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BEFORE THE ARIZONA CORPORATION COMMISSION

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Commissioner
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Commissioner
KRISTIN K. MAYES
Commissioner

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

NOTICE OF FILING DIRECT TESTIMONY OF REX KNOWLES

1064124

XO Communications Services, Inc. hereby files the Direct Testimony of Rex Knowles in the above-captioned docket.

Respectfully submitted this 6th day of September, 2005.

OSBORN MALEDON PA

By _____

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Brenda Wendt

BEFORE THE ARIZONA CORPORATION COMMISSION

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DIRECT TESTIMONY

OF

REX KNOWLES

XO COMMUNICATIONS SERVICES, INC.

September 6, 2005

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I. INTRODUCTION

Q. PLEASE STATE YOUR NAME, EMPLOYER, AND BUSINESS ADDRESS.

A. My name is Rex Knowles. I am a Regional Vice President Regulatory for XO Communications, Inc., 111 East Broadway, Suite 1000, Salt Lake City, Utah 84111.

Q. PLEASE IDENTIFY AND DESCRIBE THE PARTY ON WHOSE BEHALF YOU ARE TESTIFYING.

A. I am testifying on behalf of XO Communications Services, Inc. ("XO"), a competitive local exchange company ("CLEC") that provides facilities-based local and long distance telecommunications services in Arizona.

Q. WHAT ARE YOUR RESPONSIBILITIES?

A. I am responsible for all regulatory, legislative, municipal, and incumbent local exchange carrier ("ILEC") initiatives on behalf of XO and other affiliates in California, Nevada and all states in the Qwest region, including Arizona.

Q. WHAT IS YOUR BUSINESS AND EDUCATION BACKGROUND?

A. I graduated from Portland State University in Portland, Oregon, with a degree in Business Administration/Finance Law in 1989. I was employed by United Telephone of the Northwest from 1989 to 1993 as a regulatory staff assistant and product manager responsible for incremental cost studies and creation and implementation of extended area service ("EAS") and 911. From 1993 to 1996, I was employed by Central Telephone

of Nevada as manager of revenue planning and research and was responsible for supervising cost study preparation and developing and implementing regulatory reform, including opening the local exchange market to competition and alternative forms of regulation for ILECs. I joined the XO in the Spring of 1996.

Q. HAVE YOU PREVIOUSLY TESTIFIED IN OTHER REGULATORY PROCEEDINGS?

A. Yes, I have provided testimony on costing, pricing, and policy issues in various proceedings before the Arizona Corporation Commission, the Colorado Public Utilities Commission, the Utah Public Service Commission and the Washington Utilities and Transportation Commission.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?

A. The purpose of my testimony is to express XO's support for the Settlement Agreement filed with the Commission on August 23, 2005 ("Settlement Agreement" or "Agreement").

II. THE SETTLEMENT AGREEMENT

Q. DID XO PARTICIPATE IN SETTLEMENT AGREEMENT NEGOTIATIONS?

A. Yes. Through local counsel, XO participated in at least a dozen settlement meetings. Once XO was granted intervention in the docket, XO was given the opportunity to participate in all meetings concerning the Settlement Agreement.

Q. ARE YOU FAMILIAR WITH THE SETTLEMENT AGREEMENT?

A. Yes. I have reviewed the final Settlement Agreement and as the Agreement evolved I reviewed drafts circulated by Staff. XO participated actively in the negotiation of Section 9 and Attachment D to the Agreement. Section 9 and Attachment D will make available to competitive local exchange carriers in Arizona a DS1 channel termination rate ("DS-1 rate") that is more favorable than the current intrastate DS1 rate offered by Qwest. XO relies on DS1 and DS3 products to serve Arizona customers and, in almost all instances, these "special access" products are available only from Qwest. Qwest has the ability to increase the special access rates substantially, and has done so at the federal level in recent months. This Arizona rate will enhance opportunities for competition and provide some rate stability for the DS-1 product. XO has not independently examined issues related to Qwest's revenue deficiency, the fair value determination, or the agreed upon rate of return. XO does believe that these contested issues are fairly resolved in the Settlement Agreement and that their resolution required compromise by all parties to the Agreement.

III. THE SETTLEMENT AGREEMENT IS IN THE PUBLIC INTEREST AND SHOULD BE APPROVED

Q. IS THE SETTLEMENT IN THE PUBLIC INTEREST?

A. Yes. From a competitor's perspective, the Settlement Agreement strikes a reasonable balance between the interests of Qwest, the need for competitive product rate stability, and consumer needs. In contrast, a lengthy and costly inquiry into Qwest's revenue deficiency would not serve the interests of consumers, Qwest, or telecommunications competitors.

Q. DOES XO SUPPORT APPROVAL OF THE SETTLEMENT AGREEMENT BY THE ARIZONA CORPORATION COMMISSION?

A. Yes. The Settlement Agreement represents a fair compromise of the disputed issues. A number of issues were the focus of lengthy negotiation sessions and represent carefully negotiated compromises. No interested party or stakeholder was excluded from the negotiation process. XO supports the Settlement Agreement and requests that the Commission approve the Agreement.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.