Mr. Wolters?

MR. SKLUZAK: I would just add that you are correct. 272(A) is more like a transitive thing. If you meet 272(B), and by transition property, you would meet 272(A). The converse is also true. It's also a procedural matter.

Docket No TC01-165
Qwest Corporation
Exhibits of Marie E. Schwartz
Exhibit MES-272-27
April 2, 2002

MR. STEESE: Ricky, I just looked at and, to me, I think Mr. Antonuk hits the button on -- nail on the head, I would like to say, when he said the discussion here shouldn't be, are we following GAAP. It's are we following the requirements of 272(B)(2) and (B)(5), in terms of having separate books, records and accounts, and in terms of making sure we're posting transactions to the Internet, making them available publicly as required.

And so, I see this as not the issue to be briefed as much as some of the other issues that Mr. Skluzak has identified, and so I am wondering if we could move past this one.

MR. WOLTERS: I don't think so. I mean, you either comply with GAAP or you are not. There's a requirement that you comply with GAAP. I mean, so, I think you just can't ignore it, whether they are complying with GAAP or not.

MR. ANTONUK: Yeah. I guess I am having trouble disagreeing with either one of you, either side here. I am trying to tie it in here.

MR. WOLTERS: Your statement, I tend to agree with. When you look at size, when you look at independence -- when you look at it from the materiality perspective, whether this amount is material to the company as a whole may be very material when you look at the LD subsidiary in isolation. But the FCC said, look at the Section 272 affiliate, see if it's complying with GAAP.

MR. ANTONUK: Yeah. And they also said we want to buy into the audit, so, by definition, they are saying it takes more than something like this annual review with outside auditors, because they do go on to impose a specific requirement. My only point is, I don't think this opinion tells you a lot about -- I don't think this is giving me a lot of evidence on whether or not 272 is being met or not. And I also don't think that a general conclusion about compliance with GAAP or noncompliance with GAAP is going to help me address 272 either. I think what's going to help me address it is, what are you doing specifically with respect to the transactions that are covered by 272. And, you know, obviously you need to be following GAAP in that context. But that's not really where it's at here. Where it's at here is, are the transactions being posted timely? Are they being posted accurately? Are they giving CLECs what they need to know, the questions like that.

MR. ANTONUK: Okay. So we're actually on separate accounting software.

MR. WOLTERS: Right.

MR. ANTONUK: I stopped listening after

separate. I thought we were on the one we were talking about. Okay. I am with you now.

MS. BRUNSTING: I will just finish this quickly. QCC's general ledger is maintained on the People Soft FRED system. That is the classic Qwest general ledger package. This server for operating this system and data are located on hardware that's located in Arlington Virginia. The general ledger system for QC, the BOC, is maintained on the People Soft Profit System, which is the classic U S West general ledger package and server for this operating system. And the data are maintained on hardware at the Zuni facility here in Denver. Although separate software and operating locations are shown here, they are not a requirement of the detailed QCC separate books, records and accounts.

MR. STEESE: And I thought that we might be able to move past this issue, Rick, and we can get back to chart of accounts.

MR. SKLUZAK: Regarding -- so who is actually doing the payroll for FCC and QC? I mean, who's actually taking in all of that data? Cutting the checks? Who is administering the payroll? And the reason I am asking, I don't see it in this reference to my testimony, but somewhere in my testimony I talk about, you know, I looked at task orders, I looked at work orders where the parent is doing the payroll and then Qwest Corporation is doing the payroll. And then perhaps QCC is doing financial stuff for Qwest. It's like a lot of circular tasking going on. So, perhaps if you could clear up that confusion.

MS. SCHWARTZ: The payroll functions are performed at Qwest Corporation, the BOC. And that is -- that's identified on the Internet and available for other interexchange carriers. The BOC provides payroll services for the Qwest family of companies and bills and prices accordingly.

MR. SKLUZAK: So, services corporation is not providing payroll services?

MS. SCHWARTZ: Not at this time; that's correct.

MR. SKLUZAK: Were they once, because somewhere in your testimony that's definitely stated. That's positively stated.

MS. SCHWARTZ: I don't recall that in my testimony. There should be an exhibit of all of these services that the service company is providing to the BOC.

MR. SKLUZAK: Okay.

MS. SCHWARTZ: So that can be verified.

MR. SKLUZAK: Okay.

MR. WOLTERS: Ms. Brunsting, why don't we just go back to your statements then, where you state one of the servers hardware and software, I guess, is in Arlington, you said.

MS. BRUNSTING: Arlington, Virginia; that's correct.

MR. WOLTERS: One set of hardware servers and software is in Denver. Explain to me, then, what functions are being provided in those systems, then, generally.

MS. BRUNSTING: Those are the QCC general ledger system. That would be the normal general ledger accounting, wherever you record transactions for all of QCC and those line items entries. QC's general ledger would record those specific transactional activities separately for that entity.

MR. STEESE: Rick, what we're getting to here, when you are looking at B(2), we have separate books, records and accounts, and we interpret, we think, correctly Mr. Skluzak's comments that it's hard to segregate the two books, records and accounts. And we're saying they are not only separate, but they are maintained on separate systems.

MS. SCHWARTZ: And I would further add to that, that if we look at precedent in previous approval orders, that the FCC has been satisfied with just the statement that the general ledgers are separate, and although not required, that they are kept at separate locations. So we have met the requirements associated with that piece.

MR. SKLUZAK: Alluding to my other question. I am looking on page 11 of my May 4th testimony, Item D. This is where I found what I was thinking I remembered, where I talk about separate accounting software. According to testimony filed by Ms. Brunsting, about QCC, the 272 affiliate accounting and finance functions are performed by the services company, which is not the BOC. And I guess that's why I was confused when you tell me that the BOC is performing the payroll functions. So, I guess the payroll is not accounting and financial functions.

MS. SCHWARTZ: It's not specifically included; that's correct.

MR. SKLUZAK: Okay.

MS. SCHWARTZ: So, to the extent we're basically permitted to provide any service to the 272 subsidiary, with the exception of OI&M. What's required of us, when we provide HR services, finance services, whatever, HR, is that we put it on the

Internet and we price it according to FCC rules, and we make it visible to other interexchange carriers. So there is no prohibition or restriction associated with the types of services that the BOC might be able to provide to the 272, with the exception of OI&M.

That's also true with regard to services that would be provided by the service company. We can avail ourselves of services by the service company with no restrictions, except to the extent that we follow the OI&M rules and we follow the affiliate pricing rules. So, there's no requirement for us to have all finance functions performed out of one subsidiary. We just need to make sure we follow the rules when we make decisions about how we're going to procure those services.

MR. SKLUZAK: My comment on that, Mr. Antonuk, is elsewhere in the system Qwest and QCC state they are being conservative. They are trying to go beyond the requirements to make sure they get this tied down correctly, and I find it curious here that the parent, QCI, is doing the accounting finance functions for the payroll and the payroll is being done by the BOC. And the BOC and QCC have a number of employees going back and forth. I don't know if it's a marriage of convenience, but I just find that curious.

MR. ANTONUK: Is the parent doing it or the service company? When you say the "parent," you mean the intermediate parent?

MR. SKLUZAK: The intermediate parent, which is the service company.

MR. ANTONUK: I, actually, I did want to stop us for a minute here. This reminds me of the Rockies game I saw a couple of days ago. They gave me a seat so high up, I couldn't see the name on the jerseys. I am having that trouble here.

MR. SKLUZAK: Okay.

MR. ANTONUK: When you talk about Qwest, you mean QC generally?

MR. SKLUZAK: That's correct.

MR. ANTONUK: When you were talking the parent, generally speaking, what that means to you, the service company, not the grandparents you are talking about.

MR. SKLUZAK: In this context, yes.

MR. ANTONUK: Qwest, your terminology tends to be QC is the BOC and QCC is the 272 company.

MS. SCHWARTZ: Correct.

MR. ANTONUK: If you are going to talk about the service company, you are calling it the service company.

MS. SCHWARTZ: That's correct.

MR. ANTONUK: If you are talking about the parent, you are talking about -- is QCI the umbrella, the granddaddy?

MR. STEESE: Yes.

MR. WOLTERS: We'll adopt that terminology.

MR. ANTONUK: Okay. As long as I get squared away here. I think it will help me. Are there other --

MR. WOLTERS: -- players?

MR. ANTONUK: Should we fill out the score cards a little bit more? Is that going to do it pretty much?

MR. STEESE: Mr. Skluzak, I hear you are saying that you are curious, and in that --

MR. SKLUZAK: I say it is curious. I am not necessarily curious.

MR. STEESE: -- in this particular case, do you question that we are maintaining, at least from a system perspective, separate financials? Do you question that particular point?

MR. SKLUZAK: Well, you know, unless I found other matters in my testing, I guess I can't -- I would have to take you on your promise, your assertion.

MR. STEESE: Can we move, then, onto or back to Issue 2(B).

MR. ANTONUK: First I want you to tell me -- I believe your testimony talked about a lot of employees moving when you went through the transition and created the new 272 affiliate. Can you tell me, sort of, where most of the movement was from and to in terms of numbers? Did they mostly move to the service company? Did they mostly move from the 272 to the BOC? Just have some -- generally, I would like to kind of get a sense of flow.

MS. BRUNSTING: The flow was predominantly from QC to the service company, and those employees were moved because their functions would greater support all of the entities of the Qwest family of companies. And QCC, some functions moved into QSC. I would say there were predominantly more QC functions that moved to QSC then QC, but both did. There was probably less than 100 employees moved between QC and QCC. So the direction was moved from local or 272 company BOC, up to the services company.

MR. ANTONUK: So, your service company operations, prior to this recent change, were not really all that substantial, I am taking it.

MS. BRUNSTING: No.

MR. ANTONUK: Virtually all of the G&A type of work was done inside of what's now the BOC?

MS. BRUNSTING: That's correct.

MR. ANTONUK: Just to close this, you said -- quickly. What kind of G&A functions did you decide were better left at the BOC rather than moving them up to the service company? Payroll, for example. Was there a strategic kind of consideration that was underlying most of those decisions or G&A?

MS. KNAPP: Part of the plan we had to do, is, as you are aware, we do have bargain-for employees in the regulated company, and the service that we're talking about, as far as payroll is concerned, a lot of that is done by bargain-for employees. That takes a lot of work to move that group of people. That's why it's staying at the BOC at this point. And when we do perform those services, we have pricing all established and we do affiliate bill for that.

MR. WOLTERS: I didn't hear what you said. What kind of employees?

MS. KNAPP: Our union, bargain-for. We can't move people back and forth without labor issues.

MS. BRUNSTING: I would also add to Ms. Knapp's statement, in that the major functionality or support that moved from the BOC and the 272 up to the services company were public policy functions, HR functions, some other procurement functions, and product management functions. Those types of service, type of shared functions is what was realigned up to the services company, and greater centralization of the finance functions.

MR. ANTONUK: So fleet management, for example, sounds like it's probably still at the BOC.

MS. BRUNSTING: Yes.

MR. ANTONUK: Facilities management, the things where you tend to see what -- well, where the staffing is not blue-collar, to use the old fashioned term, it -- they tend to move. But where it is -- does consist of bargaining-unit employees, it's pretty much, at least for now, stays where it is -- where it was. All right. I understand enough about that now.

MR. STEESE: I think that I saw some head-nodding here; that we can move back to B(2).

MR. WOLTERS: Sure.

MR. STEESE: The question here, do the BOC and QCC have separate charts of accounts, and Ms. Schwartz will address that.

MS. SCHWARTZ: Yes, we do. And the BOC chart of accounts was attached as a proprietary exhibit

Docket No TC01-165
Qwest Corporation
Exhibits of Marie E. Schwartz
Exhibit MES-272-27
April 2, 2002

in my direct testimony, and the 272 chart of accounts was attached as a proprietary exhibit to the testimony of Ms. Brunsting to allow a direct comparison of the fact that they were different. So, we believe we have satisfied the requirement to establish that we have separate charts of accounts.

MS. BRUNSTING: I would also like to add that Qwest Long Distance, or the previous U S West Long Distance entity, had its own separate chart of accounts, separate from that of the new 272 or the BOC.

MR. SKLUZAK: And I said, I would agree that they do have a separate chart of accounts; however, I would like to ask one question of clarification. Once again, this is delving into a proprietary matter.

MR. ANTONUK: Go ahead. We'll be on the closed portion of the transcript now.

(Whereupon the following proceedings were excerpted and are under separate cover.)

PROCEEDINGS CONTINUED

MR. STEESE: So, now I think we move to Issue No. 4. And here's the question is, AT&T has recommended that Qwest go through functionally a 272(D) audit before we get into the interLATA market. The statute specifically says one year after is when the 272(D) requirements begin. And then every two years thereafter, for as long as 272 is in effect. And Mr. Brunsting, do you have some comments from a FCC decision on this point?

MS. BRUNSTING: Yes. Okay. In Docket CC-96-149, nonaccounts safeguard order, Paragraph 203. At that point, the FCC recommended, in paragraph 203, I believe, the release date on that order was December 24th of 1996.

MR. ANTONUK: What was the docket again?

MS. BRUNSTING: There's a cite in that paragraph that states:

"After some conclusion, the FCC ruled on the issue of a proposed audit at the end of 12 months after the first date and two years thereafter, as this would assure an operational period with adequate information and data to audit. Therefore it is our position that an audit is not necessary at this time. The one year of actual operational data is what has been recommended, and no other BOC has been required to have an audit performed to this date prior to 271 approval."

MR. STEESE: Let me add one more point. If you look at the specific paragraph referenced in the nonaccounting safeguard order, it was Qwest's -- strike

CONTINUATION

[5]

Scan ~ ~ # Pgs [ ]

that. It was a number of BOCs requests that the first audit occur not one year after, but two years after we were in. And AT&T and, I believe, it was WorldCom -- if you can pull that up that would be great. WorldCom recommended no, no, it should come one year after. So, the specific request of when the first audit should be done was made by AT&T and WorldCom, and the FCC specifically granted them that, and it's one year after the 271 entry occurs.

MR. ANTONUK: And it's probably just coincidental, whichever choice you make means there's either one audit or two audits in the three-year period. What that means, the audit has to be completed at the end of 12 months, or it must start no later than 12 months. These audits presumably take sometime.

MS. SCHWARTZ: The audit would be conducted within the first year of operations, so it would start within that first year. And there would be an audit of the first year of operations; is that correct?

MS. KNAPP: (Nodding in the affirmative.)

MS. SCHWARTZ: Then it would occur two years later.

MR. ANTONUK: So that audit period would be the first 12 months of operation after 271 -- the 271 approval date.

MS. SCHWARTZ: That's correct.

MR. ANTONUK: Presumably the audit report is going to come in several months after the completion of the audit.

MS. SCHWARTZ: Typically two to three months, I suspect.

MR. ANTONUK: Okay.

MR. WOLTERS: May I have the citations you gave, please?

MS. BRUNSTING: 96-149 docket, paragraph 203. And I believe the release date on the nonaccounts safeguard order is 12/24 of '96.

MR. WOLTERS: That's the nonaccounts safeguard order?

MR. SKLUZAK: Mr. Antonuk, if I may.

MR. ANTONUK: Yes.

MR. SKLUZAK: The genesis of this discussion is page 11 of my direct testimony, or reply testimony. May 4, Item F, where I suggest -- and I didn't make this as clear as I should have. I suggest to the multi-state commissioners that, given Qwest's track record on GAAP compliance, failure to timely record accounting transactions, it may be a good thing to do an audit to see if they're GAAP compliant, because in order to determine compliance with the section, with this section, I wrote Qwest LD must be auditable. Now QCC must be auditable. How are you going to determine that unless you do an audit?

MR. ANTONUK: So you are not objecting to the statement of the general requirement. You are saying that there are special conditions here that support an earlier than otherwise required audit.

MR. SKLUZAK: That's correct. If you read my comments in context, I talk about 272(D), but I don't hang my hat on that, if you will. It's a, you know, this isn't the FCC. This is the state commissioners recommending to the FCC. And I would suggest that that should be one of the recommendations.

MR. ANTONUK: So, your goal would be to have the results of -- that you had it available to the FCC when it makes a decision about 271 for Qwest?

MR. SKLUZAK: Or prior to it getting to the FCC. You know, do an audit on the internal controls they have here. You know, they already have affiliate transactions going. They could audit those, as I tested.

MR. WOLTERS: The testimony she's filed says they made that decision in January 2001.

MR. ANTONUK: Yeah. What does that mean?

MS. SCHWARTZ: That's correct. The decision was announced or the designation was announced that we were going to change the 272 subsidiaries. And so, Ms. Brunsting was named to head that transition, which we talked about earlier, took, you know, basically a three-month period for us to overlay the 272 controls that we had in place at Qwest Long Distance onto the new 272. That also coincides with the time frame that we brought in Arthur Andersen to help us.

We knew -- we felt like we didn't have our arms around all of it, and we needed some help. We brought in accounting professionals to help make sure we identified all of those services. We got those accounted for and we got those posted, as you mentioned, turned those all up on March 26. So that January to March time frame was basically the Section 272 transition. We needed three months to become compliant.

MR. MUNN: Mr. Antonuk, I have information to provide here.

We just checked with our people back at the office that provided the information for Mr. Skluzak to look at. And we have been told that the information for QLD was provided in the -- for Mr. Skluzak's review in the April visit, the data for the first quarter of 2001. So I don't know what the disconnect was there, because -- I hear what you are saying is that you didn't see QLD data for first quarter 2001. Our people say that they have provided that to you in the room at the time, with the other documents.

I just wanted to --

MR. ANTONUK: Well, Mr --

MR. SKLUZAK: Mr. Munn -- Mr. Munn, the discrepancy may be in the phrasing of the word data. Data may be trial balances; but, to me, it means actual billable transactions that would afford me an opportunity to test, to trace, to do the auditing procedures that I was doing.

MR. MUNN: And that characterization is consistent with what we provided to you in the April time frame.

And, again, I want to say I wasn't in that room, but that's what the people that are on the ground, putting the documents in the room, have just confirmed with us. So --

MR. ANTONUK: Well, what if they did give you transaction data for QLD after December 31st, '00; because you would have assumed that data didn't have anything to do with the 272 affiliate anyway, wouldn't you --

MR. SKLUZAK: Well --

MR. ANTONUK: -- based on what else you knew?

MR. SKLUZAK: Well, I -- I'm sorry.

I would assume it didn't -- I knew that Qwest LD was still being kept on as a 272 affiliate to be merged later. But I just assumed there's not going to be a lot of pertinent activity. I had a short amount of time to get this done and get my testimony out; let me focus on the new affiliate, QCC, which is what you and all the other folks in this room are going to probably want to hear about.

MR. STEESE: Mr. Antonuk, if I can be so bold, I think Mr. Skluzak would agree now that there isn't going to be a lot of material to review.

MR. ANTONUK: Right.

MR. STEESE: And we can't stipulate that QCC became a 272 affiliate when the decision to make it an affiliate didn't occur until after January 1. We just can't stipulate to that.

And then when you make a decision to turn a 2000-person company into a 272 affiliate, it can't happen overnight; by definition, it just cannot. And so -- I mean, there has to be a period of time over which you work diligently to get that accomplished. And we did it in less than three months and that is why you are seeing all those transactions posted on March 26.

MR. STEESE: So, Mr. Wolters, just so I understand the issue then, what you are saying is that you would agree that if we have separate officers and directors, inquiry over, but for the fact that you think there were instances when we have not had -- when we have had similar officers and directors? And so this raises the specter of problems for you, and so your real issue is you think there's times when we overlapped; is that correct?

MR. WOLTERS: I believe there are instances where you have.

MR. ANTONUK: The overlap that's prohibited is -- is strictly as between the 272 affiliate and the BOC?

MR. WOLTERS: I believe that's correct.

MR. ANTONUK: Okay. And there can be no common directors whatsoever?

MR. STEESE: Correct.

MR. ANTONUK: And no officer can have executive responsibilities for each --

MR. STEESE: Correct.

MR. ANTONUK: -- at the same time?

MR. STEESE: Correct.

MR. ANTONUK: Okay.

MR. SKLUZAK: Well, the FCC stated in their Ameritech Michigan order that the intent of Section 272(B)(3) is that there be some form of independent management and control of the two entities, i.e., the BOC and the Section 272 affiliate.

In my opening statement, I gave several examples of an overlap between officers, directors, employees, and I would just like to reiterate those. They can primarily be found in my supplemental testimony on pages 15 and 16. And Qwest actually, in Exhibit MES-5, they do have the references, but they did not include reference also to paragraph 37, wherein I talk about Robin Szeliga -- I'm not sure if I'm pronouncing that correctly -- Robin Szeliga, who, when I went over to Qwest headquarters, she was the person that signed certification statements as required by the FCC for both QCC and Qwest; which then the assumption is that she's an officer of both QCC and Qwest. That clearly is not correct and that's not a separation.

But then I go on to state that she is senior vice-president of Qwest -- of Qwest. She's executive vice president and chief financial officer of QCC and Qwest LD. And I just explain how many different hats she's wearing and how it's a violation.

MR. ANTONUK: This is true as of what point in time?

MR. SKLUZAK: I wrote this on May 17th, 2001.

MR. STEESE: May we address that, Mr. Antonuk?

MR. ANTONUK: Yeah, unless -- have you got others?

MR. SKLUZAK: I do.

MR. ANTONUK: Well, it might make sense --

MR. STEESE: That's fine. Let's hear the whole list. I thought he was finished. I apologize.

MR. ANTONUK: Would you -- there are two ways we can do this -- I'll let you choose, Mr. Skluzak: We can do -- we can have the response as you go through each example or you can give your whole list of examples and then have a response.

MR. SKLUZAK: Let's let Mr. Steese respond, because then I get into proprietary ones and we can go to proprietary on the record as to the second and third point.

MR. ANTONUK: Sounds fine.

MR. STEESE: Is Mr. Cruciatti also -- I thought we could deal with Mr. Cruciatti at the same time. You claimed Augustine Cruciatti was also -- we can deal with that and we can deal with both of them in response and then go to the proprietary ones.

MR. WOLTERS: Did you claim that the information is proprietary? If you claim it is proprietary, that's fine.

MR. SKLUZAK: Right.

MR. STEESE: You are looking at your

exhibit?

MR. SKLUZAK: Yes.

MR. STEESE: Ms. Brunsting, has there been an instance when Ms. Szeliga has been an officer of both a BOC and 272 affiliate at the same time?

MS. BRUNSTING: During the transition period last year, right after the merger; from July 21 of 2000 until January 1 of 2001, Robin Szeliga held a position in both entities.

MR. STEESE: But at that point they were not yet a 272 affiliate?

MS. BRUNSTING: They were not, that's correct.

MR. STEESE: At the point when QCC becomes a 272 affiliate, is there any commonality?

MS. BRUNSTING: No. Robin no longer holds any positions, officer wise or director, with QC, the BOC.

MR. STEESE: And is that true as of March 26?

MS. BRUNSTING: That is true as of March, yes.

MR. STEESE: Then I have a question for Ms. Schwartz as to the verification question that Mr. Skluzak raised.

(Discussion off the record.)

MR. WOLTERS: Chuck, let's go back to the last question. What was the last question again?

MR. STEESE: Was Ms. Szeliga -- as of March 26, this year, has there been ever been a point after that that Ms. Szeliga has been a director or officer of both QC and QCC?

MS. BRUNSTING: No.

MR. WOLTERS: But January 1 through March 26, she was an officer of QCC and Qwest?

MR. STEESE: I believe that's correct. And it's our view that that was not our 272 affiliate at the time.

MS. BRUNSTING: That's right.

MR. ANTONUK: So she changed -- she dropped one of the positions as of March 26 --

MS. BRUNSTING: Yes, correct.

MR. STEESE: -- or shortly before that?

MS. BRUNSTING: Right before that.

MR. STEESE: Now, Ms. Schwartz, getting to the question that Mr. Skluzak asked with respect to whether or not Ms. Szeliga signed verifications for both companies, can you please talk to that situation?

MS. SCHWARTZ: Okay, this is actually identified in Issue No. 272-8. And the question was:

Was Robin Szeliga an officer of the BOC when she signed the 272 certificate? And, no, she was not. As Ms. Brunsting alluded to, we were in the process of changing our officer slates in order to make them 272 compliant. And we didn't have the slate filled for the BOC; and so because Ms. Szeliga signed the ARMIS reports or had other FCC authority, she signed the officer certification.

So -- and in that sense, that was an error on our part. So we have now had Mr. Mark Schumacher, who is a finance officer at the BOC, sign those certifications. And those certifications were attached as -- they were attached in my rebuttal testimony.

MR. WOLTERS: So at the time this lady, Ms. -- what was it?

MS. SCHWARTZ: Szeliga.

MR. WOLTERS: -- Szeliga signed the certificate on behalf of the RBOC, she was not an officer?

MS. SCHWARTZ: Of the RBOC, that's correct.

MR. ANTONUK: What was the mistake? Did she think she was --

MS. SCHWARTZ: I think that the mistake

was that there -- there wasn't clarity around the level of authority that was needed to sign the certification.

The FCC is very specific that the -- that the signature must come from an individual who is an officer of the BOC. And because that -- that position had not yet been named, she was a financial officer of the parent of the BOC and also had signed the ARMIS reports, she signed the certification.

So we've subsequently corrected that.

MR. ANTONUK: Is there a title block under the signature?

MR. SKLUZAK: I -- I don't know offhand.

MR. ANTONUK: Okay.

MR. SKLUZAK: I would say a corollary to this FCC-required certification is, I saw Ms. Szeliga's signature, I believe, not on my -- my second review, but on my first review, back in the fall of last year, and my predecessor's two reviews prior to that; on those three reviews, we saw no certification statement on file, despite asking for it.

MR. STEESE: And that's correct. When you look at the certification statement -- I mean, it -- the FCC has said, When we file our 271 application, we must certify; so we certainly understand our obligation to do that. And in the past, since we weren't taking this to the FCC, we saw that as an unnecessary step for the states.

Out of an abundance of caution, we've done that here; and, obviously, the first time we did it, we made an error.

MR. ANTONUK: And just for my perspective, to close this off, and then you gentlemen pursue it as you wish: Is Qwest saying that her mistake was that she believed she was still an officer of the BOC or was her mistake that she did not realize that she had to be an officer of the BOC to make the certification?

MS. SCHWARTZ: The latter.

MR. ANTONUK: Okay.

MR. SKLUZAK: Just in closing on Ms. Szeliga, I also note in my testimony that as to QCI -- once again, the parent of QCC and Qwest -- she was also executive vice president and chief financial officer. And that gets back to Mr. Steese's prior comments.

So I'm just bringing closure to Ms. Szeliga.

MS. BRUNSTING: Okay, the question for Issue 6 is: Can employees move from the BOC, Qwest Corporation, to the 272 affiliate, QCC, and vice-versa without violating 272(B)(3)? And there is no requirement in 272(B)(3) that prohibits the movement of employees. However, as Qwest understands the separateness requirements of Section 272, the safeguards that Qwest has put in place to limit the flow of information and the use of proprietary information are as follows:

Upon acceptance of a position with Qwest, the employee is required to sign an offer letter which includes commitments that the potential employee understands the code of conduct, the conflict of interest, and the company policy on protection of information.

Employees are required annually to review the code of conduct that provides guidelines for sharing affiliate transactions, other relationships with the various affiliates of Qwest.

And, lastly, when an employee leaves a particular legal entity within the Qwest Corporation to accept an external position or accepts a position with another entity within Qwest, an exit interview is conducted which collects all of the assets of the entity and reminds of employee of the nondisclosure of information requirement that Qwest requires.

All information is collected from the employee as to recorded information, electronic information, and any access that employee might have to other types of information.

MR. STEESE: Mr. Skluzak, I realize that you talked about employees going back and forth. And one could read that two ways, arguably, that one was simultaneously an employee of both companies; do you think it's inappropriate for an employee to move from one company to the other?

MR. SKLUZAK: I do. And I would -- this isn't on the Issue Log, which is, once again, Exhibit MES-5, but references to my direct -- actually I would include paragraph 28 and 30. In paragraph 30, I talk about the Section 272(D), biennial audit procedures; and I quote -- I don't know if you want me to quote all this stuff or not, because basically what they require is this transfer of employees between the BOC and the 272 affiliate. Evidently the audit procedure wants to know about the transfer of employees between the two entities.

I then use that to -- to basically build my case, saying this shifting of employees back and forth between the two companies, once again, is in violation of the spirit of this particular section as to separate employees. And it's -- it's buttressed by the biennial audit procedures. And I list a number of examples in my May 4th testimony, as well as my supplemental testimony, of employees moving back and forth.

And one that I can think of right off the top I of my head is a number of the employees from one entity spending 100 percent of the their time -- 100 percent devoted to the other entity. Then I get into the argument, this is certainly circumvention of the section. They may meet the form in that they are on separate payroll ledgers, i.e., they are getting their check cut from Qwest and from QCC; but where the Qwest employees are spending 100 percent of the time with QCC, what's the difference? It's a circumvention of this requirement that there be independent employees.

MR. ANTONUK: That's, I think, a pretty different issue --

MS. BRUNSTING: Right.

MR. ANTONUK: -- from the one Ms. Brunsting you addressed.

So I think if you might respond to the issue of having someone who is nominally on one payroll but routinely charging all of his time to the other.

MS. BRUNSTING: Okay.

MR. SKLUZAK: So I guess maybe it's

really a characterization of Issue 272-6.

MR. WOLTERS: A and B. A being the employees going back and forth, and B would be an employee spending all of its time for the other company.

MR. ANTONUK: Before even you do that, let's sort of get -- let's get Mr. Skluzak out a little bit then on your issue because I think he was talking mostly about another one. I understood Ms. Brunsting's comments to apply principally to someone who makes a transfer of employment from one to the other, and not someone who is going to be doing that back and forth, back and forth, back and forth.

But somebody reaches a point where -- where he says, I would rather work for QC than QCC and I want to quit my employment with one and begin employment with another. Is that a problem in your mind?

MR. SKLUZAK: Well, actually, I address that, Mr. Antonuk. On page 14, I talk about the fact that what could happen is that QCC and Qwest employees, even though they may have these colored dots, that doesn't necessarily mean that -- that they are going to treat each other like pariahs; they are going to engage in off-the-record transactions. And, once again, that violates the intent of this separateness of employee transactions.

But -- I'm looking for something in my supplemental that I wanted to share with you.

MR. ANTONUK: That's true whether or not the person has switched from one to the other, isn't it? If you have two employees who have spent their whole careers, one at QC and the other at QCC, it sounds to me like that potential you are talking about is the same. Is it exacerbated somehow if one has gone from one to the other?

MR. SKLUZAK: I think it is.

Let's say somebody has spent their entire career at QCC; now, all of a sudden, they are transferred to QC. All of his contacts, friends, what have you, are over at the old entity. It's just human nature, he's going to be talking business or what have you back with his old colleagues, off-the-record transactions.

MR. ANTONUK: That would be prevented by a prohibition on an intra-Qwest transfer?

MR. SKLUZAK: I guess I don't have a concrete suggestion for you. I'm just suggesting that -- I mean, going back to Qwest LD, it's replete with examples of these two entities intermingling with their employees and going back and forth, back and forth.

You know, if you isolate it and say -- I mean, you can never do it. I can't say that, certainly. That would be nonsensical.

But on the other extreme, are you going to have this free flow of movement constantly? Why then even have the section, why have the separateness section?

MR. STEESE: Mr. Skluzak, do you -- you are concerned -- what I'm hearing you say is you are concerned because if you were at a company for a period of years, your friends would be there and you would be wanting to call them up and talk business and that's what's prohibited. That's what I'm hearing you say.

MR. SKLUZAK: I think that would be human nature, yes.

MR. STEESE: What about all the employees that leave Qwest and go to AT&T or go to WorldCom or go to -- name your other carrier? Doesn't that happen all the time?

MR. SKLUZAK: To the extent they are not blocked by confidentiality agreements or not-to-competes.

MR. STEESE: Isn't that exactly what

Ms. Brunsting said that we already have in place, as well, to go intercompany?

MR. SKLUZAK: Well, I don't know. We're here -- here, today, we're talking in the context of 272.

If my friend leaves AT&T to go to MCI, that isn't in conflict with 272. We have specific requirements that Qwest is -- has to meet.

MR. STEESE: But you said -- the way I take your comments, if an employee leaves and goes to -- leaves QC and goes to QCC, they are going to know the people to contact at QC to kind of eviscerate the 272 obligations. That's what I'm hearing you say. But they could just as easily go to WorldCom or Sprint or AT&T or -- name your other carrier -- and they are still going to have those contacts.

MR. SKLUZAK: Yes.

MR. STEESE: So what's the problem? I mean --

MR. SKLUZAK: The problem is, those other companies aren't under obligations per Section 272.

MR. STEESE: And so -- but the whole point is, it seems that you are talking about the spirit. I mean, Qwest is complying with the form, but are not complying with the spirit; and the reason there is a problem is because people will talk. And you are acting as though people don't talk if they go to other places. That's not a sensical comment.

I mean, if they go to AT&T and they were working with Ms. Brunsting, they are not going to be able to say, I never worked with Ms. Brunsting, I don't know how things work.

Your comment is basically, if we, AT&T, are the benefit factor of an employee that knows who to call and contact and they were willing to violate the rules, then it's okay; but for us, Qwest, it's not okay. You have to get to that level of being willing to violate the rules that everyone puts in place to make sure this doesn't happen, whether it's for you or for another -- or for QCC.

MR. SKLUZAK: This is not an idea made out of whole cloth. This is not nonsensical. Why do you think the biennial audit procedures require procedures to document these employee transfers?

MS. SCHWARTZ: I was going to ask you that question earlier, Mr. Skluzak. What is the purpose of that procedure?

MR. SKLUZAK: I'm not entirely positive. But they -- evidently the FCC, through their biennial audit procedures, thinks it's pretty important to put it in there.

MS. SCHWARTZ: Right. And my interpretation of those procedures is, in order for them to satisfy themselves that there are separate employees and that there are no employees appearing on both payroll registers, I believe -- that's my interpretation.

I don't have the procedures in front of me, but when Mr. Skluzak was citing the procedures to document transfers, then I was curious as to the purpose of the procedure.

MR. ANTONUK: How long is the procedure?

MR. SKLUZAK: You mean as to read it?

MR. ANTONUK: Yeah.

MR. SKLUZAK: Not that long. I can read it for you.

MR. ANTONUK: Let's do that.

MR. SKLUZAK: Reading from page 12 of my reply testimony dated May 4, paragraph 30, Biennial audit procedures: Obtain a list of officers and employees and -- and employees who transferred from the BOC at any time to each Section 272 affiliate and determine whether the company's internal controls have been implemented.

Also, interview these employees to

determine whether they used any proprietary information -- skipping some stuff here -- 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.

Then continuing on, Obtain a list of all employees of each Section 272 affiliate -- skipping some information -- inspect the company's files which indicate employee's 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, to document number of employees, number of times and dates each employee transferred back and forth between the BOC or any other affiliate or Section 272 affiliate since February 8th, 1996.

MR. ANTONUK: Okay, thank you.

MR. SKLUZAK: So, once again, to reiterate, this isn't an idea I'm just pulling out of the air. I'm basing it on what Section 272 audit procedures require.

MS. SCHWARTZ: Right. And I -- I believe that the -- that the evidence that Ms. Brunsting just mentioned with regard to our hiring and transfer policy speaks to the first part of the biennial audit procedures you mentioned.

And then the second part of the procedures have to do with ensuring that no employee appears on both payrolls at the same time. So it has to do, you know, with employees not being in two places at once and not sharing inappropriate material, which I believe our internal policies have addressed.

MR. WOLTERS: I would disagree that that was the sole purpose. They wouldn't need all the information about the number of times the dates and everything to determine whether they are both on the same, you know, payroll, at that -- at the time of the audit.

MR. ANTONUK: Well, there's -- I grant you there is clear concern about the use of confidential information; but at the same time, I think there is pretty clear recognition in that -- in what was just read that such transfers will happen and are expected to happen. And I thought the issue we were focusing on was whether or not those kinds of transfers either should be limited in number or proscribed all together.

And I read that rule as sort of suggesting pretty clearly that -- that the FCC wasn't ready to say they should be prohibited, but that they should be policed.

MR. SKLUZAK: And neither am I. You know, I agree with Mr. Steese -- or characterizing what he said, it would be nonsensical not to have any transferring of employees between these two, but it needs to be properly policed.

MR. ANTONUK: Okay.

MR. STEESE: Won't that happen with the audit? I mean -- I'm hearing you say that 272 isn't satisfied today because employees have transferred back and forth. And we're saying we have processes in place.

And what I don't understand is, since we have processes and procedures to make sure confidential information isn't disclosed, and there is a recognition by the FCC that some transferral can occur, why is it a 272 prohibition today, which is the way I read your testimony -- maybe incorrectly?

MR. WOLTERS: I think you have to go back once again to the Act. It says you will have separate employees.

And I think what Mr. Skluzak's testimony says is that you have 20 employees at the LD company, for example, and a thousand at the other and they are going back and forth; at some point, all the employees have shifted back and forth multiple times. And at some point you have to say, by all this shifting, they, in essence, aren't separate because they worked in both companies multiple times.

And at some point you have to draw the line and say there is no longer separateness. I mean, one -- I think what Mr. Skluzak said is it would be nonsensical to say zero; but at some point, I think you have got to draw the conclusion they are no longer separate. That's our point.

MR. STEESE: Do you have any information or any evidence, Mr. Skluzak, of two things: First, that there has ever been a person that has been an employee of a 272 affiliate and the BOC at the same time or is it just this shifting back and forth that you are talking about here?

MR. SKLUZAK: Right off the top of my head, I can't think of any example or instance that I found where I saw employees on both payroll registers. I didn't -- I didn't get to look at both payroll registers.

MR. STEESE: Then second is, do you have any instance or any specific example you can cite to where a person went from either QCC or QC, whichever it is, to the other and then back again? Or is it -- or is there just situations where there has been some shifting?

MR. SKLUZAK: I believe in my May 4th testimony I did talk about shifting back and forth as between Qwest LD and Qwest or the former U S West LD and U S West.

MR. ANTONUK: And remember, now, as Mr. Skluzak was using the term, it's not limited to employee transfers; it also extends to employees who remain on the payroll of one but are assigned essentially full time to the other.

MR. STEESE: That's a different issue.

MS. BRUNSTING: That's different.

MR. ANTONUK: But I think they were not separate in his analysis. So if we're going to talk about his testimony, I think by definition we're talking about the two of them together.

MR. SKLUZAK: Here's --

MR. ANTONUK: I think it makes sense to break them down for analytical purposes.

MR. SKLUZAK: Here's an example which is in direct confirmation or response to Mr. Steese's comment. Page 14, May 4th testimony, Item F -- this is where I talk about the transfer of employees. I state that during my on-site review of some of the financial records of Qwest L -- of Qwest LD's financial reports, I noted several transactions related to bonuses or team awards paid to former employees of Qwest LD that had since been rehired by Qwest.

I could not determine the names or number of employees as this information had been blacked out for my review.

The use of the word rehired connotes that these employees were once employed at Qwest (or U S West) went to the LD affiliate and then returned to Qwest. After returning to Qwest, the employees received team awards.

The choice by Qwest to black out this information raises an appearance of impropriety. I reviewed terminated work order RMLD-099 on Qwest's website called Go for the Gold/Bold Goal. This is a program from U S West to Qwest that rewards employees for customer referrals and cost savings ideas.

U S West LD employees were allowed to participate in this program. So I guess my conclusion on that is the appearance or the assumption is that, yes, indeed, employees did move from one entity to the other and then back again.

MR. STEESE: And that's based on the assumption that rehired means that they were once originally with the BOC?

MR. SKLUZAK: And I think that's a reasonable assumption.

MR. STEESE: Ms. Brunsting, is that --

MS. BRUNSTING: To my knowledge, there were no employees that moved from QLD to QC and then back to QLD.

MR. SKLUZAK: Is it possible?

MS. BRUNSTING: It is possible, but they would have not been on either -- both payrolls at the same time.

MR. WOLTERS: But you said there was no employees that went from QLD to Qwest and QLD.

MS. BRUNSTING: QLD to QC and QC back to QLD.

MR. WOLTERS: But this reference here is from Qwest to Qwest Long Distance and then from Qwest Long Distance to Qwest. That's the rehire, here, it's referring to.

MS. BRUNSTING: Okay, I would have to check on that.

MR. STEESE: I -- I suppose that we have two points here: One, it doesn't matter if you go back and forth. The comments, as Mr. Antonuk said, say you can do that. And second is, we don't necessarily agree with the assumption that rehired means rehired to this -- to Qwest Corp.

MR. ANTONUK: Is there another plausible assumption or alternative?

MR. STEESE: Rehired could mean rehired to the Qwest Corporate -- I mean to Qwest, previously with some place in Qwest, rehired after they left.

MR. ANTONUK: To go to a third-party for some time, you mean?

MR. STEESE: Or to have retired for a period --

MR. ANTONUK: Okay.

MR. STEESE: Whatever it might have been.

MS. BRUNSTING: I would also reference or respond to the work order that you mentioned on page 14 in Item F. The work order on Qwest Long Distance website called, Go for the Gold/Bold Goal, I'm aware of very conscious efforts that occurred in that Qwest Corp. -- or U S West Communications at that time -- would be willing to offer incentives on that program to any other carrier that wanted to submit ideas, cost savings, or sales promotions.

They were fully aware, that's why that was posted to the website, is so that we were following those generally available terms and conditions. They were reduced to writing, priced appropriately, and posted on the internet so that other IXCs would have knowledge that those services or compensation issues were being handled back and forth.

MR. STEESE: Can we get to Subsection 2, if you will, of Mr. Skluzak's --

MR. ANTONUK: Yeah, I'm -- if that's the issue of whether there is or isn't a problem in having someone employed by one of the two target companies --

MR. STEESE: That's it.

MR. ANTONUK: -- and assigned routinely 100 percent of the time to the other?

MR. STEESE: That's the issue.

MR. ANTONUK: Okay.

MS. BRUNSTING: In the particular areas where an employee was assigned 100 percent of their time, billing 100 percent of their time in the 272 affiliate to the BOC, those were for specific periods of time. They were for specific functions, specific project work. And agreements were put together, it was reduced to writing. The appropriate pricing was followed, billing occurred; time reporting was kept, and the it was posted to the internet for public availability.

In the case where the long distance company employee is doing 100 percent of their work for the BOC, there isn't the nondiscrimination issue where the long distance company would have to offer those services to anyone else. What we are required to do is follow the rules, post, make it available -- make it knowledgeable, and then follow through with the necessary transactions. And we complied with that.

MR. STEESE: What about the flip? If the flip were to occur and a QC employee were to do work for QCC, can you go through how that would work?

MS. BRUNSTING: A QCC -- a QC employee doing work for QCC, we a -- the long distance affiliate or 272 affiliate requests the service; the oversight committee actually makes the determination if they want to provide that service to the 272 affiliate, knowing that they are making a determination at that time.

If they provide the service to the 272 affiliate, they will need to open that up and provide that to any other IX -- interexchange carrier that would want those same types of skills, services, et cetera. We're quite specific on the level of expertise by employee grade or pay; and more likely than not, they are for specific short periods of time.

MR. ANTONUK: Did your analysis cover a long enough period, Mr. Skluzak, to determine whether these people were more or less permanently assigned across the neutral zone?

MR. SKLUZAK: Um, Mr. Antonuk, in most cases I didn't see or -- I didn't look at actual names, so I -- I can't answer that.

MR. ANTONUK: Okay. So it wouldn't have been possible to tell from your analysis whether that was someone working 100 percent of his or her time on a two-month project or whether that was someone who had been assigned to a position for maybe 24, 28 months to the other affiliate?

MR. SKLUZAK: Well, as to the one example I pulled out about the 100 percent, which is Item 8 on page 16 of my supplemental, I believe that was for a discrete period of six to nine months, not -- certainly not 24 months or something like that.

Once again, I would just reiterate that all these examples on both my supplemental and my initial testimony on May 4th that talk about employees of one entity being devoted or -- 100 percent, 50 percent, what have you, to the other entity, once again goes to the concept of a circumvention of Section 272(B)(3).

You know, they may be on separate payroll registers, get the payroll checks cut by the various entities; but to the extent they are spending

100 percent of their time, 50 percent, 60 percent, it's a skirting of the rule.

MR. STEESE: May I ask a question of Mr. Skluzak?

The period you are mentioning from August 1, 2000 to February 28th 2000 --

MR. ANTONUK: The period again was?

MR. STEESE: April 1, 2000.

MS. BRUNSTING: August.

MR. STEESE: Excuse me. August 1, 2000, to February 28, 2001.

MR. SKLUZAK: As to which one?

MR. STEESE: The 100 percent, six employees.

MR. SKLUZAK: I'm unsure. I didn't put the date down here.

MR. STEESE: I'm looking at your subparagraph B on page 10, like you said.

MR. SKLUZAK: Page 10?

MR. STEESE: Am I looking at the wrong one? Which page -- I thought that's what you said.

MR. SKLUZAK: I'm sorry, page 16. It's subparagraph B.

MR. STEESE: Do you know the time frames that that was in relationship to?

MR. SKLUZAK: I do not look at -- or know it by looking at my testimony here; but if I were to look at my work papers, that might refresh my memory. I might be able to do that.

MR. STEESE: Do you have them here?

MR. SKLUZAK: I do.

MR. STEESE: Can you look at those quick?

MR. ANTONUK: Only for your reference, while Mr. Skluzak is doing that, this will wrap it up for today. I'm not in the neutral zone, I'm almost in the outer limits.

(Discussion off the record.)

MR. ANTONUK: We're ready.

MR. SKLUZAK: I have looked at my internal work papers here. And, once again, my comments on my work papers have been taken off the actual transaction detail which was stamped proprietary.

MR. STEESE: Why don't we go to proprietary --

(Pause.)

MR. STEESE: In terms of the dates -- just the dates. We won't consider those confidential.

MR. SKLUZAK: Okay. About half of the amount of that invoice was for the date July -- span of dates July through December 2000 and about half was January through March 2001.

MR. STEESE: Say that one more time, the breakout.

MR. SKLUZAK: The total amount of the invoice was (CONFIDENTIAL NUMBER) and change. About half applied as to the period July through December 2000 and the other half for the period of January to the end of March 2001.

MR. STEESE: The amount was not supposed to come out.

(Discussion off the record.)

MR. ANTONUK: Let's strike it.

MR. SKLUZAK: Let me repeat that once again. This selection here, about half of that amount of that invoice was as to July through December 2000, that period; and the other half of that invoice amount was for the period January through the end of March 2001.

MR. STEESE: Can you tell when the actual work was performed? You said there was six months of work. When was the work performed? Is it the same or is it just that's when the invoices were issued?

MR. SKLUZAK: Can I say six months of work?

MR. WOLTERS: Uh-huh.

MR. STEESE: Yes.

MR. SKLUZAK: I did.

MR. ANTONUK: Or six people?

MR. SKLUZAK: It actually would be nine months of work, July to the end of March, 2001. So I misspoke.

MR. STEESE: As to the work from July through December, you would agree, would you not, that there would be no prohibition; because even by your comment that QCC became an affiliate on January 1, there would be no obligation at that point to handle employees going back and forth between companies in any particular way for 272(B)(3) purposes, correct?

MR. SKLUZAK: Under Section 272, there would not be an obligation.

MR. STEESE: And to the extent that these services continued through March 26; and assuming again that -- and I realize you challenge this -- that QCC became a 272 affiliate in late March, it would appear, would it not, that this time period when the employees were being retained, for the most part, if not exclusively, preceded QCC becoming the 272 affiliate, using our assumption?

MR. SKLUZAK: Okay, that was a very long

question, but I think I got the gist of it. And I would say, subject to our strenuous objection of the assumption of March 26 being the beginning date of the 272 affiliate, I would say, yes.

MR. STEESE: Do you have any examples in your testimony of an employee -- you might have, I haven't focused in on the dates, and in many instances dates aren't listed -- that postdate the 26th of March?

MR. SKLUZAK: Well, most of my testing as to those transactions which were finally reconciled or caught up in March or April only went up to the end of March. I don't recollect if there was some activity in April or not.

But I would also add that we shouldn't forget that I also wrote extensively about this employee problem as to Qwest LD in my -- in my initial testimony dated May 4.

MR. STEESE: I think on this particular issue, I think Ms. Brunsting's testimony from Qwest's perspective wraps this up; and that is, to the extent that there is some employee that is working for one -- or employed by one -- strike that -- and doing work for another, there has to be a transaction accounted for on the website. Qwest has done that.

And there is no prohibition; in fact,

Qwest thinks quite the opposite, the FCC has recognized that this kind of work can go on. The corporation -- the BOC -- must realize, as Ms. Brunsting said quite well, that a decision to allow services to be extended to QCC places on QC the obligation to extend similar services to other IXCs. And as Qwest understand -- Qwest Corp. understands its obligation, it is exactly what it's doing.

MR. SKLUZAK: And AT&T would stand on what is written in the two pieces of testimony.

I would also just mention, once again, that on this Exhibit MES-5, it should not be taken as complete reference of AT&T's reference to this particular issue.

MR. ANTONUK: Anything else on this issue?

(No response.)

MR. ANTONUK: Then we will stand in recess until 8:30 tomorrow.

We can go off the record now.

(Discussion off the record.)

(Whereupon, the workshop recessed at 5:43 p.m.)

CERTIFICATE

KRISTY TURNER, JAMES L. MIDYETT, and HARRIET S. WEISENTHAL, Certified Shorthand Reporters in and for the State of Colorado, do hereby certify that we reported the foregoing proceedings in the first instance, and that later the same was reduced to typewritten form under our direct supervision and control; we further certify that the foregoing is a true and complete transcription of our stenographic notes then and there taken.

Dated ____________________________, 2001.

____
KRISTY TURNER

____
JAMES L. MIDYETT

____
HARRIET S. WEISENTHAL
1580 Logan Street, OL2
Denver, Colorado 80203
(303) 894-2825

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

Case No. USW-T-00-3

In the Matter of US WEST Communications, Inc.'s Motion for an Alternative Procedure to Manage the Section 271 Process.

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

Docket No. INU-00-2

IN RE: US WEST COMMUNICATIONS, INC.

DEPARTMENT OF PUBLIC SERVICE REGULATION
BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF MONTANA

Docket No. D2000.5.70

IN THE MATTER OF the Investigation Into US West Communications, Inc.'s, Compliance with Section 271 of the Telecommunications Act of 1996.

STATE OF NORTH DAKOTA
PUBLIC SERVICE COMMISSION
Case No. PU-314-97-193
US West Communications, Inc., Section 271 Compliance Investigation.

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

Docket NO. 00-049-08

In the Matter of the Application of US West Communications, Inc., for Approval of Compliance with 47 U.S.C. ss 271(d)(2)(B).

Docket No TC01-165
Qwest Corporation
Exhibits of Marie E. Schwartz
Exhibit MES-272-28
April 2, 2002

BEFORE THE PUBLIC SERVICE COMMISSION OF WYOMING

Docket No. 70000-TA-00-599

In the Matter of the Application of US West Corporation Regarding 271 of the Federal Telecommunications Act of 1996, Wyoming's Participation in a Multi-State Section 271 Process, and Approval of Its Statement of Generally Available.

BEFORE THE NEW MEXICO REGULATION COMMISSION

Utility Case No. 3269

IN THE MATTER OF Qwest Corporation's Section 271 Application and Motion for Alternative Procedure to Manage the Section 271 Process

---

Pursuant to notice to all parties of interest, Seven-State Collaborative Process, General Terms and Conditions, Forecasting and the BRF Process, was held at 8:35 a.m., June 8, 2001, at 7801 Orchard Road, Englewood, Colorado, before Facilitator John Antonuk.

APPEARANCES

(As noted in the transcript.)

MS. SCHWARTZ: Issue 7, does Qwest have separate payrolls. In my direct testimony I did indicate that we have verified that the payrolls as between the BOC and the 272 are separate and that is one of the FCC's tests for compliance with Section 272 (b)(3).

AT&T raises in their testimony a concern that the administration of the payroll is not separate. That is not required by the FCC. As a matter of fact, the FCC did contemplate that the BOC and the 272 would be sharing administrative services and found that to be appropriate in terms of achieving economies of scope and scale. The only services that they actually forbid, as we mentioned yesterday, was the provision of operation, installation, and maintenance services.

As long as the BOC and the 272 follow the affiliate pricing rules and they post according to Section 272, it is appropriate that we share the administration of pay rolls.

MS. SLUZAK: I see two issues here. The first issue per Ms. Schwartz's testimony, it was written that she oversaw the verification of payrolls. I'm not sure what "oversaw" means. I don't know if she was personally involved in the comparison payroll ledgers, whether a report was submitted to her by subordinates. I'm unsure as to the level of verification. That's issue one.

Issue two, on the separate payroll administration, Ms. Schwartz is correct. I was in error when I said that it was an FCC requirement that there be separate payroll administration.

If you were to look at paragraph 28 of my May 4th testimony, I did write that in prior orders the FCC used as evidence of compliance the names of officers and directors submitted by the BOC and affiliates on whether separate payrolls and administrative operating systems are present, then I cited to the Bell South Louisiana II order. The FCC uses this as evidence of clients with (b)(3), and it indeed is not a requirement.

MR. STEESE: Am I hearing you say this is no longer an issue and we can move on to the next issue?

MS. SLUZAK: I'm still uncertain if in substance there is separate payroll administration. I think that's still up for debate.

What isn't is that it's not a requirement. The FCC merely looks at it as evidence of compliance.

MR. STEESE: Ms. Schwartz, does QC provide payroll administration for QCC?

MS. SCHWARTZ: Yes, it does.

MR. STEESE: Is there a transaction posted on the 272 Web site acknowledging this?

MS. SCHWARTZ: Yes, there is.

MR. STEESE: Would Qwest Corporation, the BOC, be prepared to provide similar services to any other IXC or did it wish to request it?

MS. SCHWARTZ: Yes, we would.

MR. STEESE: Given that, Mr. Sluzak, doesn't that satisfy your concern?

MS. SLUZAK: Once again, they look to separate payroll administration. I guess we have to delve into, what does that mean? Completely different systems or is it okay for the BOC to provide this service, different locations? Perhaps we should flush out.

MR. STEESE: If you look at 272(c), isn't it true that -- I'm going to try to be very precise here, that we may not discriminate between, and I'm summarizing, IXCs including our 272 affiliate in the provision or procurement of goods, services, facilities, and information. So isn't this just another service that if we provide it, we have to provide it to you as well at the same rates, terms, and conditions, and doesn't that resolve the issue?

MS. SLUZAK: I don't have Section 272(c) so I take you at your word. Here we go.

Mr. Steese, when I quoted the FCC from the Bell South Louisiana II order in paragraph 28 of my initial testimony, I'm unsure if the context was as to Section 272(b) or 272(c).

All I know is what I read in that particular FCC order. They looked at separation of payroll systems as evidence of compliance with Section 272(b)(3).

MR. WOLTERS: I think it would help if Ms. Schwartz just explained, or Ms. Brunsting, how the payroll process works, how it's within QSC or how it's done. Are there separate systems or is there some administrators? And just give a background on how that's done because there's really no evidence on it. I think that may help us. How is the payroll done for the corporation?

MR. STEESE: That's fine.

MS. SCHWARTZ: I'm happy to explain that. Before I make that point, I guess I would like to say again that there's a very important distinction between having separate payroll registers to ensure that we have separate employees and the administration of payroll services.

Qwest has one payroll system maintained for all Qwest affiliates, and those services are provided out of the BOC or QC, as we mentioned yesterday, primarily from the perspective of the consideration of bargain for employees.

Does that answer your question, Mr. Wolters?

MR. STEESE: If you're saying we do not

have separate payroll administration?

MS. SCHWARTZ: That's correct.

MS. SLUZAK: Again, that is what I was following up pursuant to the FCC's order in Bell South too, simply that is evidence there isn't separation. You may sit back and say, what's the big deal? What is the big deal? When you take a global look at all these small items in totality, what is happening here is that there isn't separateness as to this section. There isn't a separate payroll administration, there's rampant sharing of employees; there's employees of one entity dedicated 100 percent to the other. I think you need to step back and take a look at the global picture.

MR. STEESE: If that's the case, we can add this as part of the impasse brief. Given that the FCC has specifically said two things, first, that from a 272(c) perspective if we provide a service such as payroll administration, by definition we have to offer it to other IXCs or offer it to our 272 affiliate. Mr. Sluzak's acknowledgement that the FCC has specifically found this to not be a requirement, we see this as a nonissue.

MR. STEESE: The next issue transitions us away to 272(b)(3), separate officers, employees, and directors, into 272(b)(5) which is the fact we have to conduct ourselves at arm's length with each other and post transactions on the Internet.

The first issue is issue No. 11 which has to do with, does Qwest post transactions within 10 days as required? I'll hand this issue to Ms. Schwartz.

MS. SCHWARTZ: Yes, we do post transactions within the 10-day requirement. Yesterday we submitted Exhibit MES-9 which is a spread sheet which basically details the transactions that were posted on the QCC Internet site, and indicates we've got an average posting date of 4.7 days.

MS. SCHWARTZ: In my rebuttal testimony on pages 12 and 13, we refer to the Bell Atlantic New York order where the FCC indicates that because Bell Atlantic discloses 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, those are evidence of sufficiency. Again, sufficiency speaks to the rates, terms, conditions, frequency, number of -- number and type of personnel and level of expertise.

The cite in the Bell Atlantic New York order for that description of sufficiency is paragraph 413.

MR. STEESE: That's all we have, Rick.

MR. WOLTERS: Let's go to your Exhibit MES-9. Let's pick I believe it's the second line. I believe that's work order access to mineral land. Might even be the first amendment. It says signed date is 5-3 and then it has the date posted as 5-9, then it has the end date as indefinite. What does that mean?

MS. SCHWARTZ: It means that the

service is being provided indefinitely.

MR. WOLTERS: Is there only going to be one bill for that entire work order when it's completed?

MS. SCHWARTZ: Depending on the nature of the service, I believe that this work order will be billed on a monthly basis. Typically we do bill on a monthly basis.

MR. WOLTERS: Indefinite means until the work order is either terminated, it just stays as a continuing work order?

MS. SCHWARTZ: It means we've contracted to provide the service for an indefinite time period.

MR. WOLTERS: Let's go down a number of lines to what's called work order, and then it says Amendment 1 to work order, interim human resources services. The sign date is 5-11-01 and it shows it was posted on 5-18-01. But you have an end date of March which appears to precede the date of the contract was signed, then you have a removal date that also precedes the day it was posted. Could you explain that.

MS. SCHWARTZ: We talked a little bit about the interim services yesterday. The interim services were services that were identified and priced and posted for services that took place in the merger transition in the Section 272 transition. So any service where that's identified as interim was a transition or one-time service that was identified and posted, and most probably will not be offered on a going-forward basis. It was a transition period interim service.

MR. WOLTERS: So the work order was signed after the completion of the contract?

MS. SCHWARTZ: In this case that's correct. Those were catch-up or interim services that we identified during the transition period.

MR. WOLTERS: You're saying those were provided by -- tell me who these were provided by.

MS. SCHWARTZ: Because these are called work orders, these were provided by the BOC to the 272 on a short-term interim basis.

MR. STEESE: I might be able to help some here. This is something that we did and we thought it would prove to be helpful. I'm not sure that it ended up to be.

When you look at where we ended up, we posted transactions back to July 1st, which you've all noticed. The reason we did that was two-fold. One, to make very plain that during this merger transition period we didn't delay identifying QCC as our 272 affiliate so we could provide all kinds of service to it and then claim we don't have to provide similar services to you. We erred on the side of completeness by providing this information and putting it on the Web site.

Secondly, we thought, very frankly, that AT&T would basically demand that you see this transaction detailed back to that for this and other reasons. So while the service was provided to QCC before it even became a 272 affiliate, we posted it out of an abundance of caution.

MS. SLUZAK: Would you also agree that Qwest LD, the other Section 272 affiliate, still needs to comply with the 10-day posting requirement?

MS. SCHWARTZ: Yes, I would.

MR. SLUZAK: Why is it we don't have an exhibit for Qwest LD?

MR. STEESE: We have one, if you'd like. We provided this since QCC is going to become the primary affiliate and it was the most recent event. If you'd like to see QLD, we certainly can distribute that exhibit as well.

MS. SLUZAK: That would be helpful.

Would you also agree, Ms. Schwartz,

that Qwest LDs prior history should be looked at, should be reviewed as evidence of compliance with this 10-day posting requirement?

MS. SCHWARTZ: Yes, I would. I believe I indicated that in my rebuttal testimony.

MS. SLUZAK: Are you familiar with Bell South Louisiana II order?

MS. SCHWARTZ: Yes, I am.

MS. SLUZAK: Are you familiar with the fact that the FCC wrote that disclosures should include a description, among other things, of the approximate date of completed transactions?

MS. SCHWARTZ: Yes.

MS. SLUZAK: Would you say if you need an approximate date of completed transactions that where you have indefinite dates your posting falls short of the FCC's requirement?

MS. SCHWARTZ: No, I would not agree with that statement.

For instance, hypothetically let's say that QC is providing HR services to QCC, the 272, because all of our HR staff, all of our HR experts are located in the BOC. It would seem to me that we would continue to provide those HR services indefinitely into the future until some strategic change such that the HR expertise no longer resided at the BOC.

MS. SLUZAK: The indefinite equates to the FCC required approximate date of completed transaction?

MR. STEESE: Correct.

MS. SLUZAK: That true, Ms. Schwartz?

MS. SCHWARTZ: Yes.

MS. SLUZAK: For completeness of the record, I was reading from paragraph 337 of the Bell South Louisiana II order which is cited as FCC 98-271.

MR. STEESE: Can you give us just one moment.

(Discussion off the record.)

MR. STEESE: We're passing out an exhibit and it ended up on yellow paper thereby suggesting it is confidential, and it is not. Treat this as white paper even though you might not think it is.

MR. WOLTERS: Is MES-9 limited to any period of time?

MS. SCHWARTZ: Could you rephrase your question.

MR. WOLTERS: What period of time is MES-9 supposed to cover?

MS. SCHWARTZ: MES-9 represents

basically the beginning of the 272 life for QCC. The Web site -- nothing could be posted prior to the 26th of March of 2001 because that's when we turned up the site.

Does that answer your question?

MR. WOLTERS: Everything is 2001.

MS. SCHWARTZ: For QCC?

MR. WOLTERS: Correct.

MS. SCHWARTZ: Correct. QCC became the 272 in 2001, as Mr. Steese indicated. In order to be conservative we posted all transactions with QCC back to the merger date.

MR. WOLTERS: If let's look at the yellow not confidential exhibit you handed out. Do you want to mark this?

MR. STEESE: It will be MES-13.

(Exhibit S7-QWE-MES-12 was marked for identification.)

MR. WOLTERS: What period of time is this supposed to represent for Qwest long-distance?

MS. SCHWARTZ: This represents the life of Qwest long-distance, and I believe note 1 indicates that the LD site was turned up 9-28-98 and transactions were posted back to the release of the telecom act as required by the FCC.

MR. WOLTERS: This would include transactions for US West long-distance?

MS. SCHWARTZ: Yes. Prior to the merger Qwest long-distance was called US West long-distance.

MR. STEESE: I'll ask Ms. Schwartz a broad question and let her run with the first issue, the transaction issue.

Ms. Schwartz, has the FCC given

guidance since I think he cited Bell South Louisiana II as what a transaction is and what are other BOCs doing and are we right in line?

MS. SCHWARTZ: Yes. Basically we have five approval orders to look to now with regard to sufficiency. I cited earlier the Bell Atlantic New York order with regard to sufficiency.

We have benchmarked our Web site against all the other RBOCs, particularly SBC and Verizon given their success in terms of their 271 authorities, and we do satisfy the FCC's tests relative sufficiently. The FCC has not indicated anywhere their intent for the BOCs to be posting on a monthly basis life accounting data. Their intent, and we see this time and time again in the rules, is for us to post sufficient information such that a third party could make a determination as to whether or not they would like to purchase the service and also so the FCC can monitor our compliance with the rules. Our Web site does meet the FCC's test for sufficiency.

MR. STEESE: In fact, if you look at Texas, for example, or SBC's Web site, do you see that billing -- do you see a transaction posted every time a bill is issued within a transaction as suggested by Mr. Slusak?

MS. SCHWARTZ: No, you do not.

MR. STEESE: What do you see?

MS. SCHWARTZ: You see rates, terms, and conditions that follow the FCC's definition of sufficiency.

MR. STEESE: Obviously the FCC found that acceptable?

MS. SCHWARTZ: Yes, they did.

MS. SLUZAK: Is that based on the FCC's most recent orders?

MS. SCHWARTZ: Yes.

MS. SLUZAK: About how that they supersede and render Bell South Louisiana II and Ameritech moot?

MR. STEESE: That's a legal question. There I would say that they have taken -- I would say that it has evolved. You said yesterday in your opening comments that it was interesting to note we posted summaries for prior years and then we've acknowledged we're not going to do that on a going-forward basis. The specific reason for that is because the FCC has given us guidance in the recent years that indicates very clearly to us that that volume accumulation is simply not required. Texas gives us that very guidance. That's the reason why we made that transition.

MR. WOLTERS: I think that many times people cite the FCC orders because they say that the FCC didn't -- if you look at the FCC orders you find a lot of places it says since nobody took objection we find they're in compliance.

MR. STEESE: That's never the case, ever, with 272(b)(5).

MR. WOLTERS: My point is that I read the orders and I think it's appropriate to raise this issue and let the FCC decide it because I haven't found anywhere where they've decided issue as a specific issue. I think if you look at the Ameritech order it was very specific they had to provide specific detail. I think you're saying it's evolved. I'm saying that the later order doesn't address this issue specifically whether you have to post individual transactions as we propose and suggest the FCC wants to see, or as you propose. We're raising the issue and asking it be addressed, because I don't think it's specifically addressed by the FCC, the question we're proposing.

MR. STEESE: Have you looked at the SBC Web site to see whether they're posting the bill by bill level that you think should be posted, Mr. Sluzak?

MS. SLUZAK: I've not looked at the SBC

[illegible].

MR. WOLTERS: I don't think that's [illegible].

MS. SLUZAK: Does that mean that any competitor could walk into Qwest and request to see that?

MS. SCHWARTZ: Yes, Mr. Sluzak. On the Web site we indicate that paper copies, as required by the FCC, are available at the company's -- BOC's principal place of business, then there's a phone number reference.

MS. SLUZAK: In order for us to see that sort of information we had to do it through a data request. Would that be a requirement of all other competitors?

MS. SCHWARTZ: There's an important distinction that needs to be made here. The information that's available on the Web site is public information. There are paper copies of that information available to the public available at the company's principal place of business. Any confidential information would have to be, correct me if I'm wrong, Mr. Steese, collected in an appropriate proceeding under a data request and potentially confidential under proprietary agreement. Some of the information that you reviewed, Mr. Sluzak, was collected under proprietary information.

MR. ANTONUK: I want to walk you through a hypothetical, see if I understand it here. Let's suppose for whatever reason as a CLEC I decide I want to purchase public relations service.

MR. STEESE: Are we still in the confidential portion of the --

MS. SLUZAK: The one thing that I quoted wasn't confidential.

MR. ANTONUK: Suppose I wanted to purchase public relations services from -- if I wanted to do that, what will I be able to tell from the Web site about what services you offer and how much they cost?

MS. SCHWARTZ: You'll be able to find all the services that are offered -- you would be able to avail yourself of services that are being provided from the BOC to the 272, so we would assume in this particular situation that the public relations services being provided by the BOC to the 272. You would be able to basically find out the rates, terms, and conditions and level of expertise. How are we providing that service? Are there VPs associated with the provision of the service? Directors? Technicians? What are the rates associated with that? There would also be a description of the service. What types of services or benefits can you expect if you purchase public relations service? What are you going to get for that?

MS. SLUZAK: Under your hypothetical, you keyed in on the rates. Let's also talk about the terms.

I found example after example of the fact that QCC wasn't having to pay on services for eight months, nine months, twelve months. That's an incredible float. You talked about a hypothetical CLEC. There's a lot of CLECs out there with cash flow problems right now and they would dearly love to get out eight- to twelve-month float on any service provided. That's another example of that's not in those blanket agreements that they have anywhere from six- to eight- to ten- to twelve-month float. That would be quite helpful to know.

MR. STEESE: Let us address that particular issue because Mr. Sluzak has identified some facts but his assessment of the facts is incorrect.

Under the current work order in place is there an interest provision at all today? We've hopped from issue 10 to issue 14 and then this is an entirely separate issue. Before we move on, maybe we can reach some closure and then we can get back to this issue.

MR. ANTONUK: I am starting to like the flow a little better. The flow that's on the issues list could be a little bit constraining.

MR. STEESE: That's fine. We'll ask Ms. Schwartz the question.

Does the current work order in place have provision for interest and what is Qwest doing about that and what have we done with respect to this float that Mr. Sluzak refers to? I know that's a compound question.

MS. SCHWARTZ: The interest or payment terms would actually be included in the master services agreement. We have discovered that we excluded an interest component of the payment terms in the master services agreement by mistake. So we have calculated interest back to the merger date for payments that were to be paid by the 272 to the BOC and, conversely, by the BOC to the 272 and we've accrued for that interest this month and we will be adjusting the master services agreement to contain reasonable and customary payment terms one would expect to find.

MR. STEESE: Ms. Schwartz, I heard Mr. Skluzak say -- and this isn't a quote but summary -- that he's concerned, based on his review of the billing, that we don't have the appropriate accounting controls in place to account for transactions properly. I know your Exhibit 6 describes where we were in April as having 0 percent problems. What kind of safeguards do we have in place to continue to verify bills?

MS. SCHWARTZ: Every month we have a team of accountants that reconcile the billing detail to the prices on the Web. And they also reconcile the monthly accruals that we are preparing as to the billing detail.

MR. WOLTERS: Your previous answer to me said you brought in Arthur Andersen to look at some of your accounting practices; is that correct?

MS. SCHWARTZ: We brought in Arthur Andersen as loan staff, so they worked for us as accounting professionals.

MR. WOLTERS: Did they ask you to implement any type of accounting procedures or processes to address any of these types of concerns?

MS. SCHWARTZ: No, they did not. That was not their charge. They did not come in to provide additional assurance or perform a, you know, an audit, per se. They came in as loaned staff, and actually worked for our management, under our supervision, to help identify transactions under Qwest Corporation's affiliate transaction policies and procedures.

MR. WOLTERS: So the purpose was to really find the transactions for Qwest.

MS. SCHWARTZ: To assist us in that effort.

MR. WOLTERS: Once they found, say, the transactions that hadn't been billed on a monthly basis, they would point those out to Qwest personnel, and then Qwest personnel would bill those items?

MS. SCHWARTZ: In essence, we would ensure that we had the appropriate contract in place. We had the appropriate descriptions in the service;

that it wasn't covered under an existing work order and task order already. So they assisted us in -- to ensure that we had identified all services between the BOC and the 272.

MR. SKLUZAK: May I ask, when were these activities -- what's the time frame? Say again. When were they started and when were they completed?

MS. BRUNSTING: I would give you a time period of approximately January 15th till March 26th.

MR. SKLUZAK: So, between the time frame of September 2000 to January 15th, what if anything was being accomplished as to QCC being a new section 272 affiliate?

MS. BRUNSTING: That is when the planning period occurred in which, after the merger, Qwest was revisiting which affiliate they would intend to go forward with, as far as the 271 or 272 affiliate would be. We maintained the Qwest long distance entity and basically ramped it down. And the planning effort for the fall of 2000 really accomplished creating the recommendation as to what the 272 affiliate -- which subsidiary would be identified and set

MR. WOLTERS: When was the actual decision made that QCC would be the Section 272 affiliate?

MS. BRUNSTING: Mid-January 2001.

MS. SCHWARTZ: This ramp down of the Qwest LD transactions, did that start occurring in August or September of 2000?

MS. BRUNSTING: After September 12th, basically. September 12th of 2000.

MR. STEESE: Mr. Skluzak, I will say -- and we're bordering here on getting into privileged information, and I have been paying attention very closely, and I don't think we have gotten there. There was significant discussion during the fall -- the latter month of the year 2000 as to whether we would continue utilizing QLD as our 272 affiliate. There was significant discussion around that. And so while there was some ramp down, that did not mean that even at that point a decision had been made to not utilize QLD.

MR. SKLUZAK: I think we received the letter that we were going to pull Section 272 out of the multi-state last fall, a day or two before your rebuttal testimony was due. Was that the first instance that you decided?

MR. STEESE: We talked about that yesterday. The first -- when you say, "we decided," I am assuming to pull rebuttal is what you mean by decided.

MS. SCHWARTZ: When you decided you were going to use a different entity.

MR. STEESE: We hadn't decided we were even going to use a different entity. As we explained yesterday, it wasn't clear anymore whether we would continue to use QLD. And rather than go through workshops and discussions around QLD, when it wasn't clear anymore, we didn't think that would be fair to anyone. So, at this point in time, we pulled the request to have the workshop on 272, understanding that we might come back and continue to use QLD as our affiliate. We just did not know.

And the first notification was, I believe, as we notified yesterday, I think it was September 19th is the day that Ms. Brunting identified, but that's my recollection.

MR. SKLUZAK: I would like to return, after that segue, I would like to return to the fact that we just got done talking about QCC's internal billing problems, and the fact it was due to this transition period. However, Qwest LD also had billing problems, and I would point to page 28 of my May 4th testimony, paragraph 58, No. C. Now, I could talk around this -- this contains some proprietary information, but I don't need to talk about the proprietary. But, once again, this is Qwest LD. The internal policy is we'll bill per the Web posted order on a minimum quarterly basis. And I simply didn't see that happening. Once again, divergence, noncompliance with your own internal billing practices. Once again, that's paragraph 58, subpart C.

MS. SCHWARTZ: I would like to respond to that. This would be subject to verification, but I believe that this, again, is a situation where the bill was in dispute. It was accrued, however, and interest did accrue. However, in order to -- we did follow the billing dispute provisions of the, I believe it would be the Master Service Agreement. Again, subject to check.

So, would you agree, Mr. Skluzak, to the extent that a transaction was accrued for -- booked and interest was accrued, that that is, in essence, the same as billing?

MR. SKLUZAK: All I know is what I have written here, and that the accounting also violates Section 5 of the posted work order that mandates billing on a minimum quarterly basis. I didn't see that.

MS. SCHWARTZ: Right. I think that what I indicated; that to the extent that there was a dispute, we followed the dispute policies. But would you agree that if a transaction is booked or accrued, and there's interest accrued, to the extent it hasn't been paid, that that's the same as being paid in terms of what's on the books? Would you agree with that?

MR. SKLUZAK: No, it's not the same as being paid. It's been booked. It's been charged.

MS. SCHWARTZ: So, what would be the difference between -- from an accounting perspective if you booked -- if you book the charge, and you accrued the interest. What would be the difference?

MR. SKLUZAK: It hasn't been paid, though, has it?

MS. SCHWARTZ: What would be the difference?

MR. SKLUZAK: That would be accounts receivable.

MS. SCHWARTZ: Right. From the cash perspective, to the extent that you accounted for the interest, then you end up in the same place, wouldn't you?

MR. SKLUZAK: No. I guess I don't see where you are going and how that applies to the fact that you are not billing on a quarterly basis.

MS. SCHWARTZ: Right again. What I would say is subject to check. To the extent that we followed the dispute policy, which is an exception to the normal monthly or quarterly billing process, then we followed the agreement, which would be contrary to your assertion.

MR. SKLUZAK: No. First of all, I guess I am not tracking where you are going. All I can do is state that I looked at this accounting transaction. I do not see billing on a quarterly basis. I did not see adherence, compliance to your own internal billing procedures as per your Web-posted work order.

MR. WOLTERS: Let me just point out Paragraph 373 of the Ameritech Michigan order. I believe that says a BOC cannot circumvent Section 272 requirements by transferring local exchange access facilities and capabilities to an affiliate. So, there's some concern that's what was happening here.

MR. STEESE: Ms. Brunsting, is that what was happening here?

MS. BRUNSTING: No, it's not. In a similar fashion, that Qwest Long Distance, or QCC contracts with QIT, the information technologies organization, for software development or for system hardware design. And that previously Qwest Long Distance contracted and utilized Advanced Technologies for those services. And it was a services development subsidiary to provide those services internally within the family of companies. It was a specific project only to the LD group, only for funding from the LD organization.

MR. SKLUZAK: And the way or the reason this issue arose is I looked at past FCC orders on this, and they looked to a positive statement from the BOC for imputation to itself of rates for exchange service and exchange access. And I wrote about that in my initial testimony and supplemental. And then in Data Request 0105, AT&T Set 10, Data Request 105 and then Ms. Schwartz responded. I do have a question to that response. And it's capsulized in your rebuttal testimony dated May 23rd, page 24. You said, "Yes. Imputation will be addressed. When and if QC does use exchange access for the provision of its own services, QC will impute to itself the same amount it would charge an unaffiliated carrier." Now, did you mean to say QCC rather than of its own service?

MS. SCHWARTZ: I think it's a rather confusing provision of 272(E); that's, basically, it relates to the BOC imputing access charges to itself, once or if it decides to offer interLATA out of the BOC, and you would not be able to do that until Section 272 sunsets. So, we're talking, you know, three to five years out on the horizon. And basically what we have said is, to the extent that we did offer interLATA out of the BOC, we would impute access charges to ourselves, and we would have policies and procedures to follow that.

MR. WOLTERS: So, until 272 sunsets, QCC will pay tariffed access rates that everybody else pays?

MS. SCHWARTZ: That's correct.

MR. WOLTERS: And after it sunsets and QC did provide long distance service, it will pay itself the tariffed rate, correct?

MS. SCHWARTZ: To the -- I guess to the extent that the corporation decided it wanted to offer something out of the BOC, I think we would have that choice. Then we would impute to ourselves those charges.

MR. SKLUZAK: I don't know if we ever
positively said that the marketing scripts should be
made public. We've simply highlighting, once again,
due to U S West and Qwest's past history of trying

be -- or getting into in-region long distance before approval. The commission should be on notice that this zeal may spill over into some into some pretty strong joint marketing practices.

And I talk about the fact, what is the role of the state commissions in all of this. And one of the examples I use is, perhaps the state commissions may want to look at what's required for marketing and suggest to the FCC a higher standard to Qwest due their past history.

MR. STEESE: Is that what you are suggesting, is while scripting isn't, to date, been a requirement, because of our past history, you think that there should be some heightened requirement for Qwest. Is that the issue?

MR. SKLUZAK: The issue is that I believe multi-state commissioners, if they deem necessary, should look into some heightened scrutiny as to joint marketing.

MR. STEESE: So, you would acknowledge this is something that, to date, will not be required of other BOCs?

MR. SKLUZAK: I don't know that for a certainty.

MR. STEESE: I think I will brief that

issue, Mr. Antonuk.

MR. ANTONUK: Okay.

MR. STEESE: That's a pure legal question in our mind.

Mr. Skluzak, I am going to ask you a question and see how we should deal with the last two issues, if that's acceptable. What AT&T has done is identify some particular transactions that they -- this is my words, not theirs -- raise the suspicion about Qwest. And then talk about the Calling Card, about Buyers Advantage, and about, I guess, the other is Card Services. And do you want to talk about each individually? I think we can talk about them collectively? Would you agree?

MR. SKLUZAK: I do agree to that. And I guess, if you are looking for a theme to these final two issues on this issues list, of 19 and 20, it's that peppered throughout my two pieces of testimony are various permutations of the phrases, "paper promises do not satisfy Qwest's burden," and the fact that the FCC states, "Past and present behavior of the BOC applicant is the best indicator of whether they will carry out the compliance with Section 272."

So, I thought it was important to bring up this past history of U S West, Qwest, Qwest LD, and their past transgressions of Section 271 to provide a predictive indicator to the FCC.

MR. STEESE: And here, when the examples that are cited -- and I will use Buyers Advantage as an example, just for purposes of discussion, and Judy can help me with the time frame. When was Buyers Advantage --

MS. BRUNSTING: May '99.

MR. STEESE: Okay. May of 1999. A little more than two years ago, certainly before premerger discussions with Qwest. Qwest and then U S West entered into a relationship that allowed Qwest to be the long distance -- a long distance provider, and at a certain rate per minute, and for U S West to be the local provider. It was a business relationship. We called it Buyers Advantage. We made Buyers Advantage available.

There was an injunctive suit brought by, I believe, AT&T, maybe others as well, and I believe in the state of Washington, having to do with this particular proposed business plan. And both the FCC and the district court in Washington -- and again I believe it was Washington -- both found that this relationship would be inappropriate in light of Section 271 of the act. And I am summarizing a fairly detailed plan and decision in thumbnail, but, at that point in time, the relationship stopped. I mean, when you look at Section 271, I mean there were certain, we believe, legitimate disagreements as to how certain things should be interpreted. The FCC has continued to give guidance.

We don't think that these past transgressions, to use Corey's words, are anything of the kind. It is normal business practice, when you have certain regulations like this, to see where the rules end and where they begin. And AT&T, I am sure, would try and take advantage of that, to the extent they could too. A perfect example is ISP traffic and reciprocal compensation around it. I mean there's been years of litigation around that. Legitimate minds can disagree. It doesn't mean that you have bad actors. It means people are trying to take advantage of the legal environment that's provided to it.

So we see this as anything other than past transgressions, and as soon as the FCC gave guidance that we thought clarified the issue, this -- the services in question were stopped.

MR. SELUZAK: Is the teaming arrangement -- that is not the 1-800 Calling Card service, is it?

MS. ARMSTRONG: The teaming arrangement was -- the Qwest arrangement was the Buyers Advantage program, and it was an agreement between the two entities, an external IXC and local company. And it was a package provided through that channel, local business office.

MR. SELZMAN: The 1-800 for U S West calling service which was found to be in violation, when was its tenure -- what was the timing frame of that?

MS. ARMSTRONG: The Express Calling Card was introduced in, I believe, April of '97. It also was a three-party arrangement between, at that time, U S West Communications, Frontier, and U S West Long Distance. U S West Communications provided in-region intraLATA service on that billing vehicle, that card. Frontier provided in-region interLATA service. And Qwest Long Distance provided the capability for that local customer to use that card out of region and originate an interLATA call. There were three parties involved, three separate entries advertised with the card. And the card was distributed through the local channel that U S West had.

MR. SELZMAN: When was that practice stopped?

MS. BRUNSTING: The card is actually still out there today. It is -- there's another -- there's a damage suit that is currently in discussion, but the card is under some modifications that the FCC has so designed. And those modifications are being implemented, and that card will be reissued.

MR. SKLUZAK: I mean, this was a card scheme that was found to be in violation of Section 271?

MS. BRUNSTING: That's correct. That's correct.

MR. STEESE: There, what Mrs. Brunsting says is correct. To use -- to answer a question that involves the word, "scheme," I just interpret the word "scheme" not to be some negative pejorative thing, but just the plan around it. That was certainly the concept, I think, that Ms. Brunsting was describing.

MS. BRUNSTING: Yes, I did. Thank you.

MR. SKLUZAK: Scheme doesn't have to mean the nefarious word that sprang to my mind.

MR. STEESE: I did not want that suggestion on the record. Thank you. And really, I think, with that discussion -- and I will have to sit down with you Rick and figure out how we're going to brief that last kind of discussion.

MR. WOLTERS: I don't think it's going to be briefed as a separate issue. I just really think that the facts would get rolled into some other discussion about compliance. But, whether you were violating Section 271 or not during this period, to me, is not an issue that needs to be briefed. It's not relevant to 272.

MR. STEESE: Okay.

MR. WOLTERS: I think Mr. Skluzak's point was pointing out -- I think we are using these as just examples of Qwest's past history, kind of make an analogy that 272, you are supposed to look at past history. That, I think, it's appropriate to look at the past history regarding 271 as some indicator of whether there will be compliance in the future, but I don't think we need to brief these separately.

MR. STEESE: That does raise one other issue. I mean, that doesn't raise another issue. I had another issue whispered in my ear. Yesterday there was some discussion around what Mr. Skluzak refers to as loaning of employees. And I realize, Mr. Skluzak, that you don't like providing accounting details against an ever-changing factual environment. But it's certainly been our view that the workshops are not only intended to assess the past, but also see if there's anything that we could or should change on a going-forward basis that may accommodate some of your concerns.

And one of the questions you raised was loaning of employees on a long-term basis seems to you to be the functional equivalent easy way to get around Section 272(C)(3). B(3), excuse me. And Qwest identified or you identified some transactions we talked about. We thought they predated the Qwest's -- as QCC becoming a 272 affiliate. But, nonetheless, on a going-forward basis, Qwest is prepared to implement a policy that would say, as it relates to -- between QC and QCC, that employees cannot be utilized on a 100 percent basis for more than four months out of any given 12. So, to make sure that this concern you have of basically allowing one company to do the work of the other doesn't occur.

And the reason we used the 100 percent is, as Ms. Schwartz described, in some detail, there is a payroll services, for example, that is -- falls within the BOC and some very tiny percentage of that goes to work on behalf of the QCC. So, that's the reason we framed it that way. But we think that should eliminate that concern that you have raised.

MR. WOLTERS: So, when we're going back briefing this, we can assume that that is going to be implemented. It's not an offer waiting for acceptance. It's just going to be completed.

MR. STEESE: Ms. Brunsting.

MS. BRUNSTING: Yes. That policy will be implemented, that of eliminating the loaning of employees 100 percent of their time for over four months in any 12-month period.

CERTIFICATION

STATE OF COLORADO)

CITY AND COUNTY OF DENVER)

We, Harriet Weisenthal, James Midyett and Kristy Turner, do hereby certify that we were present and reported in stenotype the proceedings in the foregoing matter; that we thereafter reduced our stenotype notes to typewritten form, with the aid of a computer, composing the foregoing transcript; further, that the foregoing official transcript is a full and accurate record of the proceedings in this matter held at Denver, Colorado on June 8, 2001.

FILED at Denver, Colorado ________________.

____

Harriet Weisenthal

____

Kristy Turner

____

James Midyett