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BEFORE THE ARIZONA CORPORATION COMMISSION
2000 MAR 22 P 3:47 Arizona Corporation Commission

CARL J. KUNASEK
Chairman
JAMES M. IRVIN
Commissioner
WILLIAM MUNDELL
Commissioner

DOCKETED

AZ CORP COMMISSION
DOCUMENT CONTROL MAR 22 2000

DOCKETED BY

IN THE MATTER OF THE APPLICATION
OF U S 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 NO. T-01051B-99-0105

U S WEST COMMUNICATIONS
INC.'S SURREPLY TO MOTION TO
SEVER, OR IN THE
ALTERNATIVE, TO BIFURCATE
HEARINGS

U S WEST Communications, Inc. ("U S WEST") files this
surreply in opposition to the motion of MCIWorldcom, Inc., AT&T
Communications of the Mountain States, Inc., and Sprint
Communications Company L.P. (collectively "CLECs") to sever from
this proceeding U S WEST's request for deregulation of data
services and the creation of competitive zones. The Arizona
Corporation Commission ("Commission") should deny the CLECs'
motion for these additional reasons.

Pursuant to Article XV, Sections 3 and 14 of the Arizona
Constitution, the Commission has broad authority to set just and
reasonable rates for the provision of telecommunications
services. See Scates v. Arizona Corporation Commission, 118
Ariz. 531, 578 P.2d 612 (App. 1978). Thus, within the context of

1 a rate case, the Commission can and has, in fact, set rates that
2 are competitive and that include a range of pricing flexibility.

3 The competition rules rather simply do not diminish the
4 authority of the Commission to exercise its rate-making powers in
5 a rate case. The competition rules simply provide an alternative
6 means through which a telecommunications carrier may obtain
7 pricing flexibility outside of a rate case. They do not preclude
8 the Commission from determining appropriate and competitive rates
9 in a rate case.

10 Moreover, as argued by RUCO, issues relating to U S WEST's
11 rate base and the setting of competitive rates for U S WEST are
12 inextricably linked. In this case, U S WEST seeks a
13 determination of its revenue requirement and rate design based on
14 fair value rate base. Any deregulation of services and the
15 creation of competitive zones will necessarily impact this
16 revenue requirement. Therefore, severing the competitive
17 pricing issues raised by U S WEST from the rate case would be
18 illogical, inappropriate and would not serve the public interest.

19 The interpretation suggested by the CLECs would effectively
20 limit the Commission's broad authority under A.R.S. § 40-202
21 authority "to encourage competition and growth in the
22 telecommunications industry and promote economic development and
23 investment in new telecommunications technologies, infrastructure
24 and services." The Commission has never applied its competitive
25 rules in this restrictive manner. In fact, under the competition
26

1 rules, the Commission itself may initiate competitive proceedings
2 where it sees fit. A.A.C. R14-2-1108(E). On their face, the
3 rules provide many procedures that, in effect, do not apply to U
4 S WEST or other incumbent local exchange carriers. A.A.C. R14-2-
5 1103 through R14-2-1107.

6 Finally, the CLECs' motion elevates form over substance.
7 U S WEST's rate application and the accompanying testimony and
8 exhibits provide substantially the same information required by
9 the Commission's rules. The testimony of Karen A. Stewart, David
10 L. Teitzel, and Wayne G. Allcott (all dated January 8,
11 1999) describe the types of services at issue, the general
12 economic conditions that exist which make the market competitive,
13 the availability of alternative services through other providers,
14 and other indicators relevant to market power.

15 The CLECs waited approximately one year before challenging
16 the sufficiency of U S WEST's application under A.A.C. R14-2-
17 1108. In effect, the CLECs seek to preclude U S WEST and other
18 incumbent local exchange carriers from competing. Based on the
19 foregoing, the Commission should deny the CLECs' motion to sever
20 or bifurcate this docket.

21 DATED this 21st day of March, 2000.

22 U S WEST COMMUNICATIONS, INC.
23 Law Department
24 Thomas Dethlefs

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