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BEFORE THE ARIZONA CORPORATION COMMISSION

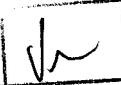
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Arizona Corporation Commission

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IN THE MATTER OF THE APPLICATION
OF U S WEST COMMUNICATION, INC., A
COLORADO CORPORATION, FOR A
HEARING TO DETERMINE THE
EARNINGS 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

**COX'S NOTICE OF FILING DIRECT
TESTIMONY**

Cox Arizona Telcom, L.L.C., through its undersigned counsel, hereby gives notice of filing the *redacted* version of the direct testimony of Dr. Frank R. Collins, a copy of which is attached hereto. A non-redacted version will be provided to parties that have executed a protective agreement in this docket.

August 9, 2000.

COX ARIZONA TELCOM, L.L.C.

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BEFORE THE ARIZONA CORPORATION COMMISSION

CARL J. KUNASEK
CHAIRMAN
JIM IRVIN
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WILLIAM A. MUNDELL
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IN THE MATTER OF THE APPLICATION
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Docket No. T-01051B-99-0105

**** REDACTED ****

DIRECT TESTIMONY

DR. FRANCIS R. COLLINS

ON BEHALF OF

COX ARIZONA TELCOM, L.L.C.

AUGUST 9, 2000

(Information claimed to be proprietary is marked as ****redacted****)

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**DIRECT TESTIMONY OF
DR. FRANCIS R. COLLINS**

INTRODUCTION

Q. WHAT IS YOUR NAME AND BUSINESS ADDRESS?

A. My name is Francis R. Collins and my business address is PO Box 272, Newton, MA 02459.

Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT POSITION?

A. I am employed by CCL Corporation, a company that provides public policy, technical and economic counsel in the fields of telecommunications and cable television. I am the president of CCL Corporation.

Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS PROCEEDING?

A. My testimony is presented on behalf of Cox Arizona Telcom, L.L.C. ("Cox"), which is a facilities-based provider of local telecommunications services in Arizona.

QUALIFICATIONS OF WITNESS

Q. WHAT IS YOUR BACKGROUND AND EXPERIENCE?

A. I have been employed in the telecommunications industry for the past thirty-nine (39) years. I began my professional career in telecommunications at Bell Telephone Laboratories where I worked for six (6) years designing and developing broadband telecommunication network technology. I have provided independent public policy, managerial, system design, technology application and economic counsel to various domestic and foreign clients.

My relevant experience includes appearances as an expert witness on a wide variety of telecommunications public policy, technical and economic matters before various regulatory agencies in the United States, as well as assistance to

1 clients in the development of telecommunications systems in ten (10) other
2 countries. Exhibit FRC-A to this testimony contains additional information
3 concerning my professional background and experience.

4 **PURPOSE OF TESTIMONY**

5 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?**

6 A. The purpose of my testimony is to discuss, from the perspective of a facilities-
7 based new market entrant, the “competitive zone” and “pricing flexibility” issues
8 set forth in Qwest Corporation’s, formerly known as US WEST Communication
9 (hereinafter “QWEST”) rate case application.

10 **SUMMARY OF TESTIMONY**

11 **Q. PLEASE SUMMARIZE YOUR TESTIMONY**

12 A. QWEST has provided direct testimony from two witnesses (Wayne Allcott and
13 Barbara Wilcox) and both direct and supplemental testimony from a third witness
14 (David Teitzel) that address QWEST’s request for the designation of “competitive
15 zones” and flexible pricing. Mr. Teitzel’s testimony is supported by a collection
16 of anecdotal documents which, alone or taken together, prove only that
17 competitive carriers have entered the telecommunication services marketplace in
18 the Phoenix and Tucson areas. The testimony and supporting documents do not
19 prove that real competition exists, and in fact, provides information that shows a
20 reasonable level of competition does *not* exist. The testimony of Dr. Wilcox and
21 Mr. Allcott on the existence of true competition for services merely draws upon
22 the testimony of Mr. Teitzel and does not add any new substance or support to the
23 claims they have reiterated. In fact, the impact of the QWEST testimony is that
24 competition for local exchange telephone services has not yet arrived in Arizona.

1 Taken in total, the QWEST submission simply does not demonstrate that
2 the exchange services telecommunications market is truly competitive in either
3 Phoenix or Tucson. In fact, as this testimony will demonstrate, the marketplace is
4 only marginally competitive at best. The QWEST data indicates that in Phoenix
5 the market penetration by all of QWEST's competitors combined is ****redacted****
6 for business access lines and ****redacted**** for residence access lines. In Tucson,
7 the business line market penetration is ****redacted**** and the residence line market
8 penetration is only ****redacted****. *Exhibit FRC-B* sets forth the current market
9 penetration percentages for all of the wire centers QWEST now seeks to be
10 declared as competitive. The wire center-by-wire center analysis shows there is
11 little or virtually no competition at this time. Rather, the new market entrants are
12 just beginning to enter the market.

13 QWEST has provided proprietary information (the exhibits to Mr. Teitzel's
14 testimony and QWEST's responses to data requests) that represents an alleged
15 market share loss in the categories of: business and residence access lines; resold
16 lines; and ported telephone numbers. [Teitzel Exs. DLT-38 to DLT-44; QWEST
17 Responses to RUCO 30-002, 30-003; QWEST Responses to ACC Staff (WDA)
18 03-003 to 03-010] This information has led to the market penetration data
19 provided above. It is not clear in this information whether there has been a double
20 counting between claimed access line loss and ported telephone numbers but it is
21 likely that such a double count did occur. This error exaggerates the alleged level
22 of competition. Additionally, because of the manner it chose to respond to data
23 requests, the QWEST data does not always completely track and lacks internal
24 consistency as described below in this testimony – all of which appears to increase
25 the apparent level of alleged competition.

26 Importantly, these access line market share penetration figures do not
27 represent revenue share penetration. Lines which are resold at a 12% discount for
28 residence lines and 18% discount for business lines merely exchange the receipt

1 by QWEST of end-user retail revenues for carrier-to-carrier wholesale revenues.
2 QWEST continues to receive approximately 88% of the total per line dial tone
3 revenue for residence service and 82% of the total per line dial tone revenue for
4 business lines. Along with this revenue comes a concomitant decrease in expenses
5 for residence and business services that mitigates the remaining 12% and 18%
6 revenue losses and brings them virtually to zero. Thus, there is *little* or *no* loss of
7 the dial tone revenues to QWEST for resold service.

8 Similarly, telephone numbers which are ported and for which the
9 unbundled loop is used, exchanges retail revenue for UNE revenue. Although this
10 is less of the total per end-user customer revenue stream than occurs under resale
11 for business access lines (QWEST actually may generate more revenue for a
12 residential loop given the discrepancy between loop rate (\$21.96) and residential
13 1FR service rate (\$13.18)), the significant concomitant decrease in per customer
14 expenses results in the sale of loops as a lucrative market for QWEST. According
15 to QWEST's data, this market segment transfer of revenue (loop UNEs) represents
16 only approximately ****redacted**** of the total access line market in Phoenix and
17 ****redacted**** of the total access line market in Tucson. In each case, there is a *de*
18 *minimus* market transfer between services within the QWEST service offerings.

19 The bottom line is that, to date, competitors have achieved only a
20 ****redacted**** market penetration of the total number of access lines in Arizona.
21 Of this *de minimus* market penetration (****redacted**** statewide), approximately
22 ****redacted**** of the loss has been a transfer from one of QWEST's retail telecom-
23 munications products to another of QWEST's "wholesale" telecommunications
24 products in the Phoenix area and over half of the loss (****redacted****) in the
25 Tucson area has been an intra-QWEST service transfer. This leaves a *de minimus*
26 market share loss by QWEST because no significant revenue has been lost and
27 therefore, does not represent a revenue loss market penetration.

1 QWEST has identified 33 wire centers in the Phoenix area and 11 in the
2 Tucson as being fully competitive for business services. They have identified 22
3 wire centers in the Phoenix area as being fully competitive for residence services.
4 One would expect to find market share losses in the 30% to 40% range for this to
5 be true. In fact all of these wire centers have less than ****redacted**** business
6 market share loss and, except for one, have less than a ****redacted**** loss, with
7 many less than ****redacted**** for residence service. As noted above, *Exhibit FRC-*
8 *B* presents the residence and business share losses for each of the wire centers for
9 which QWEST has requested pricing flexibility.

10 **RECOMMENDATIONS TO THE COMMISSION**

11 **Q. WHAT ARE YOUR RECOMMENDATIONS TO THE COMMISSION?**

12 A. It is clear that QWEST has failed to meet its burden of proof that the Arizona
13 telecommunications market has robust competition and has in fact proven that it
14 does not. I therefore recommend that the Commission deny the QWEST request
15 for competitive zones and pricing flexibility.

16 **COX'S PERSPECTIVES ON MR. TEITZEL'S**
17 **DIRECT TESTIMONY**

18 **Q. QWEST'S WITNESS, MR. TEITZEL, IS SUPPORTING THE APPLICA-**
19 **TION TO FIND THAT THE QWEST BASIC LOCAL EXCHANGE**
20 **SERVICES ARE SUBJECT TO COMPETITION PURSUANT TO A.A.C.**
21 **R14-2-1108. IN HIS TESTIMONY, MR. TEITZEL INDICATES THAT**
22 **THIS FINDING IS NECESSARY FOR QWEST TO MEET COMPETITIVE**
23 **DEMANDS. WHAT IS YOUR PERSPECTIVE ON THIS ISSUE?**

24 A. Rule R14-2-1108 currently allows QWEST to seek a "competitive" designation
25 for its service offerings, which then allows, subject to Commission Rules
26 significant pricing flexibility. Indeed, I understand QWEST has had several

1 services designated as “competitive” under R14-2-1108. It is unclear to me, and it
2 was not clearly indicated in Mr. Teitzel’s testimony, why QWEST could not use
3 this pathway to achieve the end it is attempting to accomplish with its current rate
4 case request for pricing flexibility. The only significant difference is that
5 QWEST’s Rate Case Application is attempting to shift the target in R14-2-1108
6 that currently addresses “services” to address “spot geographic areas.” To do so
7 would, in effect, constitute an amendment of the Commission’s rule without
8 proper rulemaking procedures.

9 Mr. Teitzel does indicate that QWEST has historically charged statewide
10 rates for its basic local exchange services, whereas its competitors are offering
11 service to clusters of customers in largely metro areas. [Teitzel Direct, p. 2, lines
12 2-3] In doing so, Mr. Teitzel misstates the facts. He indicates that “Competitive
13 businesses pick their customers and set their own prices.” [Teitzel Direct, p. 2,
14 line 11] That simply is not the case. New market entrants may choose between
15 residence services and business services within their geographic serving areas –
16 just as QWEST chooses to offer certain business services to businesses but not to
17 residences and vice versa within its geographic operating area. The new market
18 entrants do not pick and choose which businesses within their service areas will be
19 offered service and those who will not be. There are situations where services
20 cannot be offered and the qualification “facilities permitting” is used by both
21 QWEST and the new market entrants in their tariffs to deal with these situations.

22 It appears that Mr. Teitzel’s explanation of the QWEST Application is that
23 QWEST is heading toward “spot pricing.” On this point, Mr. Teitzel has offered
24 no evidence that the new market entrants are doing any spot pricing. These new
25 market entrants are following in the steps of doing what QWEST has historically
26 done – that is, to offer service area wide rates and services by customer class (*e.g.*,
27 business or residence) for the geographic areas in which they provide service. A
28 new market entrant in Phoenix, such as Cox, does not have a rate for each segment

1 of Cox's Phoenix service area but rather one set of rates, depending on the
2 customer class, for all of its service area. QWEST charges customers in a similar
3 manner, and, as far as I have been able to determine, other competitors do the
4 same thing.

5 There does not appear to be a provision under the Commission's rules, nor
6 in Arizona law, which would allow QWEST to establish rates for service for an
7 area less than its operating area. Mr. Teitzel is attempting to establish a process
8 for pricing certain spots within QWEST's operating area. To do so would be an
9 engagement in "spot pricing." In fact, Mr. Teitzel attempts to have the Commi-
10 ssion apply ratemaking down to the sub-exchange level and at the wire center. It
11 appears that Mr. Teitzel is requesting "pinhead" pricing rather than the "spot"
12 pricing mentioned above. It would be poor public policy to allow QWEST the
13 opportunity to engage in the "spot pricing" that Mr. Teitzel is attempting to
14 support, especially when viewed against the backdrop of competition that is still in
15 its gestation stage.

16 **Q. ARE THERE OTHER CONCERNS THAT YOU HAVE WITH MR.**
17 **TEITZEL'S EXPLANATION OF THE QWEST PROPOSAL AS**
18 **CONTAINED IN HIS EXECUTIVE SUMMARY?**

19 A. Although Mr. Teitzel's testimony fails to make a case for the Commission
20 supporting QWEST's Application, there are elements of his testimony that must
21 not be allowed to go unchallenged in the record of this docket. Mr. Teitzel
22 appears to use the terms "exchange" and "wire center" as synonyms – they are not.
23 An "exchange," or more precisely an "exchange area," is an area where there is a
24 uniform tariff for telephone service. There may be more than one central office
25 within an exchange area and indeed more than one "wire center." A "wire center"
26 is the location of one or more switching systems and is a point at which

1 customer's loops converge. A "central office" is a facility that houses telecom-
2 munications switching and supporting equipment.

3 **Q. MR. TEITZEL CLAIMS IN HIS DIRECT TESTIMONY THAT COMPE-**
4 **TITORS FOCUS ON PHOENIX AND TUCSON BECAUSE THEY CAN**
5 **TARGET A HIGH NUMBER OF CUSTOMERS WITH MINIMAL**
6 **INVESTMENT. WHAT IS YOUR OBSERVATION ABOUT THIS**
7 **ASPECT OF HIS TESTIMONY?**

8 A. This aspect of Mr. Teitzel's testimony appears to be an attempt to paint new
9 market entrants negatively as being "cream skimmers." However, note that
10 business customers are typically higher revenue generators than are residential
11 customers, therefore the business segment of the market naturally draws the
12 earliest competition. However, according to Mr. Teitzel's further testimony
13 [Teitzel Direct, pp. 11 and 12], competitors are targeting residence customers as
14 well. This is a clear indication that new market entrants are attempting to service
15 the Arizona market for the long term by building a solid base of customers and are
16 not engaging solely in cream skimming.

17 **Q. MR. TEITZEL INDICATES IN HIS TESTIMONY THAT COMPETITORS**
18 **TO QWEST ARE OFFERING CUSTOMERS "BUNDLES" OF SERVICES**
19 **AND APPEARS TO INDICATE THAT THIS IS AN ANTI-COMPETITIVE**
20 **MOVE AIMED AT QWEST. DO YOU AGREE WITH THAT POSITION?**

21 A. No, I do not agree. Based on Mr. Teitzel's testimony, QWEST has had the ability
22 to package local exchange services and intraLATA toll itself and has historically
23 chosen not to do so or has failed to make them attractive, based on Mr. Teitzel's
24 testimony. Moreover, QWEST is currently offering service packages of voice,
25 data and video to consumers to compete with Cox. His discussion on this issue
26 addresses what competition is intended to do and that is use market forces to
27 maximize benefits for consumers.

1 Q. SECTION I OF MR. TEITZEL'S TESTIMONY ENTITLED - "COMPETI-
2 TION" - PRESENTS A DISCUSSION OF THE NEW MARKET
3 ENTRANTS IN PHOENIX AND TUCSON. IT IS CLEAR FROM THIS
4 TESTIMONY THAT MR. TEITZEL HOPES TO CONVINC THE
5 COMMISSION THAT THESE AREAS ARE EXPERIENCING ROBUST
6 COMPETITION. WHAT IS YOUR PERSPECTIVE ON THIS SECTION
7 OF MR. TEITZEL'S TESTIMONY?

8 A. All but a small part of Mr. Teitzel's testimony and exhibits are a description of
9 companies who have entered the market in Phoenix and Tucson, and who are
10 posturing themselves to provide services in a competitive marketplace. His
11 discussion addresses different marketing techniques, different market capture
12 strategies, and different technological approaches to the provision of service.
13 None of that testimony is other than anecdotal descriptions of companies and their
14 activities. The testimony does not present a case for the existence of competition
15 in Arizona and specifically not in the wire centers for which pricing flexibility is
16 requested. It paints a picture of competitors implementation programs, sales
17 support advertising, and market capture hopes. It does not discuss *actual*
18 competitive market capture that would demonstrate existing and robust competi-
19 tion. Indeed, the market penetration data [*see Ex. FRC-B*] reveals there is no
20 significant competitive impact on QWEST. Teitzel's descriptions come closer to
21 indicating that there may be a competitive skeleton in the closet or a competitive
22 phantom in the wings than to a demonstration that there is competition today or
23 that there will be for some time.

24 Q. DO YOU HAVE ANY CONCERNS ABOUT THE QWEST PRICING
25 PROPOSALS?

26 A. Yes, I do. Mr. Teitzel indicates [at p. 20 of his direct testimony] that the pricing
27 plan for competitive zones would set the price floor at TSLRIC for all but basic

1 residential service. The price ceiling would be set at 200% of the rates set in this
2 proceeding. The price floor for residential service would ostensibly be zero
3 dollars. The price ceiling for residential service would be \$19.00. The further
4 qualification is that the aggregate revenue from a single "*customer*" or "*group*" of
5 customers should be above the aggregate TSLRIC for the services of the customer
6 or group of customers. Note that "*group*" does not mean classification as to
7 business or residence customers as one example. It means a "*group*" as in the
8 businesses on the fifth floor of a large office building, or half of those businesses
9 on the fifth floor. In the instance of a "*customer*," it could mean one business on
10 the fifth floor received special pricing for a few services while those same services
11 for the rest of the businesses were offered on that floor at a different price.

12 This plan is severely flawed from an economic and competitive viewpoint.
13 It goes beyond pricing flexibility to pricing ridiculousness and is rife with the
14 potential for improper discrimination, as well as predatory pricing. Consider the
15 following example: QWEST declares that the fifth floor businesses (mentioned
16 above) constitute the "*group*." In this instance, each company could have a
17 different price, depending on the competitive challenge on a company-by-
18 company basis, for basic business service, as well as other services, as long as the
19 total revenue (presumably including intraLATA toll revenue) of the entire fifth
20 floor businesses met the aggregate TSLRIC criterion. Moreover, I predict that the
21 number of complaints to the Commission will rise exponentially with the number
22 of such "deals."

23 In another example involving residential service, it appears that the pricing
24 plan would allow QWEST the ability to price basic residence service down to zero
25 dollars for one "*customer*" if that customer's total revenue meets the TSLRIC
26 criterion for all of the "*customer's*" services. Or, QWEST could set that
27 customer's basic service price at zero and the remaining prices, except the price
28 for one service, at TSLRIC. The price for the last service – obviously the service

1 with no or little competition – is set to ensure the “aggregate” TSLRIC criterion is
2 met. This could occur while the QWEST residential customer across the street,
3 next door, or in the next apartment, had an entirely different price structure with
4 basic residential service set at \$19.00.

5 If this “pricing plan” is approved by the Commission, the flood of customer
6 complaints will be unprecedented

7 **Q. MR. TEITZEL HAS PROPOSED CRITERION FOR ESTABLISHING**
8 **ADDITIONAL COMPETITIVE ZONES. DO YOU AGREE WITH THIS**
9 **CRITERION?**

10 A. Mr. Teitzel indicates in his testimony that the criterion for establishing additional
11 competitive zones in the future is the same as that for the competitive zones
12 requested in his direct and supplemental direct testimony. [Teitzel Direct, p. 22,
13 lines 27-29] I do not agree that this criterion is meaningful for two reasons. First,
14 the actual criteria used to select the competitive zones are unclear and ambiguous
15 as it is set out in the testimony. Second, the result of applying those ambiguous
16 criteria led to the designation of a list of competitive zones in Phoenix and Tucson
17 which fail any meaningful test for the existence of competition.

18 Mr. Teitzel filed Proprietary Exhibits DLT-38 to -44 in support of his
19 Supplemental Direct Testimony. These exhibits are intended to show the level of
20 competition in the competitive zones by indicating the number of lost access lines;
21 ported lines, unbundled loops, resold services and traffic volumes. These exhibits
22 are intended to prove that competition is robust and at a level of market
23 penetration in the requested competitive zones which threatens QWEST. *They do*
24 *not.*

25 The Teitzel proprietary exhibits present alleged access and customer loss
26 information in the categories detailed above. QWEST’s responses to Residential
27 Utility Consumer Office’s Data Request Nos. 30-002 and 30-003, and to Arizona

1 Corporation Commission Staff's Data Request Nos. WDA 03-003 to 03-010,
2 provide information as to the details of QWEST's allegations on the loss of
3 business and residential market share in these requested competitive zones. An
4 analysis was performed using this data and the outcome is presented in *Exhibit*
5 *FRC-B*.

6 QWEST has identified 33 wire centers in the Phoenix area and 11 in the
7 Tucson as being fully competitive for business services. They have identified 22
8 wire centers in the Phoenix area as being fully competitive for residence services.
9 These requested competitive zones are listed on *Exhibit FRC-B*, with the exception
10 of Pinnacle Peak, a zone for which adequate data was not provided by QWEST in
11 response to the data requests.

12 For these zones to be truly competitive, one would expect to find market
13 share losses in the 30% to 40% range. In fact, all of these wire centers have less
14 than ****redacted**** business market share loss (with many less than ****redacted****).
15 Residential service losses (except for one at ****redacted****) have less than a
16 ****redacted**** loss – with many less than 1%.

17 *Exhibit FRC-B* demonstrates that none of the competitive zones requested
18 by QWEST are anywhere near competitive. What the data shows is that
19 competition is just getting off the ground in these areas. Because QWEST has
20 selected the zones facing what they believe to be the strongest competition, this
21 data also leads to the conclusion that meaningful competition is absent in the rest
22 of Arizona. This lack of statewide competition is also compellingly demonstrated
23 by the low ****redacted**** competitive market penetration statewide.

COX'S PERSPECTIVES ON MR. TEITZEL'S
SUPPLEMENTAL TESTIMONY

1
2
3 **Q. MR. TEITZEL HAS FILED SUPPLEMENTAL TESTIMONY IN THIS**
4 **DOCKET. HAVE YOU STUDIED THIS TESTIMONY AND IF SO, WHAT**
5 **IS YOUR OPINION ABOUT IT?**

6 A. Yes, I have read Mr. Teitzel's supplemental direct testimony and determined that
7 it is an update and continuation of the anecdotal presentation made in his direct
8 testimony. The data used to formulate Exhibit FRC-B came from the updated
9 information filed with that supplemental testimony.

10 The Commission should give no weight to the anecdotal stories in the
11 supplemental testimony. In addition, Mr. Teitzel has included stories about
12 QWEST's activities in Oregon. The Commission should disregard such infor-
13 mation when it is deliberating about the issues in this proceeding. Cox was not a
14 party in Oregon and had it been, a different outcome could have resulted.

15 **Q. DR. COLLINS, HAVE YOU READ THE TESTIMONY PRESENTED BY**
16 **QWEST WITNESSES DR. WILCOX AND MR. ALLCOTT AND IF SO,**
17 **WHAT COMMENT WOULD YOU MAKE ABOUT THEM?**

18 A. The testimony of Dr. Wilcox and Mr. Allcott, as to the existence of true
19 competition for services, merely draws upon the testimony of Mr. Teitzel and does
20 not add any new substance capable of supporting the claims they have reiterated
21 from that testimony. Additionally, their testimony does not change the compelling
22 nature of the analysis in *Exhibit FRC-B* that indicates that there is not sufficient
23 competition in the requested competitive zone area to warrant them being declared
24 competitive.

1 **Q: ARE THERE ANY OTHER CONCERNS YOU HAVE CONCERNING**
2 **QWEST COMPETITIVE ZONE PROPOSAL?**

3 A: Yes. QWEST's proposal appears to be based on the assumption that once it loses
4 a customer, the customer is gone for good. It apparently believes that it needs
5 pricing flexibility in the "competitive zones" to avoid losing customers in the first
6 place. That implies QWEST's desire is to maintain its monopoly power in those
7 areas, which results in all the antitrust concerns that go along with it.

8 Moreover, the Commission has approved QWEST's "competitive
9 response" tariff [See QWEST's Competitive Exchange and Network Services
10 Tariff, Section 5], which allows QWEST to offer discounts and incentives to all
11 the customers (both business and residential) QWEST has lost to CLECs in an
12 effort to win back those customers. Thus, QWEST has specifically targeted "lost"
13 customers and, over time, this may actually *reduce* the number of customers that
14 QWEST now claims it has lost in a given wire center. QWEST does not need yet
15 another anticompetitive tool – competitive zone flexible pricing – on top of this
16 competitive response "Win Back" tariff.

17 **Q: WHAT IS YOUR VIEW ON THE INITIATIVE TO AMEND CERTAIN**
18 **ARIZONA CONSTITUTION PROVISIONS CONCERNING RATE-**
19 **MAKING FOR PUBLIC SERVICE CORPORATIONS?**

20 A: It appears that QWEST did not believe that the Commission would grant it
21 flexible pricing in this rate case, so it is seeking that ability through a
22 constitutional amendment. Either method would be catastrophic to CLEC market
23 entry and would allow QWEST to maintain market power *without* adequate
24 Commission oversight of its rates. Arizona consumers would certainly suffer in
25 the long run.

1 CONCLUSION

2 **Q. DR. COLLINS, HOW WOULD YOU LIKE TO CONCLUDE YOUR**
3 **TESTIMONY?**

4 A. In conclusion, I believe that competition, at any level above the embryonic stage,
5 does not exist in Arizona at the present time. The issue of how to introduce
6 pricing flexibility beyond that already provided by A.A.C. R14-2-1108 is not yet
7 ripe for consideration. When it does become ripe, the Commission should
8 consider the issue in a stand-alone docket because of the complexities involved.
9 In any event, within the context of this docket, QWEST's designed "competitive
10 zone" program, the pricing structure for those zones, and the manner of declaring
11 future services competitive are not suitable for Commission approval because they
12 are flawed and anticompetitive.

A

PROFESSOR FRANCIS R. COLLINS

Dr. Collins is a senior member of the International Telecommunications Industry. He has made significant contributions to the science, engineering, business development and evolution of that industry. His professional science and engineering focus over the years has been the System Architecture, Design and Implementation of large scale public and private telecommunications and teleprocessing systems and networks. A few of the many possible examples are: the design and creation of the fundamental plan which included operations, finance, technology and training for the Public Switched Network in Saudi Arabia; a technical audit and re-engineering of the communications and telemetry systems serving the oil and gas fields in Algeria; the specification for operational and technology improvements in NIRT, the National Iranian Television Company; numbers of technical and economic audits of operating telephone companies in the United States; the technical audit and specification for quick fix technical improvements to the local exchange plant for CANTV, the telecommunications provider in Venezuela; the establishment of a strategy for and the technical evaluation of the proposals for the alternative telephone company in Australia; the establishment of competitive strategies for the National and International telephone companies in Australia; a technical, organizational and financial "due diligence" study including vendor recommendations for a 2,000,000 line switched telephone and broadband telecommunication project in Thailand; and from the commercial sector a few examples are: the design and architectural implementation of the Florists' Transworld Delivery (FTD) Mercury Network in North America; the design of corporate nationwide telecommunications and teleprocessing systems for a host of industrial clients and the provision of technical and economic counsel to telecommunications service providers.

While a teaching professor, a Dean of Engineering, and a Provost of the University at Boston University, Dr. Collins provided consulting services in: Public Policy; Business Analysis; Revenue Production Strategy Development; the application of Science and Engineering to the design and development of public switched networks; and Economic and Financial Counsel. This work has been done for the national and international telecommunications, cable television, and information technology community.

Dr. Collins' own applied research is in the design and implementation of unique communications, teleprocessing and information technology systems and the requisite requirements analysis and system design. In addition Dr. Collins has pursued an intellectually stimulating aspect of being a telecommunications scientist and professional engineer, that of addressing issues related to Public Switched Telecommunication System Design, Telecommunications Public Policy Development; Telephone Operating Revenue Requirements and Rate Design Issues for Developed and Developing Countries across the world. In addition he has addressed the technological, economic and public policy concerns and issues to be faced in the introduction of technology and competition into those public telecommunication and broadband networks. For the past few years, Dr. Collins' interests have centered on the introduction of deregulation and competition in the telecommunications industry in general and most recently the local exchange marketplace. He is currently viewed as one of the leading authorities in the implementation of the Telecommunication Act of 1996 and the application of the FCC's Rules and Orders in the support of that Act. He has formally addressed these issues in Arizona, California, Connecticut, Iowa, Louisiana, Michigan, Nebraska, Nevada, New

Hampshire (Maine and Vermont adopted the New Hampshire results), New York, Michigan, Ohio, Oklahoma, Pennsylvania, Rhode Island, and Virginia.

Recent specific areas of work have included:

- Providing economic and technical counsel to state governments and the representation of co-carriers in negotiations between ILECs and CLECs to arrive at co-carrier agreements which satisfy the 96 Telecommunications Act requirements;
- The determination of the approach for and subsequent review of Total-Element/Service-Long Run Incremental Cost Studies, the audit of investment levels, the determination and allocation of Joint and Common Cost, the determination or verification of investment loading factors, and the determination of the Cost-of-capital and Depreciation, for the establishment of cost elements (and subsequently rates) for unbundled local exchange networks;
- The provision of technical and economic counsel to and representation of parties in TS-LRIC cost methodology development workshops whose goals are to make recommendations to regulatory bodies;
- Member of the Connecticut Telcom Industry Operations Task Force which was established by the Connecticut Commission;
- Member of the State of Connecticut Technical and Economic Task force providing oversight to the implementation of Alternative Regulation for SNET;
- Technical Counsel to the Connecticut Carrier Change Process sub-committee established by the Connecticut Commission;
- Member of the California PUC E911 Task Force; Member of the California PUC LNP Task Force;
- Member of the FCC/NANC Task Force addressing Telephone Number Optimization Issues
- Member of INC (Industry Telephone Number Committee) a National Standards Setting Forum for Telephone Number Utilization established by the FCC.
- The provision of Technical and Economic Counsel to a California Industry Association regarding: NPA/NXX issues; New Regulatory Framework issues; Local Competition Rule issues; issues underlying Local Number Portability; the Provision of Emergency Services; Open Network and Network Architecture Issues, and the implications of the Telecommunications Act of 1996;
- Technical and Economic Audits for Operating Telephone Companies, focusing on the Construction Program, the resulting Capital Investment, and its effect on the Rate Base;

- The design of a multi-variable computer program for doing first cost and upgrade costs of CATV and Video Dial-tone Broadband Networks;
- The review and analysis of proposed Capital Programs and the proper allocation of costs to regulated and competitive services for local exchange operating telephone companies;
- The assessment of proposed Rate Design Structures and their relationship to the Capital Investment and the utility of that investment;
- The technical audit of portions of the CANTV Network in Venezuela with the recommendation for immediate and cost effect upgrading of that network through the evolutionary introduction of technology to the Capital Program;
- For the government of Australia, the evaluation of the optimum manner of introducing a significant advanced technology expansion to the existing network through the establishment of a "Second Carrier" for domestic local and long distance service;
- The managerial oversight of the design and implementation of a comprehensive training program in Saudi Arabia;
- The development of a major 124 hour technical training program in telecommunications and advanced broadband services for NYNEX. The program ran three years and over 1,200 staff members were trained.
- The technical and economic audit of a 2,000,000 line, 2.8 billion dollar expansion of the public network for video, data and voice services in the greater Bangkok, Thailand area for an investment banking firm's due diligence effort;
- The Creation of the Fundamental Plan for the terrestrial and satellite based Public Switched Network for Saudi Arabia for; Operations, Revenue Requirements, Tariff Structures, Organizational Structures and Technology Introduction;
- The Creation of the Specifications for the Loop, Switching and Trunking Equipment to Implement the Saudi Arabian Public Switched Network;
- The Architectural Oversight of the Implementation of the Public Switched Network in Saudi Arabia;
- The Analysis and Synthesis of an International Gateway Network using Space Satellite Links for Saudi Arabia;
- The Design of a National Video and Digital Data Network for National Iranian Television;
- The Analysis leading to recommendations for rectifying problems in the Telecommunications supporting the gas and oil fields in the Algerian Sahara;

- The design of a Space Satellite International Gateway Complex to support international communications to/from The Republic of Vietnam;
- The Planning and Design for a Voice and Data terrestrial and Satellite base Telecommunication System for the Provision of Educational and Medical Services to remote regions in the United States;
- The analysis required for the design and then the design, installation, staff training, and establishment of operational and cost control systems for nationwide voice, television and data networks for private industry and national governments. These include projections of needed telecommunications capacity and services based on Operational Research methods applied to the particular situation;
- The Architectural Design;, Public Policy Impact Analysis; and Financial Impact Assessment; System and Subsystem Specification; Integration, Test and Evaluation of Large Scale Teleprocessing systems;
- The specification of components for nationwide on-line, real time voice/data systems employing thousands of terminals;
- The architectural design and engineering specification for mobile telephone systems considering the cost performance aspects of standard vs. cellular configurations;
- The integration of cellular signaling and billing transmission protocols with Equal Access, Feature Group D formats;
- The evaluation of start-up companies and their products for investors or venture capital concerns;

Dr. Collins has had thirty-nine years of experience as a systems engineer, engineering manager, executive and senior consultant in the telecommunication, navigation and digital electronic fields. He is recognized as an international expert in telecommunications; science, technology, economics and public policy. As a member of technical, middle and top management levels, he has held marketing, profit, overhead, cost, planning, and administrative control positions for a number of top companies: Bell Telephone Laboratories, the MITRE Corporation, the Magnavox Company, Analytical Systems Corporation, Arthur D. Little, Inc., and Boston University.

His Executive Management positions have included:

- Executive Project Manager, the MITRE Corp.;
- Director, the Magnavox Communications Research Laboratories;
- Executive Vice President, The Analytical Systems and Engineering Corporation;
- Managing Project Director, Arthur D. Little Inc.;
- Dean of the College of Engineering, Boston University;
- Provost and Director of Sponsored Research, Boston University;
- President and CEO, CCL Corporation.

He is the author of over 100 technical papers and has processed patents in the design of telecommunications, information technology, and multi-media broadband networks and equipment. He currently is in the process of perfecting two patents related to the "convergence" of the cable and telephone industries. In addition, he has accomplished work and published confidential reports in the areas of requirement analysis and telecommunications system performance and design for the Army, Navy and Air Force. These systems, both satellite and terrestrial, typically employed advanced modulation techniques, equipment and systems to support generic mission profiles.

Dr. Collins was awarded the B.S.E.E. degree Cum Laude by Northeastern University and the M.S.E.E. degree with high honors as part of Bell Telephone Laboratories Educational Program. This certificate program involved additional higher education above the Masters degree level. These courses were taken at the Massachusetts Institute of Technology and in residence at the Laboratories. In that work his educational emphasis was on digital switching and network transmission systems. His doctorate (Ph.D. in Telecommunications) was awarded by the Union Graduate School. In 1996 Dr. Collins was appointed to the "International Academy" in the position of Academician (Professor Emeritus in the US) by the Faculty of the University of Moscow, St. Petersburg, Russia.

Dr. Collins has been a Professor of Engineering of the undergraduate and graduate school faculties of Northeastern University, Lowell University, and Boston University. His academic career includes the organization and presentation of courses in the areas of: digital computer/electronics; solid state circuit design; synthesis of linear passive bilateral networks; the theory of time varying fields; the theories of dynamic systems with applications of classical (transform calculus techniques) and modern (state space formulations) solutions; communications theory and the design of communications systems. He was a Professor of Engineering and a Dean of the College of Engineering, responsible for the Colleges Research Activity, at Boston University from 1976 to 1978 and Provost, a position similar to Executive Vice President, responsible for the research activity of the University with responsibility for The Office of Research Programs from 1978 to 1981. During his tenure at Boston University Dr. Collins was sought after for consulting services by national and international businesses, industries, and governments and provided these services to the extent allowed by his faculty affiliation.

From 1981 to the present he has been providing consulting services through CCL Corporation and additionally is "Of Counsel" to a number of other distinguished firms including Arthur D. Little, Cambridge Strategic Management Group, Exeter Associates, and J.W. Wilson Associates.

Dr. Collins is a registered Professional Engineer in the Commonwealth of Massachusetts; a member of both the Massachusetts and National Societies of Professional Engineers; a past Vice President and current Executive Board Member of the Massachusetts Chapter, a member of the Legislative and Government Affairs subcommittees of the National and Massachusetts Societies, a member of two national engineering honor societies, Eta Kappa Nu and Tau Beta Pi; a past member of the Institute of Electrical and Electronics Engineers; a member of the National Society of Engineering Educators; and a member of the National Association of Cable

Television Engineers. He has served on numbers of National and International professional advisory boards, panels, and North American Standards setting Organizations over the years and has served Internationally as a member of the International Telecommunications Union in Geneva, Switzerland. He is currently a member of a number of National Telecommunications Standards and Public Policy Setting Bodies operating under the auspices of the Federal Communications Commission.

B

EXHIBIT FRC-B

US WEST MARKET SHARE LOSS ANALYSIS

THIS REDACTED EXHIBIT CONTAINS INFORMATION

DECLARED PROPRIETARY BY US WEST