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COMMISSIONER
MARC SPITZER
COMMISSIONER

ARIZONA CORPORATION COMMISSION

March 1, 2001

AZ CORP COMMISSION
DOCUMENT CONTROL

Commissioner Jim Irvin
Commissioner Marc Spitzer
1200 W. Washington Street
Phoenix, AZ 85007

Re: US West/ Qwest Rate Case Proposed Settlement; March 7, 2001 Open Meeting
Docket No. T- 01051B-99-0105

Dear Colleagues:

While I am open to being convinced that alternative rate regulation will, in the long run, be a stimulant to competition and thereby benefit Arizona's telephone customers, I have serious reservations regarding the proposed rate case settlement. The reservations are based on the following issues:

1. The \$43 million revenue requirement/rate increase has no hard data basis but rather is a negotiated sum not tied to a cost of service analysis.
2. The test year reviewed was 1999. The rapid growth in access line and other revenue sources are therefore, not adequately accounted for in the Order.
3. The depreciation decision resulted in shorter depreciation lives for certain assets, but the actual percentage of assets retired, appear to be considerably less than what was anticipated by the Commission based on the applicant's representations.
4. The mere monitoring of capital investment seems to be an inadequate oversight mechanism.
5. The \$43 million imputation for the directory publishing business needs to be more closely examined.
6. Synergies from the merger and cost savings associated with the approved pending sale of 38 high-cost rural exchanges to Citizens are factors that may not be adequately reflected in the proposed settlement. Specifically, the 4.2% productivity factor needs to be reexamined with the updated information not previously available to the parties.
7. The proposed settlement could lead the commission astray from its primary goal of insuring that the rates paid by Arizona consumers will be just and reasonable, based on a thorough analysis of the applicant's cost of service, revenue streams, and appropriate revenue requirement.

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I would appreciate your support in joining me in issuing a directive that the Qwest Rate Case Proposed Settlement be taken off the Open Meeting calendar for March 7, 2001, with instructions to the parties to address the above listed issues, either in formal hearings, or in a resumption of the settlement negotiation process, which includes the gathering and analysis of the necessary additional data.

If a formal hearing is scheduled, extensive cross-examination should be allowed.

Sincerely,



William A. Mundell
Chairman

cc: Deborah Scott, Utilities Director
Chris Kempley, Chief Counsel
~~Ryan Farmer, Chief Hearing Officer~~
Brian McNeil
Docket Control