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DEPARTMENT OF THE ARMY
UNITED STATES ARMY LEGAL SERVICES AGENCY
901 NORTH STUART STREET
ARLINGTON VA 22203-1837



32

September 1, 2005

REPLY TO
ATTENTION OF

Regulatory Law Office
U 4102

Subject: In The Matter Of Qwest Corporation's Filing Of Renewed Price Regulation Plan.
Arizona Corporation Commission, Docket No. T-01051B-03-0454 and In The Matter Of The
Investigation Of The Cost Of Telecommunications Access. Arizona Corporation Commission,
Docket No. T-00000D00-672.

Arizona Corporation Commission
Docket Control
1200 West Washington Street
Phoenix, Arizona 85007

Enclosed for filing with the Arizona Corporation Commission are the original and fifteen copies of the Testimony In Support Of Settlement of Richard B. Lee on behalf of the Department of Defense and All Other Federal Executive Agencies (DOD/FEA) in the subject proceedings. This Testimony is dated September 6, 2005.

Copies of this Testimony have been served in accordance with the attached Certificate of Service. Inquiries concerning this matter may be directed to the undersigned at (703) 696-1644.

Sincerely,

Peter Q. Nyce Jr.
General Attorney
Regulatory Law Office

Enclosure

AZ CORP COMMISSION
DOCUMENT CONTROL

2005 SEP -2 A 11: 33

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BEFORE THE ARIZONA CORPORATION COMMISSION

JEFF HATCH-MILLER

Chairman

WILLIAM A. MUNDELL

Commissioner

MARC SPITZER

Commissioner

MIKE GLEASON

Commissioner

KRISTIN K. MAYES

Commissioner

IN THE MATTER OF QWEST) DOCKET NO. T-01051B-03-0454
CORPORATION'S FILING OF RENEWED)
PRICE REGULATION PLAN)
)
IN THE MATTER OF THE INVESTIGATION) DOCKET NO. T-00000D-00-0672
OF THE COST OF TELECOMMUNICATIONS)
ACCESS)

TESTIMONY IN SUPPORT OF SETTLEMENT
of
RICHARD B. LEE

on behalf of

THE UNITED STATES DEPARTMENT OF DEFENSE
And
ALL OTHER FEDERAL EXECUTIVE AGENCIES

ROBERT N. KITTEL, CHIEF
Regulatory Law Office
Office of the Judge Advocate General
U.S. Army Litigation Center
901 N. Stuart Street, Suite 713
Arlington, Virginia 22203-1837

by

Peter Q. Nyce, Jr.
General Attorney

September 6, 2005

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I. INTRODUCTION

1
2

3 Q. PLEASE STATE YOUR NAME, POSITION AND BUSINESS ADDRESS.

4 A. My name is Richard B. Lee. I am Vice President of the economic consulting firm of
5 Snavelly King Majoros O'Connor & Lee, Inc. ("Snavelly King"). My business address is
6 1220 L Street, N.W., Suite 410, Washington, D.C. 20005.

7 Q. ON WHOSE BEHALF ARE YOU APPEARING IN THIS DOCKET?

8 A. I am appearing on behalf of the United States Department of Defense and all other
9 Federal Executive Agencies ("DOD/FEA").

10 Q. ARE YOU THE SAME RICHARD B. LEE WHO SUBMITTED DIRECT
11 TESTIMONY IN THIS PROCEEDING ON NOVEMBER 18, 2004, AND
12 SURREBUTTAL TESTIMONY ON JANUARY 12, 2005?

13 A. Yes, I am.

14 Q. DID YOUR DIRECT TESTIMONY CONTAIN A DESCRIPTION OF YOUR
15 BACKGROUND AND EXPERIENCE?

16 A. Yes, it did.

17 Q. WAS THIS TESTIMONY PREPARED BY YOU OR UNDER YOUR DIRECT
18 SUPERVISION?

19 A. Yes, it was.

20 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

21 A. The purpose of my testimony is to support the Settlement Agreement dated August 15,
22 2005, signed by DOD/FEA, Qwest Corporation ("Qwest"), the Arizona Corporation

Testimony in Support of Settlement of Richard B. Lee
Page 2, September 6, 2005

1 Commission Utilities Division (“Staff”), the regulated subsidiaries of MCI, Inc. (“MCI”),
2 Time Warner Telecom of Arizona, LLC (“Time Warner Telecom”), the Arizona Utility
3 Investors Association (“AUIA”), Cox Arizona Telecom (“Cox”), and XO
4 Communications Services, Inc. (“XO”) (collectively “the Parties”).
5

6 **II. THE SETTLEMENT AGREEMENT IS IN THE PUBLIC INTEREST.**
7

8 **Q. PLEASE SUMMARIZE THE SETTLEMENT AGREEMENT.**

9 A. The Settlement Agreement has two principal components. First, the Parties resolve the
10 many contested revenue requirement issues in this proceeding by agreeing that Qwest’s
11 jurisdictional revenue deficiency is \$31.8 million.¹ Second, the Parties have agreed to a
12 three-year Renewed Price Cap Plan during which they will not initiate a general rate
13 case.²

14 **Q. PLEASE SUMMARIZE THE PROPOSED RENEWED PRICE CAP PLAN.**

15 A. The Renewed Price Cap Plan establishes four baskets of service.³ Each basket is subject
16 to specific pricing rules.

17 **Basket 1** will consist of Retail Services whose prices may not be increased while

¹ Settlement Agreement, at Section 2.

² Id., at Sections 17 and 29.

³ Id., at Sections 10-12.

1 the Renewed Price Cap Plan is in effect.

2 Basket 2 will consist of Limited Pricing Flexibility Retail Services. Overall
3 revenue changes to this basket caused by price changes will not exceed \$1.8 million in
4 the first year of the Renewed Price Cap Plan and \$13.8 million for the term of the
5 Renewed Price Cap Plan. Increases in individual service prices will not exceed 25
6 percent within any 12 month period.

7 Basket 3 will consist of Flexibly-Priced Competitive Services. Overall revenue
8 changes to this basket caused by price changes will not exceed \$31.8 million less Basket
9 2 price increases in the first year of the Renewed Price Cap Plan, and \$43.8 million less
10 Basket 2 price increases for the term of the Renewed Price Cap Plan.

11 Basket 4 will consist of Wholesale Services. Switched Access Charge Prices will
12 be permanently reduced by \$12.0 million at the start of the first year of the Renewed
13 Price Cap Plan. Other wholesale service prices are capped at the tariffed or contract price
14 levels for the term of the Renewed Price Cap Plan, or until contracts are re-negotiated, or
15 until the Federal Communications Commissions ("FCC"), the Arizona Commission or
16 courts determine that other prices are appropriate.

17 **Q. IS THE SETTLEMENT AGREEMENT IN THE PUBLIC INTEREST?**

18 A. Yes. The Settlement Agreement strikes a reasonable balance between the interests of
19 Qwest and its ratepayers.

20 In my Direct Testimony, I acknowledged that Qwest faces increased competition

1 in Arizona.⁴ As I explained, Qwest should be given greater pricing flexibility to contend
2 with this increased competition.⁵ I did, however, propose certain limits to Qwest's
3 pricing flexibility to the extent that competition is not yet fully effective in constraining
4 Qwest's prices. For example, I recommended a limit to the annual allowable price
5 increase for certain services,⁶ and an immediate reduction in switched access rates.⁷

6 As I have recommended, the Renewed Price Cap Plan described in the Settlement
7 Agreement allows Qwest increased pricing flexibility consistent with the competition it
8 faces. For example, the Renewed Price Cap Plan allows Qwest to introduce promotional
9 offerings upon one day notice⁸ and establishes reasonable conditions on service
10 packages.⁹ The Renewed Price Cap Plan provides meaningful price flexibility in Basket
11 2, but limits price increases for individual services to 25 percent in any 12 month
12 period.¹⁰

13 Similarly, while the Settlement Agreement requires Qwest to reduce its switched

⁴ Lee Direct, at 4-5.

⁵ Id., at 6.

⁶ Id., at 8.

⁷ Id., at 10.

⁸ Settlement Agreement, at Section 22.

⁹ Id., at Section 23.

¹⁰ Id., at Section 12.

1 access prices by \$12 million immediately,¹¹ it also allows Qwest the opportunity to
2 recover this reduction, and its \$31.8 million revenue deficiency, through Basket 2 and 3
3 price increases.¹²

4 The Settlement Agreement also includes several specific consumer benefits: a
5 reduction in zone charges, a reduction in residence non-published and non-listed number
6 rates, and an increase in funding for the Telephone Assistance Plan for the Medically
7 Needy.¹³

8 In summary, I believe the Settlement Agreement is balanced, reasonable and in
9 the public interest. I recommend, therefore, that it be approved by the Commission.

10

11

III. CONCLUSION

12

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

14 **A.** Yes, it does.

¹¹ Id., at Section 8.

¹² Id., at Section 10.

¹³ Id., at Section 13.

AFFIDAVIT OF RICHARD B. LEE

COUNTY OF ARLINGTON)
)
COMMONWEALTH OF VIRGINIA)

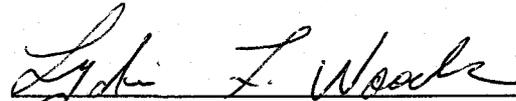
SS:

Before me, the undersigned Notary Public in and for the County of Arlington, Commonwealth of Virginia, this day personally appeared Richard B. Lee, Vice President, Snavelly King Majoros O'Connor and Lee, Inc., to me personally known, who stated under oath that the foregoing direct testimony was prepared by him or under his direct supervision and control; that he has knowledge of the matters set forth in said testimony; and that such matters are true and correct to the best of his knowledge, information, and belief.



RICHARD B. LEE

Subscribed and sworn to before me this 25th day of August, 2005, in the County of Arlington, Commonwealth of Virginia.



Notary Public

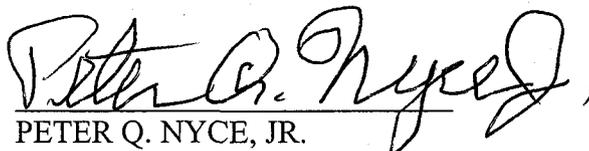
My Commission expires: _____

Embossed Hereon Is My
Commonwealth of Virginia Notary Public Seal
My Commission Expires May 31, 2008
LYDIA F. WOODS

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing Testimony In Support Of Settlement of Richard B. Lee on behalf of the United States Department of Defense and All Other Federal Executive Agencies was sent to the parties on the attached service list either by United Parcel Service - Next Day Air, or by first class mail, postage prepaid on September 1, 2005.

Dated at Arlington County, Virginia, on this 1st Day of September 2005.


PETER Q. NYCE, JR.

Timothy Berg
Teresa Dwyer
Fennemore Craig, P.C.
3003 North Central Ave., Suite 2600
Phoenix, Arizona 85012-2913
Attorneys for Qwest Corporation

Todd Lundy
Qwest Law Department
1801 California Street
Denver, Colorado 80202

Scott S. Wakefield, Chief Counsel
RUCO
1110 West Washington, Suite 220
Phoenix, Arizona 85007

Patrick A. Clisham
AT&T Arizona State Director
320 E. Broadmoor Court
Phoenix, AZ 85022

Richard S. Wolters
AT&T Law Department
1875 Lawrence Street, Suite 1503
Denver, CO 80202

Joan S. Burke
Osborn Maledon, P.A.
2929 North Central Avenue, Suite 2100
Phoenix, Arizona 85012-2794
Attorneys for AT&T

Thomas F. Dixon
Worldcom, Inc.
707 17th Street, 39th Floor
Denver, Colorado 80202

Walter W. Meek, President
Arizona Utility Investors Association
2100 N. Central Avenue, Suite 210
Phoenix, AZ 85004

Thomas H. Campbell
Michael T. Hallam
Lewis and Roca
40 N. Central Avenue
Phoenix, Arizona 85004
Attorneys for Worldcom, Inc.

Michael W. Patten
Roshka Heyman & Dewulf PLC
400 East Van Buren Street, Suite 800
Phoenix, Arizona 85004

Mark A. Dinunzio
Cox Arizona Telcom, LLC
1550 W. Deer Valley Rd.
MS:DV3-16;Bldg C
Phoenix, Arizona 85027

Peter Q. Nyce Jr.
Regulatory Law Office
U.S. Army Litigation Center
901 N. Stuart Street, Suite 713
Arlington, VA 22203-1644

Richard Lee
Snively King Majoros O'Connor &
Lee, Inc.
1220 L Street N.W., Suite 410
Washington, DC 20005

Martin A. Aronson, Esq.
Morrill & Aronson PLC
One E. Camelback, Suite 340
Phoenix, AZ 85012-1648
Attorneys for Arizona Dialtone, Inc.

Brian Thomas
Vice President Regulatory
Time Warner Telecom, Inc.
223 Taylor Avenue North
Seattle, Washington 98109

Daniel D. Haws
OSJA
ATTN: ATZS-JAD
USA Intelligence Center & Fort Huachuca
Fort Huachuca, Arizona 85613-6000

Maureen Scott, Attorney
Arizona Corporation Commission
Legal Division
1200 West Washington
Phoenix, AZ 85007

Jane L. Rodda
Administrative Law Judge
Arizona Corporation Commission
Hearing Division
1200 West Washington
Phoenix, AZ 85007

Albert Sterman
Arizona Consumers Council
2849 East Eighth Street
Tucson, AZ 85716

Ernest G. Johnson, Director
Arizona Corporation Commission
Utilities Division
1200 West Washington Street
Phoenix, AZ 85007

Christopher Kempley, Chief Counsel
Arizona Corporation Commission
Legal Division
1200 West Washington
Phoenix, AZ 85007

Jeffrey W. Crockett
Snell & Wilmer
One Arizona Center
400 East Van Buren
Phoenix, AZ 85004-2202