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A PROFESSIONAL CORPORATION

# ORIGINAL

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Arizona Corporation Commission  
**DOCKETED**

**NOV 20 2000**

**DOCKETED BY** *Jr*

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## VIA HAND DELIVERY

Docket Control  
ARIZONA CORPORATION COMMISSION  
1200 West Washington  
Phoenix, Arizona 85007

**Re: Qwest Corporation's 1999 Rate Application**

**Docket No. T-01051B-99-0105**

AZ CORP COMMISSION  
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Dear Clerk:

Enclosed for filing in the above matter are the original and ten copies of the Rebuttal Testimony of Maureen Arnold, George Redding, Scott A. McIntyre and David L. Teitzel. If you have any questions, please do not hesitate to contact me.

Very truly yours,

FENNEMORE CRAIG, P.C.

Timothy Berg

TB/dp

Enclosures

cc: All Parties of Record

**BEFORE THE ARIZONA CORPORATION COMMISSION**

**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 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**

**REBUTTAL TESTIMONY**

**OF**

**MAUREEN ARNOLD**

**ON BEHALF OF**

**QWEST CORPORATION**

**NOVEMBER 20, 2000**

**REBUTTAL TESTIMONY OF MAUREEN ARNOLD  
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1 by Dr. Selwyn, Dr. Johnson, and Dr. Collins with respect to the allocation of  
2 services to appropriate baskets, competitive classification of services, and  
3 imputation of wholesale elements into retail service prices.  
4

5 **Q. WILL YOU ADDRESS ALL OF THE ISSUES RAISED BY OPPOSING PARTIES**  
6 **IN THIS DOCKET?**

7 A. No. Several of the witnesses have gone beyond the scope of the procedural  
8 order, which limited testimony and cross examination to "those areas filed as  
9 specific disagreements/testimony/comments."  
10

11 **Q. IN GENERAL TERMS, HOW WOULD YOU CHARACTERIZE THE TESTIMONY**  
12 **FILED BY THE VARIOUS PARTIES WHO OPPOSE THE SETTLEMENT**  
13 **AGREEMENT?**

14 A. The testimony of most of the parties who oppose the agreement focuses on self-  
15 interest, rather than the public interest. For instance, AT&T and RUCO would like  
16 to see rates go down. COX and AT&T are opposed to allowing Qwest to enjoy  
17 any of the competitive freedoms that they currently enjoy. Just because the  
18 settlement agreement may not include all of a given party's wish list, does not  
19 mean that it is not in the public interest.  
20

21 Parties opposing the agreement make arguments against specific provisions of the  
22 plan, such as the productivity factor or how many baskets there are, without

1 recognizing that each element is part of a comprehensive settlement of numerous  
2 issues. These arguments may be appropriate when individual issues are litigated,  
3 but should be given the appropriate weight in the context of a negotiated  
4 settlement of numerous contested issues. The Settlement Agreement, as  
5 currently constructed, constitutes a reasonable compromise of the contested  
6 issues in this case and is, therefore, in the public interest. It is also noteworthy that  
7 the Department of Defense has recognized that the settlement is in the public  
8 interest, even though the agreement does not go as far as they argued in their  
9 earlier testimony. (See testimony of Richard Lee on behalf of the Department of  
10 Defense.) The Communications Workers of America (CWA) supports the  
11 agreement and it is my understanding that the Arizona Payphone Association  
12 (APA) also supports the agreement and is planning on filing testimony to that  
13 effect. Of the nine active participants in this docket (those who have or will file  
14 testimony in one or more phases), a majority fully agree that this settlement is in  
15 the public interest. Further, although it has presented other arguments against the  
16 agreement, COX has gone on record stating that the three year term of the plan,  
17 the 4.2% productivity factor, the use of GDP-PI for the inflation index, the service  
18 quality measures, a fair value return on rate base of 9.61%, and the price cap  
19 formula are "within the bounds of reasonableness for use in a 'settlement'  
20 approach."<sup>1</sup>

21  

---

<sup>1</sup> See Testimony of Dr. Francis R. Collins, November 13, 2000, page 7.



1 relative protection afforded to Qwest versus its customers. . Paragraph 7 of the  
2 terms of the Agreement specifically prohibits Qwest, or any other party to the  
3 agreement, from seeking an adjustment to its rates in the event of an under-  
4 earnings situation. Further, there is no guarantee that the Company would be  
5 allowed to return to rate of return regulation following the term of the plan even if it  
6 so requested. The Agreement provides that the Price Cap Plan can be extended  
7 or modified. If neither happens, the Commission determines the appropriate form  
8 of regulation for Qwest. Ratepayers have numerous other benefits under the plan  
9 that must be taken into consideration as well. These benefits include, among  
10 others, hard caps on basic/essential services, inclusion of a .5% consumer  
11 productivity dividend, service quality credits, the opportunity for reduced prices  
12 when inflation is low, and a reassessment of the productivity factor after 3 years.  
13 Qwest views it as a significant concession on its part that it will be prohibited from  
14 raising rates in years when inflation exceeds the productivity offset. This  
15 demonstrates, once again, the importance of viewing the agreement in its totality  
16 instead of trying to fully litigate individual issues on a stand-alone basis.

17  
18 **Q. ON PAGE 35 OF HIS TESTIMONY, DR. SELWYN DISCUSSES SEVERAL**  
19 **CONCERNS HE HAS WITH BASKET 3, SUCH AS THE LACK OF AN**  
20 **IMPUTATION REQUIREMENT AND THE INAPPLICABILITY OF THE PRICE**  
21 **CAP INDEX TO NEW SERVICES. HAS HE PROPERLY INTERPRETED THE**  
22 **SETTLEMENT AGREEMENT IN THIS REGARD?**

1 A. No. The agreement provides that Qwest would be required to follow the  
2 Commission's rules on price floors and imputation<sup>2</sup>, and sufficient language to that  
3 effect is contained within the agreement.<sup>3</sup> David Teitzel's testimony further  
4 discusses issues related to imputation. As to the issue of new basket 3 services  
5 not being subject to the price cap index, that is simply not true. Paragraph 4.a of  
6 the Price Cap Plan states that new services and new service packages will be  
7 included in Basket 3. Paragraph 4.b describes the price cap applicable to Basket  
8 3 services. There is nothing in the agreement that would exclude any new service  
9 or package from being subject to the price cap index for its associated basket of  
10 services.

11  
12 **Q. DO YOU HAVE ANY COMMENTS CONCERNING RUCO WITNESS BEN**  
13 **JOHNSON'S ARGUMENT THAT INITIAL RATES SHOULD DECREASE PRIOR**  
14 **TO ALLOWING QWEST TO UTILIZE PRICING FLEXIBILITY BECAUSE THIS**  
15 **HAS BEEN DONE IN OTHER STATES.**

16 A. Yes. As stated in the Rebuttal Testimony of Qwest witness George Redding, Dr.  
17 Johnson's testimony offers no evidence to support this proposal. Further, the point  
18 that so many parties seem to be missing is that all of the services to be included in  
19 Basket 3 at the beginning of the plan are already flexibly priced today. In this  
20 regard, Qwest is not being given any new pricing freedoms. Further, the pricing

---

<sup>2</sup> See Settlement Agreement, Attachment A, paragraphs 3.g, 2.c.(iv), 4.e, 4.f, and 7.

<sup>3</sup> This applies as well to the testimony of Ms. Arleen Starr, page 10.

1 flexibility for Basket 1 services is constrained by the fact that the revenues in this  
2 basket, excluding changes in demand, cannot increase over the life of the plan.  
3 Therefore, Basket 1 pricing flexibility will be limited to either decreases, or revenue  
4 neutral changes. Since Qwest already enjoys a considerable degree of pricing  
5 flexibility for its Basket 3 services, there is no reason for it to settle for a decrease  
6 in revenues simply for the right to continue to utilize that flexibility. The "price of  
7 admission" that Dr. Johnson seeks is that the price cap plan imposes tighter  
8 constraints on the Company's pricing flexibility than that which currently exists, as  
9 well as all of the other consumer benefits that are discussed elsewhere in the  
10 testimony presented by Qwest and the Commission Staff.

11  
12 **Q. DO YOU AGREE WITH DR. JOHNSON THAT THE BASKET**  
13 **DETERMINATIONS ARE CONFUSING?**

14 **A.** No. Dr. Johnson's statement appears to be based on the general language used  
15 in the testimony of Staff witness Shooshan to describe each of the baskets.  
16 However, Attachments C, D, and E of the settlement agreement give specific  
17 details which unambiguously define the services for each basket by specific tariff  
18 section. Therefore, the naming and structure of the baskets being proposed  
19 cannot be considered a serious deficiency in the Agreement, as alleged by Dr.  
20 Johnson.

21  
22 **Q. DO YOU HAVE ANY OBSERVATIONS ABOUT THE COMMENTS FILED BY**

1           **MR. ALBERT STERMAN ON BEHALF OF THE ARIZONA CONSUMERS**  
2           **COUNCIL?**

3    A.    Yes. Mr. Sterman primarily echoes the sentiments of RUCO with respect to fully  
4           litigating all of the issues in the rate case. This has been discussed previously in  
5           other portions of my testimony, as well as that of other Qwest and Staff witnesses.  
6           Mr. Sterman also makes the statement that consumers will be forced to pay  
7           higher prices for services not needed due to bundling and the ability to move  
8           services between baskets. This fear is unfounded for several reasons. First, the  
9           only way Qwest could move a service completely out of Basket 1 and into Basket 3  
10          would be for it to satisfy the requirements of Section 1108, which would require a  
11          showing of competitive alternatives. When this occurs, market forces will constrain  
12          Qwest from inappropriately increasing prices. Second, any services from Basket 1  
13          that are part of a new bundle of services must continue to be made available on a  
14          stand-alone basis in Basket 1. Therefore, no one will be forced to pay for  
15          something they do not want.

16  
17    **Q.    ON PAGE 5 OF HIS TESTIMONY, DR. COLLINS TAKES ISSUE WITH THE**  
18           **INCLUSION OF THE "SUPPORT AND DEFEND" PROVISION OF THE**  
19           **SETTLEMENT AGREEMENT, STATING THAT THE CLAUSE IS AMBIGUOUS**  
20           **AND EXPOSES CARRIERS TO FINANCIAL RISK. DO YOU AGREE?**

21  
22    A.    No. My understanding of this language is that it would only apply to parties who

1 sign the agreement. The "Support and Defend" provision of the Settlement  
2 Agreement is not ambiguous, but rather a standard provision used when entering  
3 into settlement agreements (rate or otherwise). In this case, as applied to  
4 signatories other than Qwest and Staff, the obligation is in effect limited to an  
5 obligation to not challenge or support a challenge to the settlement.

6  
7 **CONCLUSION**

8  
9 **Q. WOULD YOU PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY?**

10 A. Certainly. Qwest has shown through both its direct and rebuttal testimony in  
11 support of the Settlement Agreement that the agreement is in the public interest.  
12 The arguments offered by those who oppose the settlement are not substantive  
13 and should be disregarded. I would therefore urge the Commission to adopt the  
14 proposed settlement.

15  
16 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

17 A. Yes.

BEFORE THE ARIZONA CORPORATION COMMISSION

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

AFFIDAVIT OF  
MAUREEN ARNOLD

ss

STATE OF ARIZONA )  
)

COUNTY OF MARICOPA )  
)

Maureen Arnold, of lawful age being first duly sworn, depose and states:

1. My name is Maureen Arnold. I am Director – Regulatory Matters for Qwest Corporation in Phoenix, Arizona. I have caused to be filed written rebuttal testimony in support of settlement in Docket No. T-01051B-99-0105.
2. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

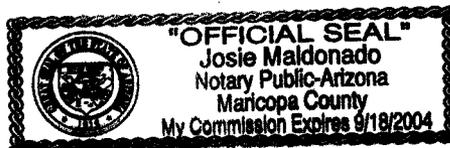
Further affiant sayeth not.

Maureen Arnold  
Maureen Arnold

SUBSCRIBED AND SWORN to before me this 20h day of November, 2000.

Josie Maldonado  
Notary Public

My Commission Expires: 9/18/2004



**BEFORE THE ARIZONA CORPORATION COMMISSION**

**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 FOR ) DOCKET NO. T-01051B-99-0105  
RATEMAKING PURPOSES, TO FIX A )  
JUST AND REASONABLE RATE OF )  
RETURN THEREON, AND TO APPROVE )  
RATE SCHEDULES DESIGNED TO )  
DEVELOP SUCH RETURN )**

**REBUTTAL TESTIMONY**

**OF**

**GEORGE REDDING**

**ON BEHALF OF**

**QWEST CORPORATION**

**NOVEMBER 20, 2000**

**REBUTTAL TESTIMONY OF GEORGE REDDING**  
**INDEX OF TESTIMONY**

**IDENTIFICATION OF WITNESS .....1**

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**REBUTTAL OF DR. JOHNSON (RUCO) .....11**

**REBUTTAL OF DR. SELWYN (AT&T).....13**



1 Commission about the settlement and the process used in developing the  
2 agreement.

3

4

**REBUTTAL OF MR. SMITH (RUCO)**

5

6

**Q. AT THE BOTTOM OF PAGE TWO AND THE TOP OF PAGE THREE OF  
7 HIS TESTIMONY, MR. SMITH OUTLINES HIS PRESUMPTION  
8 REGARDING THE DEVELOPMENT OF THE AGREED REVENUE  
9 REQUIREMENT OF \$42.9M. HAS HE DESCRIBED THE PROCESS  
10 ACCURATELY?**

11

**A.** No, he has not. The exact process was described on pages two through  
12 five of my direct testimony and summarized on page five of my direct. Mr.  
13 Brosch described the same process on page four of his direct testimony.  
14 This process was further clarified through the answers to interrogatories in  
15 RUCO33-01 and RUCO35-01.

16

17

As Mr. Brosch's and my testimony explain, Qwest and Staff settled on a  
18 revenue requirement by;

19

20

21

22

23

24

25

26

- 1) settling on a number for fair value rate base
- 2) settling on an authorized rate of return
- 3) considering the merits of adjustments proposed by the various parties, *including* RUCO and AT&T
- 4) settling on the total amount of these adjustments
- 5) settling on an income from operations of \$113.7 million
- 6) deriving the resultant revenue requirement of \$42.9 million.

1

2 **Q. AT PAGE TWO OF HIS TESTIMONY, MR. SMITH CLAIMS, "IT DOES**  
3 **NOT APPEAR THAT THE REVENUE REQUIREMENT CALCULATIONS**  
4 **OF THE OTHER PARTIES, OR THEIR RECOMMENDED**  
5 **ADJUSTMENTS, WHICH IN A NUMBER OF INSTANCES WERE**  
6 **EITHER DIFFERENT THAN, OR SUPPLEMENTAL TO, STAFF'S RATE**  
7 **BASE AND NET OPERATING INCOME ADJUSTMENTS, WERE**  
8 **FACTORED INTO THE SETTLEMENT AGREEMENT REVENUE**  
9 **REQUIREMENT." IN REACHING SETTLEMENT, DID QWEST**  
10 **CONSIDER THE ADJUSTMENTS THAT RUCO AND AT&T**  
11 **PROPOSED?**

12 **A.** Yes. The fact Mr. Brosch's and my testimony do not specifically mention  
13 the adjustments proposed by RUCO and AT&T does not indicate such  
14 adjustments were disregarded. Staff and Qwest both received copies of  
15 all testimony filed by AT&T and RUCO. Staff received copies of all  
16 responses Qwest made to AT&T's and RUCO's discovery. Consequently,  
17 Staff and Qwest were well aware of the arguments and evidence  
18 concerning all of the adjustments that AT&T and RUCO proposed in this  
19 matter.

20

21 Qwest considered all of AT&T's and RUCO's proposed adjustments and,  
22 in determining the basis upon which it was willing to settle, accorded those

1 proposals the weight Qwest believed they deserved. I have no reason to  
2 believe Staff did anything different.

3  
4 Mr. Smith, at page three of his testimony, states that RUCO believes that  
5 the evidence presented by all of the parties in this proceeding concerning  
6 the revenue requirement does not justify a revenue increase for Qwest.  
7 The Company disagrees with that opinion. By their nature, settlements  
8 are a compromise of contested positions. If Qwest were to continue to  
9 litigate this matter, then its position would reflect its opinion about the  
10 arguments and evidence. RUCO offers nothing to show that the  
11 compromise Staff and Qwest have reached is unreasonable but, instead,  
12 merely reiterates its original position regarding the case.

13  
14 **Q. MR. SMITH, AT PAGE FOUR, OBSERVES THAT UNDER THE TERMS**  
15 **OF THE SETTLEMENT, QWEST WOULD HAVE NO OBLIGATION TO**  
16 **REFUND REVENUES IF THE PRICE CAP PLAN IS FOUND TO BE**  
17 **UNLAWFUL. DOES QWEST BELIEVE THAT THIS TERM OF THE**  
18 **SETTLEMENT IS REASONABLE UNDER ARIZONA LAW?**

19 **A.** It is a reasonable term. As Qwest's answer to RUCO data request 36-11  
20 explains:

21 Under Mountain States, Etc. v. Ariz. Corp. Com'n, 124 Ariz. 433, 604  
22 P.2d 1144 (App. 1979), the Arizona Corporation Commission  
23 (Commission) retains the discretion to determine whether any

1 retroactive refund is necessary and appropriate, in cases where utility  
2 rates are subsequently invalidated by an appellate court. Under these  
3 circumstances, a utility has no automatic obligation to refund  
4 customers. In this case, the settlement agreement and price cap plan  
5 provide *both rate increases and decreases* to various subscribers.  
6 Therefore, there is nothing inappropriate about the Commission  
7 agreeing not to issue a refund because the matter is within its  
8 discretion and on balance neither a refund or surcharge may be  
9 warranted.  
10

11 **Q. MR. SMITH, ON PAGE THREE OF HIS TESTIMONY, STATES THAT**  
12 **THE RUCO WITNESS RECOMMENDED AN 11.5% RETURN ON**  
13 **EQUITY, YET THIS WAS NOT TAKEN INTO CONSIDERATION. DO**  
14 **YOU HAVE ANY COMMENTS?**

15 A. Yes, I do. Qwest accepted Staff's rate of return on equity of 11.75%,  
16 which is a lot closer to RUCO's advocated position of 11.5% than it is to  
17 Qwest's position of 14%.

18

19

20 **REBUTTAL OF MS. GATELY (AT&T)**

21

22 **Q. WOULD YOU NOW PLEASE TURN TO MS. GATELY?**

23 A. Certainly.

24

25 **Q. MS. GATELY ASSERTS THAT THE METHODOLOGY STAFF AND**  
26 **QWEST EMPLOYED TO SETTLE ON A \$42.9 MILLION REVENUE**  
27 **REQUIREMENT WAS ARBITRARY. DO YOU AGREE?**

1 A. No. She mistakenly concludes that Qwest and the Staff just "split the  
2 baby" without giving any consideration to the underlying facts. Indeed,  
3 she goes so far as to state that the Company and Staff would have just  
4 "split the baby" regardless of the underlying facts. Ms. Gately can  
5 conclude that the settlement Staff and Qwest reached was arbitrary only  
6 by *assuming*, as she does on page four, that "the negotiation did not take  
7 into consideration the merits of any of the adjustments proposed by Staff."  
8 Nothing in Staff's or Qwest's testimony or responses to data requests  
9 supports this assumption. In a leap of logic, Ms. Gately infers from the  
10 negotiations' outcome that the settlement process was unreasoned and  
11 arbitrary. Nothing supports her inference.

12  
13 The settlement process was highly contentious and hard fought. The  
14 result reflects the parties' view of the strength of the arguments and  
15 voluminous testimony and evidence presented in this case, including  
16 direct, rebuttal, surrebuttal and rejoinder testimony by over a dozen  
17 witnesses representing several different parties. That testimony was  
18 developed in the light of multiple rounds of discovery that yielded answers  
19 to hundreds of questions. Both parties carefully considered the  
20 Commission's position on issues in Qwest's last rate case. The process  
21 of reaching a compromise on the many contested positions in this case  
22 was carefully considered and far from arbitrary.

1

2 **Q. MS. GATELY GOES ON TO AMPLIFY HER PRESUMPTION THAT THE**  
3 **UNDERLYING FACTS WERE IGNORED IN HER UNREALISTIC**  
4 **EXAMPLE ON PAGE SEVEN OF HER TESTIMONY. HOW DOES SHE**  
5 **JUSTIFY SUCH A CLAIM?**

6 A. She justifies using this example by saying on page six of her testimony  
7 that "to the extent that Staff overlooked any adjustments that should  
8 legitimately have been made to Qwest's numbers . . . those adjustments  
9 didn't get accounted for at all." Ms. Gately has no reason to assume  
10 Qwest or the Staff overlooked any adjustments. Just since the update to  
11 the 1999 test year was filed in May of this year there were in excess of  
12 600 interrogatories of a financial nature that were issued. Furthermore,  
13 these interrogatories were posed in light of the numerous interrogatories,  
14 and onsite visits by Staff's experts, that were posited related to the original  
15 test period. It is highly unlikely that anything of a significant nature was  
16 missed by the parties based on this thorough examination of the  
17 Company's results.

18

19 **Q. MS. GATELY, AT PAGE 6, THEN ALLEGES THAT STAFF**  
20 **OVERLOOKED ADJUSTMENTS PROPOSED BY OTHER PARTIES**  
21 **THAT SHOULD LEGITIMATELY HAVE BEEN MADE TO QWEST'S**  
22 **NUMBERS. WHAT IS YOUR RESPONSE?**

1 A. Ms. Gately's erroneous conclusion that Staff and Qwest "split the baby" on  
2 adjustments proposed by Staff leads her to conclude that Staff and Qwest  
3 did not consider adjustments proposed by other parties. Because her  
4 primary conclusion is false, her secondary conclusion is also false.

5

6 Qwest's response to RUCO33-01, which was served to all parties, stated  
7 that:

8 Several adjustments, such as the out of period wage adjustment, the  
9 incentive compensation adjustment, the software capitalization  
10 adjustment and the access line sale adjustment were specifically  
11 discussed during negotiations. Considering the quantification of these  
12 adjustments as a whole, the Company and the ACC Staff agreed that  
13 the income available from current operations should be \$113.7M,  
14 which is approximately one half of the income available of these  
15 adjustments subtracted from the adjusted operating income on ACC  
16 Staff Joint Accounting Exhibit, Schedule A. (emphasis added)  
17

18 Although many proposed adjustments were not specifically discussed,  
19 Qwest, in reaching a compromise with Staff, was fully cognizant of the fact  
20 that if this case were to continue to be litigated, the Commission would be  
21 presented with arguments and supporting evidence for each and every  
22 position taken by each and every witness sponsored by every party in this  
23 case, not just Staff's. It follows that the compromise Qwest reached  
24 reflects its assessment of all of the positions and supporting evidence of  
25 all of the parties, not just Staff's.

26

1 Q. MS. GATELY, SIMILAR TO MR. SMITH, IS SUGGESTING THAT THE  
2 SETTLEMENT IS INVALID BECAUSE EVERY ONE OF THEIR  
3 ADJUSTMENTS WERE NOT EXPLICITLY DISCUSSED. WHAT IS  
4 YOUR REACTION?

5 A. They are grasping at straws. AT&T continues to present the same  
6 adjustments here in the settlement that they made in the rate case. Ms.  
7 Gately's directory adjustment, for example, is worthy of some comment.  
8 Both the Staff and RUCO limited their adjustment to the \$43M imputation  
9 set forth in a 1988 settlement agreement. The Company agreed with this  
10 amount of directory imputation in the settlement. Ms. Gately, in the face of  
11 a court order to the contrary, suggests that an excess profits imputation be  
12 used on the basis of a Washington state order. She apparently did not  
13 look at the Arizona settlement agreement nor the court case upholding  
14 that agreement, which specifically denied the use of the excess profits  
15 methodology for directory imputation. Yet, she continues to propose this  
16 adjustment in her testimony related to the current settlement between  
17 Staff and the Company. AT&T's adjustments were considered during the  
18 negotiations, and were given their due weight based on their underlying  
19 infirmities.

20

21 Q. MS. GATELY ARGUES AT PAGE EIGHT THAT "ANY REVENUE  
22 ADJUSTMENT FLOWING OUT OF A SETTLEMENT MUST TREAT

1           **EQUALLY PROPOSED ADJUSTMENTS OF ALL OF THE PARTIES TO**  
2           **THE PROCEEDING.” DO YOU AGREE?**

3    A.    No. Ms. Gately’s recommended approach would be arbitrary because it  
4           requires the parties to ignore the merits of proposed adjustments. As has  
5           been previously stated, the merits of the various proposed adjustments by  
6           all parties were considered.

7

8    **Q.    AT LINE SIX ON PAGE EIGHT MS. GATELY SUGGESTS THAT “ANY**  
9           **CORRECTIONS TO QWEST’S REVENUE REQUIREMENT ESTIMATE**  
10           **MADE BY OTHER PARTIES THAT ARE NOT DUPLICATIVE OF**  
11           **ADJUSTMENTS PROPOSED BY STAFF SHOULD BE ACCORDED**  
12           **THE SAME ‘SPLIT THE BABY’ TREATMENT AS WAS USED FOR THE**  
13           **STAFF AND QWEST ESTIMATES”. HOW DO YOU RESPOND?**

14   A.    I recommend the Commission reject this suggestion because it would  
15           require the parties to the settlement to ignore the merits of the proposed  
16           adjustments.

17

18           In reaching settlement with Staff, Qwest did not ignore the merits of the  
19           positions the parties took in this matter. I have no reason to believe Staff  
20           ignored them either. Any recommendations suggesting that the  
21           Commission require the parties to ignore the merits of the case should be  
22           rejected for obvious reasons. In any event, AT&T’s manifestly self-serving

1 proposal is moot because Qwest would not agree to be party to a  
2 settlement that required such arbitrary terms.

3

4

5

**REBUTTAL OF DR. JOHNSON (RUCO)**

6

7 **Q. ARE YOU NOW READY TO TURN TO DR. JOHNSON AND DR.**  
8 **SELWYN?**

9 A. Yes, I am.

10

11 **Q. AT PAGE NINE OF HIS TESTIMONY, DR. JOHNSON ARGUES FOR**  
12 **REJECTING THE SETTLEMENT BETWEEN STAFF AND QWEST IN**  
13 **PART BECAUSE "IN OTHER JURISDICTIONS LECS HAVE OFTEN**  
14 **ACCEPTED, OR BEEN REQUIRED TO IMPLEMENT, RATE**  
15 **REDUCTIONS IN ORDER TO GAIN THE INCREASED PRICING**  
16 **FREEDOM AND OTHER BENEFITS OF PRICE CAP REGULATION."**  
17 **HOW DO YOU RESPOND?**

18 A. Dr. Johnson would have the Commission reject the settlement because  
19 Qwest has not "paid" for price caps regulation with a rate reduction. He  
20 fails to offer any cost of service rate-making principle in support of his  
21 proposal. He fails to offer any reason why the public interest requires  
22 Qwest to pay for a different form of regulation. He also fails to show that

1 the rate reductions that were imposed on or agreed to by other companies  
2 in other states were, in fact, "payment" for price caps regulation. He  
3 makes no effort to show that the circumstances of Qwest in Arizona are  
4 the same as the circumstances of the other instances he cites.  
5 Accordingly, his proposal to exact a duty from Qwest as a price Qwest  
6 must pay for price cap regulation should be rejected as unsubstantiated  
7 and self-serving.

8  
9 **Q. DR. JOHNSON SPENDS SEVERAL PAGES OF HIS TESTIMONY**  
10 **ARGUING THAT THERE SHOULD BE A DOWNWARD ADJUSTMENT**  
11 **TO THE INFLATION FACTOR. DO YOU HAVE ANY OBSERVATIONS?**

12 **A.** First and foremost, Dr. Johnson makes no specific recommendation. He  
13 also does not reconcile his proposal for a downward adjustment in the  
14 inflation factor with the customer dividend that has been added to the  
15 productivity factor. In the final analysis, on page 19 of his testimony, he  
16 states that "4.2% is within a plausible range for this particular variable,  
17 when looked at in isolation." His caveat is that there is not a price  
18 decrease initially, so therefore the productivity offset is too low. Again, he  
19 resorts to unsupported reasoning to arrive at his end point that prices must  
20 be decreased in order to agree to a price cap plan.

21

1    **Q.    ON PAGE 19 OF HIS TESTIMONY, DR. JOHNSON ARGUES THAT**  
2           **QWEST SHOULD BE SUBJECT TO A HIGHER PRODUCTIVITY**  
3           **FACTOR IN LIGHT OF THE SYNERGIES EXPECTED TO BE**  
4           **ACHIEVED FROM THE MERGER. PLEASE COMMENT.**

5    A.    First, Dr. Johnson is engaging in speculation. At this time, there is no way  
6           to appropriately quantify what those synergies will be. As pointed out in  
7           my rebuttal of Dr. Selwyn, the agreed productivity factor of 4.2% is at the  
8           high end of the productivity factors used in various state jurisdictions. It  
9           represents the best efforts of Qwest and the Staff to forecast the future  
10          and capture any benefits that may result.

11

12

13                                   **REBUTTAL OF DR. SELWYN (AT&T)**

14   **Q.    PLEASE TURN TO DR. SELWYN'S DISCUSSION OF PRODUCTIVITY.**  
15           **PLEASE ADDRESS HIS ISSUES.**

16   A.    Certainly. Dr. Selwyn spends considerable time arguing that the FCC  
17          productivity factor should be used. However, he states several times in  
18          his testimony that he is not adverse to a jurisdictional productivity factor.  
19          In fact, a jurisdictional factor was used in developing the productivity factor  
20          contained in the settlement. Dr. Selwyn apparently does not like it  
21          because it was not high enough to suit him, therefore he arbitrarily  
22          advocates the FCC factor.

1

2 **Q. DR. SELWYN BOLSTERS HIS ARGUMENT BY SUGGESTING AT**  
3 **PAGE 20 OF HIS TESTIMONY THAT THERE IS NO REASON WHY**  
4 **ARIZONA SHOULD ACCEPT A 4.2% VALUE FOR X THAT DIFFERS**  
5 **FROM 6.2%, THE VALUE THAT QWEST HAD ACCEPTED IN UTAH. IS**  
6 **DR. SELWYN'S DISCUSSION OF THE 6.2% PRODUCTIVITY FACTOR**  
7 **IN UTAH COMPLETE?**

8 **A.** No. Dr. Selwyn correctly observes that Qwest agreed to a 6.2 percent  
9 productivity factor for at least the first year in which indexing will apply  
10 under Utah's price cap statute. However, Dr. Selwyn fails to disclose that  
11 Qwest agreed to 6.2% for the first year of indexing as part of a settlement  
12 of disputed issues in the matter of the *merger* of the parent Corporations  
13 of Qwest Communications Corporation, LCI International Telecom Corp.  
14 and U S WEST Communications, Inc., Utah Public Service Commission  
15 Docket No. 99-049-41. Qwest agreed to 6.2% as a concession in  
16 settlement of a wide variety of contested issues in that merger docket, not  
17 because it believed 6.2% was necessarily an appropriate productivity  
18 factor. Under the terms of the merger settlement, the 6.2% may not be  
19 changed for the first year of price caps in Utah. However, after that, it may  
20 be revised. Qwest fully intends to seek such a revision and will present  
21 evidence that 6.2% is far too high.

22

1 Dr. Selwyn's suggestion that Arizona should adopt a higher productivity  
2 factor because Qwest agreed to higher productivity factor in settlement of  
3 a different kind of case in another jurisdiction makes no sense.

4

5 **Q. IS THERE ANYTHING ELSE MISSING FROM DR. SELWYN'S**  
6 **ANALYSIS?**

7 A. Yes, there is. Dr. Selwyn fails to review the productivity factors used in  
8 various other jurisdictions. Overall, they are considerably lower than the  
9 FCC factor. Based on some research performed for the Company in June  
10 of this year, the factors used in various states are as follows:

State	X		State	X
Connecticut (1996)	5.00%		Pennsylvania (1994)	2.93%
Maine (1995)	4.50%		North Dakota (1994)	2.75%
Illinois (1995)	4.30%		Maryland (1997)	2.70%
Mass. (1995)	4.10%		Iowa (1995)	2.60%
Kentucky (1995)	4.00%		Michigan (1995)	2.00%
Rhode Island (1996)	4.00%		New Jersey (1993)	2.00%
Alabama (1995)	3.00%		North Carolina (1996)	2.00%
Delaware (1994)	3.00%		Pennsylvania (1996)	2.00%
DC (1996)	3.00%		Tennessee (1996)	2.00%
Georgia (1995)	3.00%		Wisconsin (1994)	2.00%
Ohio (1994)	3.00%		Florida (1996)	1.00%
Wisconsin (1994)	3.00%			
			<b>Average</b>	<b>2.95%</b>

11

12 These factors are obviously much lower than the FCC factor. In fact, the  
13 4.2% factor agreed to by the Company and the Staff is near the top of the

1 range. It appears that Dr. Selwyn is skewing his advocacy by only  
2 presenting selected facts.

3

4 **Q. AT PAGE 12, DR. SELWYN CLAIMS QWEST/US WEST SUPPORTED**  
5 **THE ADOPTION OF THE 6.5% X-FACTOR AS PART OF THE CALLS**  
6 **SETTLEMENT. IS THIS CLAIM CORRECT?**

7 A. No, it is not. Qwest was not part of the original CALLS coalition and did  
8 not advocate the CALLS plan. After the FCC had ruled on the plan,  
9 Qwest did sign on. However, this was not because the Company agreed  
10 with the plan. It was a plain and simple economic choice between the  
11 better of, in Qwest's view, two bad alternatives.

12

13 **Q. PLEASE SUMMARIZE YOUR VIEW OF THE PRODUCTIVITY OFFSET**  
14 **AGREED TO IN THE SETTLEMENT BETWEEN THE STAFF AND**  
15 **QWEST.**

16 A. When all of the facts are known, the productivity offset contained in the  
17 settlement is fair. Despite Dr. Johnson's and Dr. Selwyn's protests to the  
18 contrary, the factor is fair and will yield a fair result. In fact, it is at the  
19 upper end of the range used by states that have a productivity offset.

20

21 **Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?**

22 A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

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-1051B-99-105

AFFIDAVIT OF  
GEORGE REDDING

ss

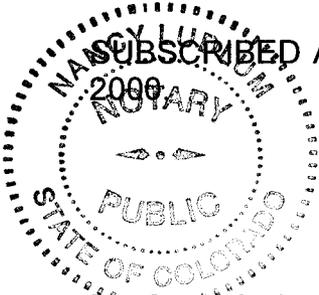
STATE OF COLORADO )  
 )  
 )  
COUNTY OF DENVER )

George Redding, of lawful age being first duly sworn, depose and states:

1. My name is George Redding. I am Director – Regulatory Finance of Qwest Corporation in Denver, Colorado. I have caused to be filed written rebuttal testimony in support of settlement in support of Qwest in Docket No. T-01051B-99-0105
2. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Further affiant sayeth not.

George Redding  
George Redding



SUBSCRIBED AND SWORN to before me this 16<sup>TH</sup> day of November.

Nancy Ludlum  
Notary Public

My Commission Expires: 8/11/2003

**BEFORE THE ARIZONA CORPORATION COMMISSION**

**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 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**

**REBUTTAL TESTIMONY**

**OF**

**SCOTT A. MCINTYRE**

**ON BEHALF OF**

**QWEST CORPORATION**

**NOVEMBER 20, 2000**

**REBUTTAL TESTIMONY OF SCOTT A. MCINTYRE  
INDEX OF TESTIMONY**

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1  
2  
3 **IDENTIFICATION OF WITNESS**

4 **Q. PLEASE STATE YOUR NAME, OCCUPATION, AND PLACE OF**  
5 **EMPLOYMENT.**

6 A. My name is Scott A. McIntyre. I work for Qwest Corporation ("Qwest", or  
7 "Company") (formerly known as U S WEST Communications, Inc.). My title is  
8 Director – Product and Market Issues. My responsibilities include developing  
9 market and pricing strategies for Qwest and supporting these positions in the  
10 regulatory arena. My business address is 1600 7<sup>th</sup> Avenue, Room 3009, Seattle,  
11 Washington 98191.

12 **Q. ARE YOU THE SAME SCOTT A. MCINTYRE WHO FILED SUPPLEMENTAL**  
13 **AND REJOINDER TESTIMONY IN EARLIER PHASES OF THIS CASE?**

14 A. Yes, I am.  
15

16 **PURPOSE OF TESTIMONY**  
17

18 **Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?**

19 A. The purpose of my rebuttal testimony is to address and clarify certain issues  
20 raised by AT&T witnesses Arleen M. Starr, and Lee L. Selwyn. I will also  
21 respond to testimony offered by Dr. Francis R. Collins on behalf of Cox Arizona  
22 telecom, L.L.C. The testimony of these three witnesses and my rebuttal focuses  
23 on the intrastate switched access rates proposed in the Settlement Agreement  
24 between Qwest and the Arizona Commission Staff.  
25



1 necessary to meet the plan criteria. Within the rules of the plan, Qwest will also  
2 look at additional rate rebalancing or universal service funding to further reduce  
3 or eliminate these charges.  
4

5 **Q. AS A SECONDARY PROPOSAL, MS. STARR SUGGESTS THAT SETTING**  
6 **SWITCHED ACCESS RATES AT THE SAME LEVEL AS INTERSTATE RATES**  
7 **MIGHT BE ACCEPTABLE TO AT&T. ARE INTERSTATE RATES**  
8 **APPROPRIATE IN THIS SITUATION?**

9 A. Only if all the rate elements are included. The key element that Ms. Starr does  
10 not mention is the End User Common Line charge (EUCL). Switched access  
11 revenue, in the interstate environment is collected through three major rate  
12 elements. Switching and transport charges are collected from carriers and the  
13 EUCL charge is collected directly from end users. The EUCL is a flat rated  
14 charge that is currently set at \$4.35 for single line residence and business  
15 customers. This charge represents a significant source of switched access  
16 revenue. One reason interstate switching and transport rates can be so low is  
17 that this EUCL charge is relatively high. For the average customer, if charged on  
18 a per-minute basis, it would represent about 2 cents per minute. By comparison,  
19 the switching and transport rates charged to carriers, average about .6 cents per  
20 minute. If the Arizona Commission wishes to implement the same rate structure  
21 as the Federal Communications Commission (FCC), including end user charges,  
22 then Qwest would consider supporting similar rates for switching and transport.  
23

24 **Q. WHY DOES MS. STARR NOT MENTION THE EUCL IN HER PROPOSAL?**

1 A. AT&T does not pay the EUCL charge in the interstate environment, so they tend  
2 to ignore it. Also, carriers don't mention this charge because it reminds state  
3 commissions that the rate structure is as important as the rates themselves.  
4 Carriers want the rates for switching and transport to mirror interstate rates but  
5 they know that shifting a revenue stream from carriers to end users is a concern  
6 for most state commissions. Such shifts of revenue affect the public policy of  
7 pricing basic exchange services.

8

9 **Q. GIVEN THE CURRENT STRUCTURE, ARE RATES PROPOSED IN THE**  
10 **SETTLEMENT AGREEMENT REASONABLE?**

11 A. Yes, they represent a significant rate reduction for carriers while maintaining  
12 balance with other services provided by Qwest in Arizona.

13

14 **Q. MS. STARR SUGGESTS THAT RATE CHANGES IN NEW MEXICO ARE**  
15 **MORE SIGNIFICANT THAN THOSE PROPOSED IN THE ARIZONA**  
16 **SETTLEMENT AGREEMENT. IS THIS RELEVANT TO THIS PROCEEDING?**

17 A. No, New Mexico has its own set of prices that encompass all services offered by  
18 Qwest. The circumstances are different, the public policy issues are different,  
19 and the current rates are significantly different.

20

21 **Q. DO YOU FIND IT ODD THAT MS. STARR HAS CHOSEN TO COMPARE THE**  
22 **ARIZONA SETTLEMENT AGREEMENT WITH RECENT PROCEEDINGS ON**  
23 **SWITCHED ACCESS IN NEW MEXICO?**

24 A. Yes, because the rates proposed in the Arizona Settlement Agreement are lower  
25 than those proposed in New Mexico. Ms. Starr is claiming that the percentage

1 decrease proposed in New Mexico is the significant item, but New Mexico  
2 currently has higher rates than Arizona. Although the percentage decrease  
3 proposed for New Mexico is indeed higher than that proposed in Arizona, the  
4 actual rate in Arizona will be about 12% lower. I view the final rate as the  
5 significant issue and the proposed Arizona average rate is almost ½ cent per  
6 minute lower than that proposed in New Mexico.

7  
8 **Q. MS. STARR SEEMS CONCERNED THAT THE SPECIFICS OF RATE DESIGN**  
9 **IN YEARS TWO AND THREE ARE NOT CONTAINED IN THE SETTLEMENT**  
10 **AGREEMENT. IS THIS IMPORTANT?**

11 A. I think Ms. Starr is trying to poke holes in the Settlement Agreement. It is true,  
12 depending on the exact rates proposed that different carriers could be affected  
13 differently because carriers purchase different amounts of each rate element.  
14 The overall reductions are significant however, and the average price per minute  
15 reductions will benefit all carriers. It is my experience that AT&T usually beats  
16 the average in such situations so I can't believe Ms. Starr's concern in this area  
17 is anything more than posturing for effect. Assuming the Settlement Agreement  
18 is approved by the Commission, specific rate designs will be submitted by Qwest  
19 for final approval, based on the situation at the time. Interested parties will, no  
20 doubt, provide input on these proposals.

21  
22 **Q. MS. STARR ALSO SEEMS CONCERNED THAT THE SETTLEMENT**  
23 **AGREEMENT CONTAINS NO REQUIREMENT THAT SWITCHED ACCESS**  
24 **BE SET AT INTERSTATE LEVELS. SHOULD THIS BE A REQUIREMENT?**

1 A. Definitely not. There is no requirement that switched access mirror interstate  
2 levels, especially since the structure is not the same.

3  
4 **Q. THE SETTLEMENT AGREEMENT STATES THAT INTERSTATE RATES ARE**  
5 **AN "OBJECTIVE" WITH NO SPECIFIC TIMETABLE. IS THIS**  
6 **REASONABLE?**

7 A. Yes. There is no specific timetable because there are many factors involved and  
8 how exactly this might occur is unknown at this time. Interstate rates could be  
9 achieved soon, for example if the Commission were to order the intrastate  
10 structure to mirror the interstate structure. If an end user charge were  
11 established to emulate the EUCL charge in the FCC environment, revenue would  
12 be shifted from the switching and transport elements to this end user charge. In  
13 Arizona, a charge of \$1.63 per month per residence and business line would  
14 generate about \$47M. This would allow switching and transport to mirror the  
15 FCC rates and the two structures would match as well. There are other ways to  
16 accomplish this revenue shift but they require careful examination and they too  
17 will have consequences that must be reviewed. For now, the proposed price  
18 reductions are significant and are in the public interest.

19  
20 **Q. DOES ANY OTHER AT&T WITNESS DISCUSS SWITCHED ACCESS RATES?**

21 A. Yes, Lee L. Selwyn also discusses switched access briefly.

22  
23 **REBUTTAL OF LEE L. SELWYN**  
24

1 **Q. DOES DR. SELWYN AGREE WITH MS. STARR THAT SWITCHED ACCESS**  
2 **RATES SHOULD BE SET AT COST?**

3 A. No, Dr. Selwyn asserts that interstate rates are reasonable.  
4

5 **Q. DOES DR. SELWYN ADDRESS THE ISSUE OF THE DIFFERENT**  
6 **STRUCTURE BETWEEN INTERSTATE AND INTRASTATE ENVIRONMENTS?**

7 A. No, like Ms. Starr, he does not address the structural differences. He focuses  
8 only on rate elements that are paid by carriers in the interstate arena. He ignores  
9 the revenue provided by end users in support of interstate switched access. It  
10 presumably would complicate his argument.  
11

12 **Q. DR. SELWYN RAISES THE ISSUE OF STIMULATION IF SWITCHED ACCESS**  
13 **RATES ARE REDUCED. DOES THE COMMISSION REQUIRE THAT RATE**  
14 **STIMULATION BE FACTORED INTO THE DEMAND USED TO DETERMINE**  
15 **REVENUE IMPACTS OF RATE CHANGES?**

16 A. No, the Commission has no such requirement.  
17

18 **Q. WHY DOESN'T THE COMMISSION REQUIRE THAT STIMULATION BE**  
19 **FACTORED INTO THE DEMAND USED TO DETERMINE REVENUE IMPACTS**  
20 **OF RATE CHANGES?**

21 A. I do not believe that the Commission requires that stimulation be considered,  
22 primarily because stimulation modeling is a very inexact science. There are too  
23 many factors operating in the market that must to be considered and adjusted, in  
24 order to isolate the precise effect of any specific rate change. Among those  
25 factors are the likelihood; (1) that any Qwest switched access rate reduction will

1 be passed through to the carriers end user, (2) that if passed through, any such  
2 pass-through will even be obvious to that end user, and (3) that the amount of  
3 rate change would induce stimulation, even if it were obvious.

4 Qwest believes, as I suspect does the Commission, that any model, that purports  
5 to reflect the exact stimulation effect of a rate change, would be highly suspect,  
6 and probably unattainable at best.

7  
8 **Q. DO YOU BELIEVE THAT SWITCHED ACCESS REVENUES WILL BE**  
9 **STIMULATED BY THE CURRENTLY PROPOSED REDUCTIONS?**

10 A. No. First of all, it is unlikely that reductions in switched access rates will be  
11 passed on to end users by all carriers. I have, so far, seen little evidence that  
12 carriers respond to switched access reductions with rate reductions for their  
13 customers. If such rate reductions do not occur, there will be no stimulation  
14 except in the profits for carriers. Second, intrastate toll reductions do not seem to  
15 stimulate additional calling anyway. Customers seem to focus on interstate  
16 advertised rates and have little knowledge of intrastate rates. Third, if carriers  
17 were to pass along some rate reductions to customers, and if this did indeed  
18 stimulate additional intrastate toll calling, Qwest would just lose more intrastate  
19 toll to the carriers. Any incremental increase in switched access usage as a  
20 result, would be more than offset by the loss of Qwest toll revenues.

21  
22 **Q. DR. SELWYN CONTENDS THAT THE PROPOSED TREATMENT OF BASKET**  
23 **2 SERVICES VIOLATES THE TELECOMMUNICATIONS ACT. DO YOU**  
24 **AGREE WITH HIS ASSESSMENT?**

1 A. No, not at all. Like Dr. Selwyn, I am not an attorney, however the Settlement  
2 Agreement seems clearly to accommodate existing rules for pricing. It states in  
3 Section 3(b), that "Basket 2 consists of wholesale services **many of which are**  
4 **governed by their own specific pricing rules and will continue to be**  
5 **governed by such rules** (emphasis added), as interpreted by the Commission  
6 and the Courts, under this Price Cap Plan." This clearly states that any existing  
7 pricing that has been established in compliance with the Telecommunications Act  
8 will continue to apply. The most obvious example in Basket 2 are Unbundled  
9 Network Elements (UNEs). Rules for pricing UNEs have been established by  
10 this Commission and these rules will continue to apply. Section 3(c) of the  
11 Settlement Agreement states: "UNEs and discounted Wholesale Offerings are  
12 priced based on the provisions of the Telecommunications Act of 1996 (1996  
13 Act), FCC implementing regulations and Commission rules." The only way to  
14 assume that this Settlement Agreement violates the Telecommunications Act is  
15 to assume that violations already exist. I believe current rules, approved by this  
16 Commission, to be in compliance with The Act and the proposed Settlement  
17 Agreement just continues that compliance. Putting different wholesale services  
18 in the same basket does nothing to change current compliance.

19  
20 **REBUTTAL OF DR. FRANCIS R. COLLINS**  
21

22 **Q. IS ANY OTHER TESTIMONY OFFERED ON THE TOPIC OF SWITCHED**  
23 **ACCESS?**

24 A. Yes, Dr. Francis R. Collins, on behalf of Cox Arizona Telcom, L.L.C., makes  
25 some brief comments of concerns about mirroring the FCC structure for switched  
26 access.

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**Q. WHAT IS DR. COLLINS' CONCERN ABOUT THE NOTION OF BRINGING INTRASTATE SWITCHED ACCESS IN LINE WITH INTERSTATE RATES?**

A. Dr. Collins appears concerned that the interstate rate structure may contain some elements that could create additional costs for his company. He specifically addresses Signaling System 7 (SS7) as an example of how introducing new rate elements in the FCC tariff can affect his costs of doing business. Since the Settlement Agreement only addresses bottom line revenues and not specific rates, he is concerned about the language that sets an "objective of parity with the interstate switched access rates".

**Q. IS DR. COLLINS' CONCERN VALID?**

A. I understand his concern, but the introduction of messaging elements in the interstate environment was unique. The same situation will not occur when such elements are introduced in Arizona. When these message elements were introduced in the FCC tariff, there was a known element of demand (transit traffic) that could not be quantified. Transit traffic, that is, traffic that does not originate or terminate in Qwest's territory, could not be tracked separately given existing tracking methods. In the FCC filing, demand was determined based on the known Qwest originating and terminating traffic. As a result, the total revenue effect from all sources was impossible to predict and as a result, understated. When these elements are introduced in Arizona, the revenue effect will be known because we now have months of history on message units for all traffic types. The overall result will be revenue offsets with other rate elements. If done at the time of the year 2, or year 3, adjustments prescribed by the

1 Settlement Agreement, the revenue from these new elements will be offset by  
2 deeper cuts in other rates. If done separately, as stand alone adjustments, their  
3 introduction will also be revenue neutral. In either case, Cox Arizona Telcom  
4 L.L.C. will not see the same kind of effect as caused by the introduction of these  
5 elements in the FCC tariff.

6 This discussion does point out an issue that I spoke of earlier. Adopting the FCC  
7 rates also raises structural issues that are not easily resolved. AT&T chose to  
8 merely ignore the structural differences and focus on the rate elements they care  
9 about. Dr. Collins suggests there are other structural issues about which he is  
10 wary. The Settlement Agreement proposes a \$15M reduction in switched access  
11 over the term of the plan. Before the "objective of parity" can be attained, the  
12 structural differences between interstate and intrastate tariffs must be addressed.

13  
14 **REBUTTAL SUMMARY**

15  
16 **Q. WOULD YOU PLEASE SUMMARIZE YOUR REBUTTAL TO MS. STARR'S,**  
17 **DR. SELWYN'S, AND DR. COLLINS' TESTIMONIES?**

18 **A.** Ms. Starr asserts that switched access rates should be set at cost, but there is no  
19 requirement anywhere that establishes this as a goal. I believe Ms. Starr throws  
20 out this extreme suggestion merely to make her request for rates set at interstate  
21 levels sound more reasonable. Ms. Starr ignores the revenue shortfall  
22 implications of such rates because she ignores the structural differences  
23 between interstate and intrastate tariffs. Her desire for lower rates is  
24 understandable but she ignores the bigger picture that the Commission must

1 address. The Arizona Settlement Agreement deals with overall rate rebalancing  
2 and represents a fair compromise between various parties' positions.

3 Dr. Selwyn doesn't bother with even suggesting that rates be set at cost  
4 but recommends that rates for switched access mirror the interstate rates. Dr.  
5 Selwyn also ignores the structural differences and ignores how the revenue  
6 shortfall might be addressed. His view is also narrow in scope and only deals  
7 with AT&T's desire for lower rates. While this is understandable, it does not  
8 address the larger issues contained in the Settlement Agreement.

9 Dr. Selwyn's assertion that the Settlement Agreement violates the  
10 Telecommunications Act can't be taken seriously. The Settlement Agreement  
11 clearly states that compliance with The Act will continue to govern pricing for  
12 wholesale services, where appropriate.

13 Dr. Collins has concerns about the "objective of obtaining parity" between  
14 intrastate and interstate switched access rates. Dr. Collins recognizes the  
15 structural differences between interstate and interstate environments and he  
16 realizes that such parity is more complex than might appear on the surface. For  
17 the purposes of this Settlement Agreement, Dr. Collins need not be concerned.  
18 The introduction of message rate elements into the Arizona intrastate tariff will be  
19 done in concert with the year 2 or year 3, \$5M rate reductions or on a separate  
20 but revenue neutral basis. The Settlement Agreement as it stands, will  
21 accommodate such minor restructures.

22 Overall, none of the witnesses have raised any issue significant enough to  
23 effectively challenge the proposed Arizona Settlement Agreement. I recommend  
24 that the Commission approve the Settlement Agreement as proposed.  
25

1 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

2 **A. Yes, it does.**

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF  
U S WEST COMMUNICATIONS, INC., A  
COLORADO CORPORATION, FOR A  
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AFFIDAVIT OF  
SCOTT A. MCINTYRE

ss

STATE OF WASHINGTON

COUNTY OF KING

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Scott A. McIntyre, of lawful age being first duly sworn, deposes and states:

1. My name is Scott A. McIntyre. I am Director – Product and Market Issues for Qwest Corporation (Formerly, U S West Communications, Inc.), in Seattle, Washington. I have caused to be filed written testimony in support of settlement in Docket No. T-01051B-99-0105.
2. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Further affiant sayeth not.

  
Scott A. McIntyre

SUBSCRIBED AND SWORN to before me this 20th day of November, 2000.

  
Notary Public

My Commission Expires: 09/15/02

**BEFORE THE ARIZONA CORPORATION COMMISSION**

**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 ) DOCKET NO. T-01051B-99-0105  
COMPANY FOR RATEMAKING PURPOSES, )  
TO FIX A JUST AND REASONABLE RATE OF )  
RETURN THEREON AND TO APPROVE RATE )  
SCHEDULES DESIGNED TO DEVELOP SUCH )  
RETURN )**

**REBUTTAL TESTIMONY**

**OF**

**DAVID L. TEITZEL**

**QWEST CORPORATION**

**NOVEMBER 20, 2000**

**REBUTTAL TESTIMONY OF DAVID L. TEITZEL  
INDEX OF TESTIMONY**

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**RESPONSE TO DR. LEE SELWYN TESTIMONY**

**Q. DO YOU HAVE ANY OBSERVATIONS ON DR. SELWYN'S TESTIMONY WITH REGARD TO BASKET 3 SERVICES?**

A. Yes. Dr. Selwyn appears to be inconsistent in his concern about the pricing rules for this basket. On the one hand, he seems very concerned that Qwest will price below the TSLRIC price floor for these services and drive its competitors out of business. Then, he goes on to argue that he fears Qwest will increase these same services by the full amount of headroom contemplated in the Settlement Agreement.

**Q. DR. SELWYN SUGGESTS THAT THE REASON QWEST IS WILLING TO ACCEPT A PORTION OF THE REVENUE REQUIREMENT AS HEADROOM IN BASKET 3 IS THAT THE SERVICES IN THAT BASKET ARE NOT COMPETITIVE AND THEREFORE QWEST IS GUARANTEED TO EARN THAT MONEY.<sup>1</sup> IS THAT A CORRECT INTERPRETATION OF THE SETTLEMENT AGREEMENT?**

A. No. Qwest is not guaranteed a recovery of the portion of the revenue requirement representing headroom in Basket 3. The services in that basket are competitive or non-essential. The market (and the behavior of Qwest's competitors) will determine whether Qwest recovers that revenue.

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<sup>1</sup> Susan Gately also alleges this on Page 3 of her testimony.

1 Further, little has changed from today's environment with respect to the  
2 pricing flexibility for the services in Basket 3. All of these services are  
3 flexibly priced today. To date, not one complaint has been filed alleging  
4 that Qwest has priced a service below the required price floor. Further,  
5 despite already having the ability to increase many of these rates by as  
6 much as 100% under the existing tariffs, you will find over the past several  
7 years that a few rates have increased, others have decreased, but the  
8 vast majority have remained unchanged.

9  
10 **Q. DOES DR. SELWYN GIVE EXAMPLES OF BASKET 3 SERVICES THAT**  
11 **HE BELIEVES CAN BE INCREASED BECAUSE THEY LACK**  
12 **SUFFICIENT COMPETITION?**

13 A. Yes. He cites several and I would like to address each one of them. First,  
14 he alleges that there is no effective competition for local directory  
15 assistance (DA) service. However, the Commission, in its December 14,  
16 1999 Order in Docket No. T-01051B-99-0362, after examining all  
17 evidence, determined that Qwest's local and national DA service should  
18 be classified as competitive pursuant to A.A.C. R14-2-1108. I find Dr.  
19 Selwyn's concern about the possibility of Qwest increasing its DA rates  
20 interesting in light of a request made earlier this year by AT&T to increase  
21 the maximum rates for its own DA service. In Docket No. T-02428A-00-  
22 0100, AT&T was allowed to set the maximum rate for its DA service at

1       \$3.00, or roughly 3.5 times the amount for Qwest's DA service under the  
2       Settlement Agreement. (This represented an increase of 500 percent and  
3       260 percent for DA service in connection with its Custom Network  
4       Services and Message Telecommunications Service, respectively.) AT&T  
5       would clearly have the Commission believe that the ability to increase the  
6       price of its own DA service means nothing with respect to how competitive  
7       that service is. The same analysis applies to Qwest.

8  
9       Second, he cites ISDN Basic Rate Interface (BRI) service. Although BRI  
10      service has not yet been classified as competitive under Section 1108, it  
11      has none the less been flexibly priced since its introduction back in 1994.  
12      At that time, the maximum rate was established at \$138 per month, with  
13      an initial monthly rate of \$68.00 for 200 hours of usage. In 1997, the rate  
14      was restructured to provide 400 hours of service each month for the same  
15      maximum rate. The monthly rate was increased at that time to \$79.00,  
16      but has since been reduced to \$69.00 and the 400 hour monthly usage  
17      limitation has been eliminated. Contrary to what Dr. Selwyn fears could  
18      happen, quite the opposite has occurred. Qwest's BRI customers are  
19      receiving more service at a lower rate today than what they were 5 years  
20      ago when it was first introduced. And this is despite the fact that Qwest  
21      could have doubled the rates using the pricing flexibility afforded this  
22      service.

1

2       The third example used by Dr. Selwyn is Metropolitan Preferred Area  
3       Calling Service (METROPAC). Customers with this plan are billed for a  
4       fixed period of time, i.e. 3 hours, each month for calls to predetermined  
5       exchanges within a relatively close radius to their serving exchange.  
6       Because customers are billed for 3 hours of usage each month whether  
7       they use that much or not, and because they can only use the plan to call a  
8       relatively few selected exchanges, there were fewer than 700 METROPAC  
9       customers during the test year. For this reason, Qwest requested approval  
10      to grandfather this service as part of its rate design proposal in the rate  
11      case. Although this request to grandfather is not addressed in the  
12      Settlement Agreement, Qwest would have no objection to doing so in a  
13      separate proceeding, if the Commission were to concur. But even if that  
14      does not occur, it is doubtful that AT&T is being greatly harmed by a service  
15      utilized by so few customers and it certainly has no bearing on whether or  
16      not the Settlement Agreement is in the public interest.

17

18   **Q.    WITH RESPECT TO QWEST'S DIRECTORY ASSISTANCE SERVICE,**  
19   **DID DR. SELWYN ALSO RECOMMEND THE COMMISSION**  
20   **RECLASSIFY THE SERVICE AS NON-COMPETITIVE BECAUSE THE**  
21   **"411" DIALING PATTERN IS NOT OFFERED TO COMPETITIVE DA**  
22   **PROVIDERS?**

1 A. Yes. On Page 38, Lines 8-12 of his testimony, Dr. Selwyn contends that  
2 Qwest has not offered the "411" dialing pattern to its competitors, as he  
3 claims was mandated in the federal Telecommunications Act of 1996  
4 (Act). He therefore recommends reclassifying the service from a  
5 "competitive Basket 3" service to a "monopoly Basket 1" service. Contrary  
6 to Dr. Selwyn's claims, the Act does not specify that Qwest is required to  
7 offer all competitors access to the 411 dialing pattern for DA. It indicates,  
8 as Dr. Selwyn points out in his testimony on Page 37, Lines 21-24, that  
9 competing providers are required to be afforded nondiscriminatory access  
10 to certain services, including directory assistance, with no unreasonable  
11 dialing delays. Nowhere is the prefix 411 specified. In actuality, Qwest  
12 provides competitors with nondiscriminatory access to DA services, as  
13 this Commission has substantiated by its approval of that item on the 271  
14 checklist. Competitors are able to make the offering available to their  
15 customers using whatever dialing pattern they so designate.

16  
17 The issue of "411" dialing parity was one factor considered by the  
18 Commission in Docket No. T-01051B-99-0362 when it evaluated whether  
19 Directory Assistance should be classified as competitive. AT&T had the  
20 opportunity to intervene in that proceeding to make their case at that time.  
21 Its decision not to participate in that proceeding is not sufficient  
22 justification to have the Commission second-guess previous decisions. In

1 truth, AT&T's suggestion that the Commission reevaluate this and other  
2 previous decisions (see Selwyn, Page 36, Lines 22-23 – Page 37, Line 1)  
3 is nothing more than a tactic to thwart the progress of competition through  
4 redundant and unnecessary regulatory proceedings.

5  
6 Further, local Directory Assistance service has been reclassified as fully  
7 competitive in a number of Qwest states on the basis of the presence of a  
8 wide range of viable and effective competitive alternatives to Qwest's  
9 Directory Assistance service, absent 411 dialing parity. Specifically,  
10 Qwest's most significant competitors, AT&T and Worldcom, have been  
11 very successful in winning local Directory Assistance call volumes from  
12 Qwest through their widely advertised "00" and "10-10-9000" services. A  
13 variety of other competitive Directory Assistance options, including dial-  
14 around services, wireless services and Internet directory services are  
15 available in Arizona. Additionally, the FCC has specifically reviewed  
16 Directory Assistance and determined that it is not a "monopoly bottleneck"  
17 service, and declined to rule that it must be offered as an Unbundled  
18 Network Element in view of the variety of means through which this  
19 service can be provided to consumers. Dr. Selwyn's arguments are  
20 contrary to previous findings by the FCC, other state Commissions and  
21 findings of the ACC and should be rejected.

22

1    **Q.    HAS DR. SELWYN ACCURATELY DESCRIBED THE RESTRICTIONS**  
2    **IMPOSED ON QWEST IN THE SETTLEMENT AGREEMENT**  
3    **ASSOCIATED WITH BASKET 3 SERVICES?**

4    A.    No. Dr. Selwyn has mischaracterized the pricing flexibility Qwest is  
5    afforded for Basket 3 services. On page 33 of his testimony, lines 17-19,  
6    Dr. Selwyn claims that the only restriction imposed on Basket 3 prices is  
7    that geographical pricing cannot have the effect of red-lining with respect  
8    either to race or wealth. This statement ignores several restrictions  
9    contained in Attachment A, Section 4 of the Settlement Agreement,  
10   regarding the price Qwest may charge for Basket 3 services, i.e.:

11

- 12       • Section 4 (b) establishes the price cap for Basket 3 services,
- 13       • Section 4 (d) indicates new services and service packages contained
- 14       within Basket 3 will be subject to the price cap,
- 15       • Section 4 (e) indicates the price of the new service or package is
- 16       subject to a TSLRIC price floor,<sup>2</sup>
- 17       • Section 4 (k) prohibits cross subsidization of competitive services by
- 18       non-competitive services, and
- 19       • Section 4 (l) requires price changes to Basket 3 services comply with
- 20       the requirements of A.A.C. R14-2-1109.

21

22       In addition to these constraints, Section 4 (g) prohibits Qwest from  
23       discriminating against any class of customer in violation of A.R.S. Section  
24       40-334. Far from being a blank check, the Settlement Agreement

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<sup>2</sup> The price of the 1FR is to be used as the retail price floor for service packages combining Basket 1 and Basket 3 services. Settlement Agreement, Attachment A, Section 4 (e).

1 provides numerous specific guidelines as to how Qwest may price Basket  
2 3 services, contrary to Dr. Selwyn's characterization.

3  
4 **Q. ON PAGES 34-36 OF HIS TESTIMONY, DR. SELWYN MAINTAINS**  
5 **THAT UNDER THE SETTLEMENT AGREEMENT, QWEST COULD**  
6 **CREATE A CROSS-SUBSIDY FLOW BETWEEN SERVICES,**  
7 **RESULTING IN A DIRECT VIOLATION OF SECTION 254 (K) OF THE**  
8 **FEDERAL TELECOMMUNICATIONS ACT (ACT), AS WELL AS A.A.C.**  
9 **R14-2-1109(C). PLEASE COMMENT.**

10 **A.** In order for a cross subsidy to exist, some services must be priced below  
11 TSLRIC. All services currently allocated to Basket 3 are priced above  
12 TSLRIC. Potential new services and packages which may reside in  
13 Basket 3 will be required to be priced, at a minimum, above a TSLRIC  
14 price floor.<sup>3</sup> Further, Dr. Selwyn cites AAC R14-2-1109(c) as requiring  
15 that "a competitive telecommunications service shall not be subsidized by  
16 any rate or charge for any noncompetitive service." If Dr. Selwyn is  
17 concerned that incorporation of a residential access line in a package  
18 consisting of Basket 3 services would drive the overall package price  
19 below its aggregate TSLRIC and thereby create a subsidy flow from other  
20 Basket 3 services to the below-cost package, it would be the **above cost**  
21 elements of Basket 3 providing subsidy to the **below cost** residential

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<sup>3</sup> Settlement Agreement, Attachment A, Section 4 (e).

1 access line. So long as the revenues generated by the package,  
2 excluding the residential access line, exceed TSLRIC, no subsidies from  
3 Basket 3 services to the below-cost residential access line exist.  
4 According to terms associated with the original Settlement Agreement, a  
5 residential access line could be included in a Basket 3 service package in  
6 full compliance with existing rules. It is important to note that, so long as  
7 prices for Basket 3 services remain above TSLRIC, by definition, no cross  
8 subsidy between these services is possible. Therefore, Dr. Selwyn's  
9 concern that Qwest will violate A.A.C. R14-2-1109 and the Act is  
10 unfounded and should be dismissed.

11  
12 **Q. DR. SELWYN RAISES THE CONCERN THAT UNDER THE**  
13 **SETTLEMENT AGREEMENT, QWEST WILL BE ABLE TO**  
14 **DISCRIMINATE AGAINST CUSTOMERS OF BASKET 3 SERVICES**  
15 **THAT DO NOT CONFRONT ACTUAL COMPETITION. (PAGE 36,**  
16 **LINES 16-21). DO YOU AGREE?**

17 **A.** No. Dr. Selwyn's concern is apparently based on the provision in the  
18 Settlement Agreement, Attachment A, Section 4 (g), which allows Qwest  
19 to offer new services and service packages to selected customer groups.  
20 He indicates Qwest could discriminate against customers of Basket 3  
21 services by increasing prices for those customers who do not have  
22 competitive alternatives and decreasing prices for those that do have

1 competitive alternatives. He also maintains that Qwest will use this  
2 flexibility to eliminate competition. This is simply not true.

3  
4 Qwest's services are available for resale and as unbundled elements on a  
5 statewide basis. If Qwest prices a Basket 3 service at an inappropriately  
6 high level, Qwest's competitors could purchase the wholesale services  
7 and price beneath the higher rate and win market share. Attachment A,  
8 Section 4 (g) of the Settlement Agreement will further competition,  
9 benefiting consumers by making available additional non-essential options  
10 and alternatives.

11  
12 In addition, this section of the Settlement Agreement contains provisions  
13 prohibiting Qwest from discriminating against any class of customer.  
14 Qwest is currently adhering to Commission rules regarding discrimination  
15 and will continue to do so under the Settlement Agreement. Dr. Selwyn's  
16 concern that Qwest will use this flexibility to drive out competition and  
17 discriminate against different classes of customers is unfounded.

18  
19 **Q. DR. SELWYN DISAGREES WITH PLACING NEW SERVICES IN**  
20 **BASKET 3. WHY IS THIS APPROPRIATE?**

21 A. All services included in Basket 3 are non-essential, i.e., they are optional  
22 services not necessary for the provision of basic telephone service.

1 Customers may choose to purchase Basket 3 services as enhancements  
2 to their basic service, however, it is entirely an optional arrangement. It is  
3 appropriate to include new services in Basket 3, as basic access lines  
4 reside within Basket 1. Any new services will simply be enhancements to  
5 the basic transmission of voice provided over access lines. Treatment of  
6 new services in this manner will facilitate the rapid deployment of new  
7 technologies and non-essential, optional alternatives to Arizona  
8 consumers. Other states have adopted similar rules concerning new  
9 services. For example, in Montana, new services are automatically  
10 afforded pricing flexibility and are treated as detariffed services. The  
11 same is true in Utah. In Oregon, the state legislature recently directed the  
12 Oregon Public Utilities Commission to take an even more liberal view of  
13 the treatment of new services. Under Senate Bill 622, which was passed  
14 into law last year, new service introductions are not subject to  
15 Commission approval, and notice is not required to be provided the  
16 Commission of new service or package introductions until 30 days  
17 following the effective date. It is in the public interest to provide new  
18 services with the pricing flexibility inherent with Basket 3 classification as  
19 described in the Settlement Agreement, as other states have already  
20 recognized.  
21

1                   **RESPONSE TO DR. BEN JOHNSON TESTIMONY**

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**Q.    WHAT IS YOUR REACTION TO DR. JOHNSON'S  
RECOMMENDATIONS FOR REVISING THE PRICE CAP PLAN  
INCLUDED IN THE SETTLEMENT AGREEMENT?**

A.    Dr. Johnson's recommendations will place onerous and burdensome requirements not only on Qwest but on the Commission and the Commission staff. For example, Dr. Johnson proposes five different classifications for services, based upon "differences in characteristics of services and subtle variations in the degree of competition." (Johnson, Page 22, Lines 17-19) In addition, Dr. Johnson suggests that price caps should be instituted for individual rate elements of services. (This suggestion is nothing more than the status quo.) Beyond that, Dr. Johnson is recommending that individual rate element price caps vary according to how competitive the service is deemed to be. (Johnson, Page 28, Lines 4-22).

Dr. Johnson's proposal would be an administrative nightmare, not only initially, but subsequent to implementation, as price changes, elimination of rate elements, introduction of new rate elements, and movement of services from one category to another would require constant monitoring, reporting, and adjusting of the "appropriate" price cap. Due to the large

1 volume of rate elements, the intricacy involved with defining various  
2 degrees of competition, and the complexity of such an effort, Dr.  
3 Johnson's proposals are logistically and administratively infeasible. The  
4 Settlement Agreement is a reasonable approach to simplifying the current  
5 regulatory process.

6  
7 **Q. DR. JOHNSON RECOMMENDS THAT NEW PRODUCT OFFERINGS**  
8 **BE SUBJECT TO THE CRITERIA AND PROCEDURES OUTLINED IN**  
9 **COMMISSION RULE 14-2-1108, RATHER THAN AUTOMATICALLY**  
10 **PLACED IN BASKET 3. PLEASE COMMENT.**

11 A. I've partially addressed this issue previously in my rebuttal to Dr. Selwyn.  
12 Dr. Johnson is of the opinion that Qwest will be afforded "extreme" pricing  
13 flexibility for Basket 3 services. (Johnson, Page 26, Lines 7) I've  
14 previously articulated the pricing constraints Qwest will be held to for  
15 services residing in Basket 3. In addition, the Settlement Agreement  
16 requires that Qwest submit any new services or packages for Commission  
17 review 30 days prior to the proposed effective date.<sup>4</sup>  
18 Meanwhile, when Qwest's competitors introduce a new service to Arizona  
19 consumers it is automatically classified as "competitive." The Settlement  
20 Agreement also requires that any Basket 1 services included in new  
21 service packages remain available to consumers as stand-alone options.

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<sup>4</sup> Settlement Agreement, Attachment A, Section 4 (e).

1 This ensures that consumers not interested in packages will continue to  
2 have the a la carte option. Furthermore, the process that Dr. Johnson  
3 supports, i.e., Qwest being required to introduce a new service as a  
4 Basket 1 service and then petitioning the Commission to reclassify the  
5 service subject to R14-2-1108 disincentivizes Qwest from delivering innovative  
6 services and service packages to Arizona consumers. It is in the public  
7 interest to reject Dr. Johnson's proposal regarding the treatment of new  
8 services.

9  
10 **Q. AT PAGE 29 OF HIS DIRECT TESTIMONY, AS WELL AS IN HIS**  
11 **SUPPLEMENTAL TESTIMONY, DR. JOHNSON COMPLAINS THAT**  
12 **THE SETTLEMENT AGREEMENT AS CURRENTLY STRUCTURED**  
13 **WOULD ENABLE QWEST TO VIOLATE PROPERLY CALCULATED**  
14 **PRICE FLOORS. DO YOU AGREE?**

15 **A.** No. Dr. Johnson's assertions are also echoed in the direct testimonies of  
16 Dr. Collins (at pages 12-13) and Dr. Selwyn (at page 34). First, a  
17 restatement of existing price floor, or "imputation" rules, may be useful.

18 Rule 14-2-1310(c) states:

- 19 1. An incumbent local exchange carrier shall recover in the retail  
20 price of each telecommunications service offered by the  
21 company the TSLRIC of all non-essential, and the imputed  
22 prices of all **essential** services, facilities, components, functions  
23 or capabilities that are utilized to provision such  
24 telecommunications service, whether such service is offered  
25 pursuant to tariff or private contract. (emphasis added).  
26

1 Further, Rule 14-2-1307 (C) defines "essential" services and facilities as  
2 1) termination of local calls, 2) termination of long distance calls, 3)  
3 interconnection of E911 and 911 services, 4) access to numbering  
4 resources, 5) dedicated channel network access connections and 6)  
5 unbundled loops.

6  
7 In the Settlement Agreement, Qwest agrees to continue to impute these  
8 essential elements, until the Commission determines that the services  
9 they have found to be "essential" are no longer essential to the provision  
10 of services by Qwest's competitors. By doing so, Qwest will ensure that  
11 the services it offers are priced above the appropriate price floor.

12  
13 **Q. IN HIS SUPPLEMENTAL TESTIMONY, DR. JOHNSON SUGGESTS**  
14 **THAT UNDER THE SETTLEMENT AGREEMENT, QWEST WOULD BE**  
15 **FREE TO PRICE PACKAGES OF COMPETITIVE AND BASIC LOCAL**  
16 **EXCHANGE SERVICE BELOW THE CORRESPONDING UNE RATES,**  
17 **THEREBY SUBJECTING COMPETITORS TO AN ANTI-COMPETITIVE**  
18 **PRICE SQUEEZE. IS THIS A CORRECT INTERPRETATION OF THE**  
19 **SETTLEMENT AGREEMENT?**

20 **A.** No, it is not. The price floor for packages consisting of competitive and  
21 basic local exchange services will be established based on the TSLRIC  
22 and/or imputed price floor for all elements comprising the package. The

1           only exception to this will be a package consisting of a residential basic  
2           exchange line. In that instance, for purposes of establishing a price floor,  
3           the retail price of a residential basic exchange line will be considered its  
4           “cost.” Therefore, if Qwest develops a package consisting of a residential  
5           access line, several features, and intraLATA toll, for example, the price  
6           floor for the package will be determined by adding the retail price of the  
7           residential access line, the TSLRIC of the features, and the imputed price  
8           floor for intraLATA toll. If a package consists of a business access line,  
9           several features, and intraLATA toll, the price floor of the package will be  
10          established by combining the unbundled loop rate, the TSLRIC of the  
11          features, and the imputed cost of intraLATA toll. Treatment of basic  
12          exchange services in this way is appropriate because the price of  
13          residential basic exchange service is currently well below the price of the  
14          unbundled loop in Arizona. The Staff and Qwest recognize that an  
15          adjustment of the residential basic exchange price to a level above the  
16          price of the unbundled loop would create significant rate shock to Arizona  
17          consumers, and have stipulated in the Settlement Agreement that the  
18          current price of the residential access line will be capped for the term of  
19          the Agreement. The price of the business basic exchange access line, on  
20          the other hand, is above the price of the unbundled loop. A price squeeze  
21          will not occur as long as the retail price floor is based upon the TSLRIC of

1 non-essential elements and imputed rates for essential elements, using  
2 the retail rate for the residential access line, as described above.

3  
4 **Q. DR. JOHNSON AND DR. COLLINS SUGGEST THAT CURRENT**  
5 **COMMISSION RULES ARE "SOMEWHAT AMBIGUOUS" AND MAY BE**  
6 **IN NEED OF CLARIFICATION AS THEY RELATE TO THE**  
7 **SETTLEMENT AGREEMENT. DO YOU AGREE?**

8 A. No. If the parties feel that the Commission's existing rules are not  
9 adequate, the appropriate solution is for the parties to request a rule  
10 making proceeding to address their concerns, separate from this  
11 proceeding. Qwest is not aware of any party expressing disagreement  
12 with imputation rules that have existed since 1996. Further, Qwest is not  
13 aware of any complaint filed by parties that Qwest's existing prices violate  
14 any Commission rule. The Settlement Agreement utilizes the  
15 Commission rules as they exist today, and Qwest will abide by the rules  
16 as they are potentially modified in the future. However, the rules should  
17 be applicable to all telecommunications carriers and not be modified in a  
18 separate rule making to pertain specifically to Qwest, which would be the  
19 effect if such provisions were to be made in this proceeding.

20  
21 **Q. IN HIS SUPPLEMENTAL TESTIMONY, DR. JOHNSON STATES THAT**  
22 **"...ORIGINATING ACCESS ISN'T ESSENTIAL FOR SOME TOLL**

1           **CARRIERS...”, BUT GOES ON TO COMPLAIN THAT QWEST DOES**  
2           **NOT VIEW ORIGINATING SWITCHED ACCESS TO BE “ESSENTIAL”**  
3           **IN CALCULATING IMPUTED PRICE FLOORS FOR ITS INTRALATA**  
4           **LONG DISTANCE SERVICES. IS HIS PERSPECTIVE CORRECT?**

5    A.    No. As I stated previously in this testimony, Rule R14-2-1310 requires  
6           the imputation of the “TSLRIC of all non-essential, and the imputed prices  
7           of all essential services, facilities, components, functions or capabilities”  
8           into Qwest’s retail prices. Rule R14.2-1307 specifically classifies  
9           **“termination of long distance calls”** as “essential.” It is Qwest’s  
10          understanding that the Commission specifically excluded origination of  
11          long distance calls from the range of services considered “essential” due  
12          to the range of alternatives now available to Qwest’s competitors to  
13          bypass originating switched access charges, including facilities bypass,  
14          Centrex resale, connection of unbundled loops to a competitor’s switch,  
15          use of Special Access services and wireless bypass. In view of these  
16          alternative means of originating long distance traffic from a customer’s  
17          location, Qwest agrees that originating switched access can no longer be  
18          considered “essential.” However, as a non-essential component of the  
19          cost of providing intraLATA long distance service, the TSLRIC of  
20          originating switched access is included in the imputation price floor.

21

1 In any event, should Dr. Johnson continue to disagree with the application  
2 of the current Commission rule, he is free to seek clarification of the rule  
3 through a proper rule making proceeding. This complaint is outside the  
4 scope of this proceeding and should not be a reason for the Commission  
5 to reject the settlement proposal and associated Price Cap Plan.

6  
7 **RESPONSE TO DR. FRANCIS COLLINS TESTIMONY**

8  
9 **Q. ACCORDING TO DR. COLLINS, QWEST HAS ONLY EXPERIENCED**  
10 **“DE MINIMUS” COMPETITION, EVEN IN THE PHOENIX AND TUCSON**  
11 **AREAS OF THE STATE. (PAGE 3, LINES 8-13) IS THIS AN**  
12 **ACCURATE REPRESENTATION OF COMPETITION IN ARIZONA?**

13 **A.** No. Arizona consumers, especially those located in Phoenix and Tucson,  
14 are able to choose from a number of competitive alternatives for  
15 telephone service. Although Qwest makes wholesale services available  
16 on a state-wide basis, competitors are primarily targeting the major metro  
17 areas of the state. Competition is a reality in Arizona and Qwest should  
18 be afforded sufficient flexibility to allow it to compete on par with its  
19 competitors.

20

1 Q. DR. COLLINS RECOMMENDS THAT A BASKET FOR "EMERGING  
2 COMPETITIVE" SERVICE BE CREATED. (PAGE 10, 8 – 19) WHAT IS  
3 YOUR REACTION TO HIS PROPOSAL?

4 A. What Dr. Collins is proposing is not unprecedented, based on my  
5 experience with regulation in states outside of Arizona; however, there are  
6 some significant differences between what Dr. Collins is proposing and  
7 what has been found to be effective regulation in other states. Most  
8 states have moved towards streamlining the regulatory process, providing  
9 Qwest with greater flexibility for services experiencing some degree of  
10 competition, and full deregulation for services experiencing full  
11 competition. Services classified as fully regulated, i.e., those with minimal  
12 competition, are very limited in number and are generally restricted to  
13 residence and business basic exchange services.

14  
15 Dr. Collins recommends that services experiencing a market share  
16 competitive penetration of 15% be placed in his proposed "emerging  
17 competitive" basket. As Qwest has no way of determining an accurate  
18 assessment of CLEC market share, Dr. Collins' recommendation would  
19 necessitate a reporting requirement be placed on CLECs so that such an  
20 assessment can be made. Similarly, Dr. Collins' suggestion would  
21 necessitate a monitoring function be performed by the Arizona

1 Commission, since it's been my experience that CLECs will not freely  
2 share this information with Qwest.

3  
4 Dr. Collins' proposal also neglects to consider the manner in which  
5 competitors are targeting specific geographic areas. In sum, as Dr.  
6 Collins has not provided a compelling argument for establishing an  
7 "emerging competitive" basket, his proposal should be rejected. The  
8 Settlement Agreement as proposed is a reasonable approach to service  
9 classification and as such, should be left unchanged.

10

11 **Q. AT PAGE 4, DR. COLLINS COMPLAINS THAT CROSS**  
12 **SUBSIDIZATION MAY BE FACILITATED BY THE PRICE CAP PLAN IF**  
13 **"UNASSIGNED SHARED FAMILY COSTS AND UNRECOVERED**  
14 **DIRECT COSTS" ARE NOT RECOVERED BY SPECIFIC SERVICES.**  
15 **DO YOU AGREE?**

16 **A.** No. If the price of a particular service exceeds the TSLRIC price floor,  
17 that service is not being subsidized. Qwest has responded to Cox, with  
18 whom Dr. Collins is contracted, in a data request response to Cox Set 2,  
19 No. 1 on the issue of appropriate cost recovery as follows:

20

21 TSLRIC sets the price floor, not the price. Historically, retail  
22 services have not been priced at TSLRIC. Qwest will  
23 recover costs from all revenues received by the Company.  
24

1 This response continues to be correct. TSLRIC is recognized as the  
2 appropriate price floor for a service, and prices in general must be set  
3 such that overall Company revenues are sufficient to recover the  
4 Company's joint, shared, and common costs.

5

6 **Q. DR. COLLINS TAKES ISSUE WITH SECTION 4 (G) OF ATTACHMENT**  
7 **A OF THE SETTLEMENT AGREEMENT. PLEASE COMMENT.**

8 A. Section 4 (g) contained in Attachment A of the Settlement Agreement  
9 allows new services or packages contained in Basket 3 to be offered to  
10 select customer groups. Offerings may be targeted to customers based  
11 on purchasing patterns, geographic location, or some other designation,  
12 as long as the offers do not discriminate in violation of A.R.S. Section 40-  
13 334 or distinguish based on wealth or race. Dr. Collins maintains that this  
14 provision allows Qwest to accomplish its competitive zone proposal  
15 without being required to demonstrate that competition exists.

16

17 First, let me point out that this provision only applies to Basket 3 services.  
18 As I've described previously in this testimony, Basket 3 services are those  
19 already granted pricing flexibility by the Commission, as well as any new  
20 services or packages which can be considered non-essential to the basic  
21 provision of telephone service. In both instances, the flexibility provided  
22 by this provision of the Settlement Agreement is appropriate. With this

1 provision, Qwest will be allowed to offer innovative solutions consisting of  
2 discretionary, optional, non-essential services, i.e., those in Basket 3,  
3 designed to meet the needs of specific groups of customers. This  
4 provision will provide additional alternatives to consumers in response to  
5 market demands – be it competition, customer usage patterns, life  
6 changes, etc. Qwest’s competitors enjoy this flexibility today; with this  
7 provision Qwest’s customers will be afforded the same benefit.

8  
9 Second, it is not accurate to state the Settlement Agreement affords  
10 Qwest with the flexibility proposed in its competitive zone proposal.  
11 Qwest’s competitive zone proposal would have provided pricing flexibility  
12 for virtually all services, including switched access, provided in wire  
13 centers where consumers have access to competitive alternatives. With  
14 the Settlement Agreement, Qwest gains flexibility for the limited number of  
15 services designated to Basket 3, which have already been granted pricing  
16 flexibility, and any new services and service packages.<sup>5</sup> Under Qwest’s  
17 competitive zone proposal, price changes, and changes in product terms  
18 and conditions could become effective upon concurrent notice to the  
19 Commission. Under the Settlement Agreement, Qwest must receive  
20 Commission approval for discontinuation or revision of services, terms,  
21 and conditions. New services proposed to be included in Basket 3 and

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<sup>5</sup> Settlement Agreement, Attachment A, Section 4 (a).

1 any new service packages that involve Basket 1 services are subject to  
2 Commission review and must be filed thirty days prior to the effective  
3 date.<sup>6</sup> The flexibility anticipated by Qwest in its competitive zone proposal  
4 is a far cry from the flexibility afforded Qwest in the Settlement  
5 Agreement.

6  
7 **Q. DR. COLLINS MAINTAINS THAT QWEST SHOULD BE REQUIRED TO**  
8 **PROVIDE NOTICE OF ITS FILINGS TO CLECS AND OTHER**  
9 **INTERESTED PARTIES. PLEASE COMMENT.**

10 A. Qwest currently provides notice of filings to CLECs in accordance with  
11 Commission approved interconnection and resale agreements. In  
12 addition, Qwest's tariffs are public documents available for review at the  
13 Commission. Products in all three baskets under the Settlement  
14 Agreement remain regulated by this Commission. If a competitor or other  
15 interested party has reason to believe that a Qwest filing is inappropriate  
16 in any way, a complaint may be filed with the Commission. Furthermore,  
17 it should be noted that Qwest's competitors, including Cox, do not provide  
18 notice to Qwest of changes made to their products. Hence, a more  
19 onerous requirement should not be placed on Qwest.

20

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<sup>6</sup> Settlement Agreement, Attachment A, Section 4 (e), (h).



BEFORE THE ARIZONA CORPORATION COMMISSION

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 APPPROVE RATE )  
SCHEDULES DESIGNED TO DEVELOP SUCH )  
RETURN. )

DOCKET NO. T-01051B-99-0105

AFFIDAVIT OF  
DAVID L. TEITZEL

ss

STATE OF WASHINGTON )  
)

COUNTY OF KING )  
)

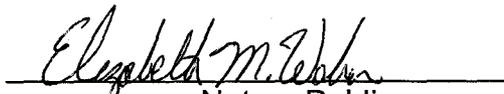
David L. Teitzel, of lawful age being first duly sworn, depose and states:

1. My name is David L. Teitzel. I am Director – Product and Market Issues for Qwest Corporation in Seattle, Washington. I have caused to be filed written testimony in support of settlement in Docket No. T-01051B-99-0105.
2. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Further affiant sayeth not.

  
David L. Teitzel

SUBSCRIBED AND SWORN to before me this 17th day of November, 2000.

  
Notary Public

My Commission Expires: 09/15/02