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BEFORE THE ARIZONA CORPORATION COMMISSION

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CARL J. KUNSEK
CHAIRMAN

JAMES M. IRVIN
COMMISSIONER

WILLIAM MUNDELL
COMMISSIONER

IN THE MATTER OF THE APPLICATION
OF US WEST COMMUNICATIONS, INC.
A COLORADO CORPORATION
FOR A HEARING TO DETERMINE
THE EARNINGS OF THE COMPANY,
THE FAIR VALUE OF THE COMPANY
FOR RATEMAKING PURPOSES, TO FIX
A JUST AND REASONABLE RATE OF
RETURN THEREON AND TO APPROVE
RATE SCHEDULES DESIGNED TO
DEVELOP SUCH RETURN.

DOCKET #T-01051B-99-0105

**MOTION TO SEVER, OR
IN THE ALTERNATIVE,
TO BIFURCATE
HEARINGS**

MCI WorldCom, Inc., on behalf of its regulated subsidiaries, (collectively "MCIW"), AT&T Communications of the Mountain States, Inc. ("AT&T"), and Sprint Communications Company L.P. ("Sprint") (collectively "Joint Intervenors") move the Commission sever from this proceeding the request of U S WEST Communications, Inc. ("U S WEST") for regulatory flexibility including, but not limited to, deregulation of certain identified services and creation of competitive zones.

1 AND AS GROUNDS THEREFOR, the Joint Intervenors state:

2 1. U S WEST brings this action to determine the earnings of the company, the fair
3 market value of the company for ratemaking purposes, to fix a just and reasonable rate of return
4 thereon, and to approve rate schedules. In addition U S WEST seeks regulatory flexibility and
5 deregulation of certain services.

6 2. U S WEST is a "rate-of-return, ratebase" regulated company. When setting rates,
7 the Commission must determine U S WEST's revenue requirement, including a reasonable rate of
8 return on U S WEST's investments on regulated services, in order for U S WEST to provide fully
9 regulated telecommunications services throughout its service territory in Arizona. Once a revenue
10 requirement is determined by the Commission, the Commission must then design rates for the
11 various regulated services in order to allow U S WEST the opportunity to recover its revenue
12 requirement.

13 3. As part of the ratemaking process, U S WEST's assets, revenues, liabilities and
14 expenses must be separated or allocated between interstate services and intrastate services. (See,
15 47 C.F.R. Part 36 and Part 64.) This separation is required in order to account for the fact that
16 some of U S WEST's assets, facilities and equipment are used and liabilities incurred in order to
17 provide both interstate and intrastate services. This is sometimes known as the separation process.

18 4. Further as part of the ratemaking process, any investments or expenses that are
19 used jointly by two or more different services or that are used in common by services must be
20 segregated among all of those services using allocators that, to the maximum extent practicable,
21 track how those costs are incurred. Therefore, U S WEST's assets, revenues, liabilities and
22 expenses must be segregated or allocated between intrastate services regulated by the Arizona
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1 Corporation Commission and intrastate services that are not regulated ("deregulated services) by
2 the Commission. This is sometimes known as the segregation process.

3 5. By using the separation and segregated processes, it is intended that U S WEST's
4 assets, revenues, liabilities and expenses are allocated so that Arizona ratepayers only pay rates
5 for regulated, intrastate services. (See, A.A.C. R14-2-103.) Further, these processes have been
6 created to prevent improper cross-subsidization between competitive services and non-
7 competitive services which is specifically prohibited by A.A.C. R14-2-1109(C). Cross-
8 subsidization occurs when telecommunications services which are not subject to the jurisdiction
9 of the Commission (deregulated) are priced below cost by use of subsidization from customers of
10 services subject to the jurisdiction of the Commission (regulated); or when a provider's
11 deregulated services derive benefits from the regulated operations without the regulated
12 operations receiving just and reasonable compensation from the deregulated operations for the
13 benefits derived.
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16 6. Thus, since U S WEST has brought this action to determine the earnings of the
17 company, the fair market value of the company for ratemaking purposes, to fix a just and
18 reasonable rate of return thereon, and to approve rate schedules, it is doing so for regulated,
19 intrastate telecommunication services, only. This Commission does not have jurisdiction to set
20 interstate rates or to set rates for deregulated services.
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22 7. The testimony and exhibits filed by U S WEST include, among other things, cost
23 studies for its various services as required by A.A.C. R14-2-103(B). These cost studies
24 purportedly use the allocation and separation processes required under Part 36 and 64 of the
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1 Federal Communications Commission rules and this Commission's ratemaking procedures found
2 at A.A.C. R14-2-103(B)(4).

3 8. Here, however, U S WEST is also seeking regulatory flexibility and deregulation
4 of certain services including authorization to create competitive zones.

5 9. In its application, U S WEST has failed to meet the requirements of A.A.C. R14-2-
6 1108, which specifically state criteria and procedures to be used when petitioning the Commission
7 for classification of any service or group of services as competitive. U S WEST has not even filed
8 a petition with the Commission under A.A.C. R14-2-1108, but has instead woven its request for
9 regulatory flexibility and deregulation of services into this general rate case.
10

11 10. Through the rules and procedures established by the Commission, it is apparent
12 that the Commission intended for telecommunications companies to bring specific services to the
13 Commission for analysis. U S WEST is fully aware of the procedures and has brought several
14 actions before the Commission seeking reclassification of specific services and regulatory
15 flexibility under A.A.C. R14-2-1108.
16

17 11. Instead, U S WEST has blended its proposal to have the ability to meet
18 competitors' prices (in isolated geographic areas) with its need to increase rates of its captive
19 customers in order to meet a certain revenue requirement, and to achieve a certain allowable rate
20 of return. Rather than specifying a separate and distinct petitioning process, the Commission
21 could have adopted general rate cases as an appropriate forum in which competitive classification
22 issues were addressed. Instead, the Commission recognized the importance of making a
23 determination regarding competitive classification and set it apart from other proceedings.
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1 12. This matter should be restricted to a hearing on setting U S WEST rates for
2 regulated telecommunications services. Once a rate base is established and intrastate rates are
3 designed and set, then this Commission can properly address whether any intrastate services
4 should be deregulated or granted regulatory flexibility. If any intrastate services are deregulated
5 or granted regulatory flexibility, then the Commission will be required to segregate and allocate
6 the assets, liabilities, revenues and expenses for those services so that those services are not
7 improperly cross-subsidized by regulated services. (See, A.A.C. R14-2-103 and R14-2-1109(C).)

9 13. Once rates are finally set for all regulated services, the Commission can in a
10 separate docket brought by U S WEST under A.A.C. R14-2-1108 seek regulatory flexibility and
11 the Commission will then be able to determine what investments would be removed from the
12 regulated ratebase. Further, the Commission can use the rates established to set bands of rates
13 which would allow U S WEST regulatory flexibility.

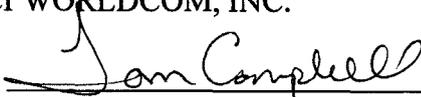
14 14. The Joint Intervenors, therefore, request that U S WEST's proposal for regulatory
15 flexibility for specific geographic areas or competitive zones and complete deregulation of all new
16 services and high-speed data services be severed from this proceeding. U S WEST should be
17 directed to comply with the Commission's Competition Rules found at A.A.C. R14-2-1100 et seq.
18 In the alternative, the Joint Intervenors request that the Commission address ratemaking issues
19 (revenue requirement and rate design) in a separate hearing (Phase 1), before addressing U S
20 WEST's request for regulatory flexibility and deregulation of certain services (Phase 2).

21 15. The undersigned is authorized to sign this pleading and file it on behalf of the
22 named intervenors herein.
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Dated: February 2, 2000

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