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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 TELECOMMUNCIATIONS ACCESS.	DOCKET NO. T-00000D-00-0672 **NOTICE OF FILING REBUTTAL TESTIMONY IN SUPPORT OF SETTLEMENT.**

Qwest Corporation files herewith the public/redacted version of the Rebuttal Testimony in Support of Settlement, with associated exhibits, of David L. Teitzel, Jerrold L. Thompson and Philip E. Grate.

SUBMITTED this 28th day of October, 2005.

QWEST CORPORATION

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BEFORE THE ARIZONA CORPORATION COMMISSION

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KRISTIN MAYES

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 TELECOMMUNICATIONS ACCESS	)	DOCKET NO. T-00000D-00-0672

JERROLD L. THOMPSON

REBUTTAL TESTIMONY IN SUPPORT OF SETTLEMENT

ON BEHALF OF

QWEST CORPORATION

OCTOBER 28, 2005

TESTIMONY INDEX

EXECUTIVE SUMMARY

My testimony explains why the responsive testimony of Dr. Johnson is counter-factual and misleading. My testimony details why Dr. Johnson's testimony does not reflect a thorough understanding of the specifics of the settlement and the proposed Price Plan. I explain how he bases his conclusions on misunderstandings and assumptions that are not accurate. I list his omissions of critical aspects of the settlement and the proposed Price Plan which further his view that the proposed Price Plan does not provide increased levels of regulation over Qwest. I respond to Dr. Johnson's inaccurate critique that the Price Plan does not include broad policy issues such as universal service funding and geographic issues. I conclude that Dr. Johnson's responsive testimony offers very little to the Commission due to its inaccuracy and erroneous conclusions and should be disregarded.

I. IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Jerrold L. Thompson. My business address is Room 4740, 1801 California Street, Denver, CO.

Q. ARE YOU THE SAME JERROLD L. THOMPSON THAT PROVIDED DIRECT TESTIMONY ON SEPTEMBER 6, 2005?

A. Yes.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. My testimony responds to the testimony of RUCO witness Ben Johnson, Ph.D. filed October 14, 2005.

III. SUMMARY

Q. CAN YOU PROVIDE A SUMMARY OF YOUR RESPONSE TO DR. JOHNSON'S TESTIMONY?

A. Yes. Dr. Johnson's testimony has numerous omissions and errors that provide the foundation for his conclusion and recommendation to the Commission. He stresses several industry policy matters that cannot be reasonably resolved in the context of a Qwest-only rate proceeding such as this one. Nevertheless, the majority of these issues have been considered in the details of the proposed Price Plan and are not the obstacles that Dr. Johnson alleges they are. As a result of these serious deficiencies, his conclusions and recommendations are not based in fact and should be disregarded by the Commission. My rebuttal testimony identifies and discusses these omissions, errors and mischaracterizations and recommends that the Commission approve the settlement and Price Plan as presented.

IV. OMISSIONS

Q. WHAT IS THE MOST OBVIOUS OMISSION FROM DR. JOHNSON'S DISCUSSION OF THE SETTLEMENT PROPOSAL?

A. The most obvious omission is his disregard for the revenue requirement aspect of this case. A significant number of the controversial issues in this case involved different views on the level of Qwest's revenue deficiency and the rate changes corresponding to that deficiency to allow the required finding by the Commission of a fair value rate base and a reasonable rate of return.[1] Approximately 25% of the settlement agreement resolves the revenue deficiency issues between Staff and Qwest.

[1] In its earlier Order in this proceeding, the Arizona Corporation Commission (Decision No. 66772) found that: "The Commission cannot order termination of the Plan, or adopt a modified Plan without making a finding of fair value and a determination that the rates adopted therein are just and reasonable. Whether the Commission and Qwest ultimately continue under some sort of Price Cap Plan, or whether we return to traditional rate of return regulation, the commission must make a finding of fair value and Qwest must provide whatever information is necessary to make such a determination."

integral to the issue of revenue deficiency is the determination of just and reasonable rates. Since the settlement has an agreed upon revenue deficiency, the issue of which rates need to be increased to correct the deficiency must be addressed in some fashion. The settlement solution to this requirement is a proposal for a limited and monitored revenue opportunity for Qwest to be allowed price changes of its non-hard capped services, should it choose to do so over the next few years. It is the parties' view that the proposed opportunity for Qwest to recover the revenue deficiency "results in just and reasonable rates".[2]

The omission by Dr. Johnson of this important aspect of the case results in his erroneous conclusion that Qwest focused its "negotiating efforts on trying to obtain policy changes that will result in increased rates...".[3] To the contrary, based on the Commission's position, the requirement to identify the revenue deficiency (if any), the constitutional requirement for a finding of fair value in Qwest's rate base, and the finding of just and reasonable rates all require the inclusion of these issues and the determination of price levels during the Price Plan.

Q. DR. JOHNSON TAKES ISSUE WITH THE RE-CLASSIFICATION OF CERTAIN SERVICES PREVIOUSLY IN BASKET 1. DID HE NEGLECT TO DISCUSS THE MOVEMENT OF SERVICES INTO THE PRICE CAP CATEGORY?

[2] Settlement Agreement Section 1.

[3] Ben Johnson, Ph. D, Supplemental Testimony in Opposition to Qwest's Settlement Agreement, October 14, 2005, p.22, lines 5-6.

A. Yes, those services were not discussed by Dr. Johnson. Under Qwest's current Price Plan, certain services are subject to a hard price cap. Those services are: flat rated residential and business service; multi-party service; residence and business exchange zone-increment charges; low use option service; service-station service; telephone assistance programs; individual PBX trunks including features; caller identification blocking service; long distance blocking service; 900 blocking service; and the basic listing service.[4] There are other services contained in Basket 1 in the current Price Plan, but those services are not hard capped. Prices for those services are limited to annual increases of no more than 25%.[5] (I have prepared exhibit JLT-1 that details the services in the hard price cap category on page 1 and the 25% Price Flex category on page 2 of that exhibit.) In the analysis of changes in classification of service from the current Price Plan, two services can be excluded. Those are multiple party service which no longer is offered and 900 blocking which has no recurring price (i.e., a free service). With the exception of PBX trunks and additional lines, all of the remaining services **continue to be hard capped** in the proposed Price Plan. What Dr. Johnson failed to note is that six services have been moved from the current Price Plan 25% Price Flex category to the hard capped category in the proposed Price Plan. Those services are E911, Emergency Transport Backup service, Disaster Recovery service, 10xxx blocking service, non-published listing service, and non-listed service. The addition of price caps for these

4 Attachment A, 2(c)(i).

5 Attachment A, 2(c)(iii).

services is considered an additional consumer benefit included in the Price Plan. Dr. Johnson's omission of this fact unfairly characterizes the value of the Price Plan to Arizona consumers.

Q. DOES DR. JOHNSON GENERALLY DISREGARD THE CONSUMER BENEFITS THAT ARE INCLUDED IN THE SETTLEMENT?

A. Dr. Johnson takes no recognition of the numerous consumer benefits that are included in the settlement and proposed Price Plan. In fact, he makes the statement that "...the proposed Price Plan includes very few, if any, changes which would benefit residential and other mass market customers."[6] In addition to the hard capped services discussed above, there are multiple additional consumer benefits included in the proposed Price Plan.

The proposed Price Plan includes ***targeted*** consumer benefits of approximately $5.5 million each year of the three year Price Plan (or a total of **$16.5 million**). Residential and small business customers outside urban areas that currently pay zone-increment charges will receive a **50% reduction** in those rates upon implementation of the proposed Price Plan which then are capped at those reduced rates for the Price Plan period.[7] This will result in an annual benefit to consumers and a reduction in revenue to Qwest of $2 million. Residential customers that subscribe to non-published and non-listed telephone number services will receive a

6 Johnson, p.2, lines 20-21.

7 Dr. Johnson's testimony (at p.10, line 22 and p.13, line 11) is incorrect that the zone-increment rates for additional lines are not price capped. All zone-increment services are found in Basket 1 of the proposed Price Plan.

30% and 38% discount (respectively) for a total annual benefit of $2.5 million. Qualified medically needy residential customers will receive **an additional $1 million in assistance** toward payment of their telephone bills each year of the proposed Price Plan. Improving consumer benefits of the current Price Plan, rural residential customers receive a **67% increase in the amount they are credited** for construction of new services to their homes (from $3000 to $5000). Likewise, the current Price Plan benefit for Directory Assistance consumers is carried over to the proposed Price Plan where users of this competitive service receive **one free call per month, two inquiries, and optional call completion at a below-market capped rate of $1.15 per month**. In addition, in contrast to the many non-telephony consumer prices that are increasing and likely to increase over the next three years, prices for what the settlement considers as Qwest's most consumer sensitive services are not allowed to increase during the term of the proposed Price Plan. Not only does this provide price stability for consumers but places the risk of inflation[8] upon Qwest because it has also agreed to forego its right to file a rate case for the next three years.

The total amount of revenue that Qwest may seek through price increases is limited to the revenue deficiency that existed in the historical test year. To the extent that revenue declines further due to competition, or that price increases cause declines in demand, Qwest will be unable to recover further revenue deficiencies during the

[8] In contrast to Dr. Johnson (p.21, line 17) many of Qwest's costs continue to increase: the cost of its labor will increase

period of the proposed Price Plan because of the agreed upon rate case moratorium.

In addition to the targeted price-related consumer benefits, Qwest is subject to service quality standards and **potential consumer bill credits** should Qwest fail to meet the standards in the settlement agreement.

Q. ARE THERE OTHER CONSUMER BENEFITS THAT HAVE BEEN OMITTED BY DR. JOHNSON?

A. Yes. The settlement agreement contains resolutions to two issues that will encourage more competition in Arizona. First, Qwest has offered an individual case basis agreement that has been tailored to competitive local exchange carrier's special business needs that will **facilitate increased competition** in the Phoenix and Tucson markets. XO Communications Services, Inc.'s witness Rex Knowles believes the settlement "strikes a reasonable balance between the interests of Qwest, the need for competitive product rate stability, and consumer needs".[9]

Second, although Dr. Johnson acknowledges that this docket includes an investigation of the price of Qwest's switched access rates,[10] his current background summary does not acknowledge the Commission's concern about the competitive effect of higher prices of intrastate switched access compared to similar interstate

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7.5% over the next three years; health care benefits continue to increase; fuel costs are expected to increase; interest rates are expected to increase; etc.

[9] Direct Testimony of Rex Knowles, September 6, 2005, p.3, lines 21-23.

services. And although he admits that it is "feasible" to implement changes to Qwest's switched access rates, Dr. Johnson turns the Commission's concern on its head by expressing his view that reductions in Qwest's intrastate switched access make "it less profitable for competitive local exchange carriers to serve high cost rural areas, without making any improvements to the structure of the existing USF mechanism".[11] As the leading proponent for increasing competition through switched access price changes in this proceeding (and its predecessor's), MCI witness Don Price testifies that the switched access reduction included in the settlement "is an appropriate compromise that results in **meaningful intrastate switched access reductions**", and that MCI considers the settlement overall "is in the public interest from its perspective".[12]

Q. ARE THERE OTHER GENERAL BENEFITS OF THE PRICE PLAN THAT ARE OMITTED BY DR. JOHNSON?

A. There are two benefits that were not discussed by Dr. Johnson, although they are mentioned by several of the witnesses. The first is that the settlement allows for streamlining of regulatory processes for Qwest to allow movement toward the same regulation that is applied to its competitors. In spite of Dr. Johnson's admission that "Qwest has been experiencing substantial market share losses in Phoenix and Tucson" and "competitors have been quite successful in winning customers" in some

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[10] Although Dr. Johnson takes administrative recognition of the docket consolidation, p.4-5, he disagrees with switched access reductions without "improvements" in universal service funding, p.23.

[11] Dr. Johnson, p.20, lines 9-11.

[12] Supplemental Direct Testimony, Don Price September 6, 2005, p.5.

markets,[13] he does not give credit to the provisions in the settlement and Price Plan that move regulation of Qwest more toward that of its competitors. The provision whereby Qwest is allowed to shorten its notice time for promotions of its products will encourage more competitive offers sooner. The Commission has previously recognized this type of change as beneficial.[14] The second is that the parties, the Commission and the state government in Arizona will benefit from the avoidance of lengthy litigation and the dismissal of the pending Consolidated Appeals. Should the Commission adopt Dr. Johnson's recommendation for rejection of the settlement, these benefits would not be realized.[15]

V. ERRORS

Q. IS DR. JOHNSON CORRECT THAT THE CLASSIFICATION OF ZONE INCREMENTS HAS BEEN CHANGED FROM HARD CAPPED TO NON-HARD CAPPED IN THE PROPOSED PRICE PLAN?

A. No. Zone increment services for both residential and business services will have prices reduced and be included in Basket 1 in the proposed Price Plan.

Q. IS DR. JOHNSON CORRECT THAT BASKET 2 REVENUES CAN INCREASE BY $43.8 MILLION BY INCREASING THE PRICE OF ADDITIONAL LINES IN THE PROPOSED PRICE PLAN?

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[13] Dr. Johnson at p.17, lines 7-10.
[14] For example, see Decision No. 63487, p. 15, lines 2-3.
[15] See Dr. Johnson, p.23, lines21-23.

A. No. Dr. Johnson states that:

> "...In fact, under the proposed settlement, revenues from Basket 2 services can increase up to $43.8 million, so the additional line rates could immediately be increased by 25%, and Qwest could thereafter increase these prices by as much as 25% per year, until they reach monopoly profit-maximizing levels ("whatever the traffic will bear")."[16]

Dr. Johnson is incorrect. Additional line services are included in Basket 2, however, there are conditions on Basket 2 services in the proposed Price Plan that would not allow increases of $43.8 million.

In the current Price Plan, since the formula for Basket 1 does not allow overall revenue increases in the Basket, prices (rate elements) for some services can be increased as much as 25%, provided other rates would be decreased by an equal revenue amount.[17] In the proposed Price Plan, prices for services in Basket 2 may be increased as much as 25%[18], but only to the dollar limits imposed on services in that Basket. For the first year of the proposed Price Plan, **no more than $1.8 million** can be requested from Basket 2 services. For years 2 and 3, no more than $13.8 million can be requested from Basket 2 services.

In addition, Qwest must comply with A.A.C. R14-2-1109 for services in Basket 2. This means that Qwest, like its competitors, is required to request and obtain

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16 See Dr. Johnson, p.13, lines 7-10.

17 In contrast to this current testimony, Dr. Johnson's Testimony filed November, 2004 provides a broader description of this condition, p.23-24.

18 Dr. Johnson's November, 2004 testimony makes a distinction between prices for "services" and prices for "rate elements". His example distinguishes Custom Calling Services (what he calls a "service") and Call Waiting (what he calls a "rate element"). In Qwest's terminology what Dr. Johnson calls a "service" in his example is termed a tariff category and

Commission approval for minimum and maximum rates for services in Basket 2. If a maximum price for additional lines is found to be acceptable by the Commission, then any price change below the maximum price (and above the minimum price) is allowed after notice. Qwest is also subject to provisions of A.A.C. R14-2-1110 which requires Qwest, like its competitors, to submit an application to the Commission for subsequent changes to the maximum rate.

The parties to the settlement, representing consumers, investors and competitors, agree that the time is right to move regulation of Qwest toward the form of regulation that the Commission uses for Qwest's competitors.

Q. ARE THERE COMPETITIVE REASONS WHY THE AGREEMENT PROVIDES LIMITED PRICING FLEXIBILITY FOR ADDITIONAL LINES?

A. Yes. As discussed in more detail in Mr. David Teitzel's testimony, competition for additional lines is strong and growing in Arizona. As indicated by the information supplied by Mr. Teitzel, the number of Qwest's residential additional lines have decreased more than 40% in the last few years. Consumers are dropping this traditional service and using alternatives such as cell phones. As a further indication of the level of competition for additional lines, Qwest has significantly reduced its rates for additional lines.[19] In a high growth state such as Arizona, decreases in

what he calls a "rate element" is termed a service. To the extent the proposed Plan uses the term "services" it is meant to include all individual services offered under each tariff category identified in Attachments A-1, A-2, A-3 and A-4.

[19] For example, Qwest has reduced its residential additional line rate twice in the last few years for a total of nearly 25% through April 2004.

access lines and decreases in price are clear indications that numerous competitive choices for consumers exist.

Q. IS DR. JOHNSON CORRECT THAT THE PRICE CAP STATUS OF CALLER ID BLOCKING SERVICE IS CHANGED IN THE PROPOSED PRICE PLAN?

A. No. Dr. Johnson also is mistaken when he states that Caller ID Block is a service that was moved from a hard capped classification to a non-hard capped classification in Basket 2. In the current Price Plan, Caller ID Block is a hard capped Basket 1 service as shown in Appendix A-1, Basket 1 Non-Recurring Charges of the settlement agreement. Qwest offers two types of Caller ID Blocking service: per call and per line. Caller ID Block per call is a free service from Qwest and as such, the price cap designation is superfluous. Caller ID Block per line is a service that does not have a recurring charge, but rather has a non-recurring charge.[20] The non-recurring charge is a hard capped service in **both** the current Price Plan and the proposed Price Plan.

Q. IS DR. JOHNSON CORRECT THAT PBX TRUNKS ARE PROPOSED TO BE MOVED FROM THE CURRENT PRICE CAP CLASSIFICATION TO BASKET 2?

A. Yes. In the proposed Price Plan, PBX trunks are proposed to be moved from the current price cap designation to Basket 2, Limited Pricing Flexibility Retail Services. Analog PBX trunk services have been and continue to be a competitive business

[20] Per line blocking is provided free of charge to law enforcement and domestic violence agencies and individual victims of domestic violence upon request.

service which warrants decreased regulation.[21] The testimony of Mr. Teitzel discusses the robust competitiveness of PBX trunks including the number of competitors that provide the service in Arizona.

Q. DR. JOHNSON TAKES ISSUE WITH THE CLASSIFICATION OF PACKAGES OF LOCAL SERVICE IN THE PROPOSED PRICE PLAN. ARE HIS COMMENTS ACCURATE?

A. No. Dr. Johnson inaccurately depicts Qwest's ability to change prices for packages of local service. He states:

> "The limited degree of competition which currently exists for local exchange service is not sufficient to justify giving Qwest complete freedom to increase prices for these local exchange service packages."[22]

Dr. Johnson is incorrect. Qwest does not have complete freedom to increase prices for packages under the proposed Price Plan. There are several limitations and conditions on the pricing of packages. First, for new services Section 4 (a) says:

> "Any new services and new service packages offered by Qwest shall be subject to the prior review and approval of the Commission...".

This provision is unchanged from the current Price Plan and provides protection through expressed Commission approval.

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[21] Qwest's PBX trunk services have declined nearly 50% over the last five years. See Teitzel p. 12.

[22] Dr. Johnson p. 14, lines 17-19.

Second, Section 4 (d) states that:

> "Qwest may include packaged offerings in Basket 3 under the Renewed Price Cap Price Plan subject to the conditions that each of the individual elements of packages must be available on an a la carte basis in Basket 1, 2 or 3 of the Renewed Price Cap Price Plan. The price of a package shall be no higher than the sum of the highest prices of its a la carte prices of the services available for the package."

The condition that Qwest offer the services available in the package at individual prices "a la carte" means that consumers can choose any or all of the package services at the individual service prices. While those prices may be increased under the Basket 2 conditions, those opportunities are limited as I have discussed. Further, the condition that the package price be no higher than the sum of the highest individual prices available in the package, provides additional price control on package pricing. Additionally, Section 4 (h) states:

> "All services and packages in Basket 3 shall continue to be offered statewide at price list rates, unless or until the Commission orders retail geographic rate deaveraging, or unless Qwest demonstrates a cost difference for a new service on which to base the price difference."

The effect of this condition in the proposed Price Plan is to limit Qwest's ability to geographically differentiate its Basket 3 services between areas in Arizona. This means that the price of a package, or any other Basket 3 service, in Phoenix is the same price as is offered at any other customer location in Arizona, until such time as the Commission allows retail deaveraging. This condition disproves Dr. Johnson's inaccurate assertion that "Qwest would be granted an excessive degree of pricing flexibility in some of the markets where it faces relatively little competitive pressure...",[23] Qwest's package pricing would be the same in all Arizona markets via statewide pricing. Because of the requirement for statewide average pricing, even Dr. Johnson's view that "Qwest has been experiencing substantial market share losses in Phoenix and Tucson"[24] should provide the Commission assurance that through the statewide average pricing, all other communities in Arizona will benefit from the competitive pressures that exist in Phoenix and Tucson.

Q. HOW DOES THE PROPOSED PLAN DIFFER FROM DR. JOHNSON'S RECOMMENDATION WITH REGARD TO BASKETS AND PRICE FLEXIBILITY?

A. Dr. Johnson recommends three baskets: Moderate Pricing Flexibility, High Pricing Flexibility, and Total Pricing Flexibility. In spite of the terms used by Dr. Johnson the pricing flexibility in the Moderate and High Flexibility baskets doesn't exist. The Moderate basket appears to be similar to the current Price Plan Basket 1 with a price increase opportunity where the Gross Domestic Product Price Index (GDP-PI) exceeds 4.2%, and is limited to 25% per year by rate element. The High Pricing Flexibility basket is a new middle basket that allows price flexibility for revenue increases up to two times the GDP-PI but is limited to 25% per year by rate element. The Total Pricing Flexibility basket has no cap or productivity factor offset, but uses the Commission's rules A.A.C. R14-2-1109 and 1110. Since GDP-PI has not exceeded 4.2% in recent times and is not expected to be at those levels in the next

[23] Dr. Johnson p.12, lines 15-16.

three years, the effect of Dr. Johnson's proposal is continued rate decreases for the majority of Qwest's services[25] without a real opportunity for Qwest to improve its financial position.

Q. WHY WOULD RUCO'S PRICE PLAN NOT GIVE QWEST A REAL OPPORTUNITY TO IMPROVE ITS FINANCIAL POSITION?

A. Dr. Johnson recommends continuation of the 4.2% productivity factor for the majority of Qwest's services. The percent decreases that resulted from the current Price Plan range from 1.9 to 3.4. Continued forced reductions in Qwest's prices cannot be sustained and do not allow a finding of a legitimate opportunity for Qwest to realize the necessary funds to keep its infrastructure and business healthy. Further, Dr. Johnson recommends that services be placed in his recommended baskets by a very complex and lengthy process of examination of competition in Arizona. He recommends a broad examination of market conditions followed by an examination of the competitiveness of services by Qwest wire center be completed before any service be classified by basket type. I know of no commission that has attempted such an undertaking and would guess that such an undertaking would be extraordinarily difficult if not impossible. More important from a consumer perspective, such a process of classification does not allow Qwest to respond to market conditions in a timely and practical manner.

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[24] Dr. Johnson p. 17, lines 7-8.

[25] Based on Dr. Johnson's analysis of residence and business services and his recommendation of placement of services by geography, it is apparent that the majority of Qwest's revenues will be classified as Moderate using his methods.

Q. IN CURRENT REGULATORY REVIEWS FOR PRICE PLANS IS A PRODUCTIVITY FACTOR A COMMON ELEMENT OF SUCH PLANS?

A. No. Productivity factors that require reduced rates such as the 4.2% that is recommended by Dr. Johnson are non-existent in current Price Plans. In fact, there are only three states in the country that still have that type of element in regulation. According to the State Retail Regulation of Local Exchange Providers, *A Communications Daily White Paper*, Vol. 25, October 4, 2005,[26] only Illinois, Kansas and Delaware have a productivity factor such as that proposed by Dr. Johnson. Those factors are considerably less than the one proposed by Dr. Johnson: 3% in Illinois (GDP-PI less 3%), 3.15% in Kansas (GDP-PI less 3.15%), and 3% in Delaware (GNP-PI less 3%). Those plans also predate the current Price Plan in Arizona: Illinois 1995, Kansas 1998, and Delaware 1994. No other state in the country uses such antiquated regulatory devices. Where those mechanisms were once used, they have been replaced with Price Plans that closely resemble the proposed Price Plan of the parties in this proceeding.

VI. COMPETITIVE RECLASSIFICATION

Q. DR. JOHNSON DISAGREES WITH THE RECLASSIFICATION OF SERVICES PROPOSED IN THE PRICE PLAN. IN ADDITION TO ADDITIONAL LINES AND PBX TRUNKS THAT HAVE BEEN RECLASSIFIED INTO BASKET 2 IN THE

[26] The white paper is attached as exhibit JLT-2.

PROPOSED PRICE PLAN, WHAT OTHER SERVICES DOES THE AGREEMENT RECLASSIFY?

A. Exhibit JLT-1 lists the tariff category by Basket under the current Price Plan compared to the same tariff category under the proposed Price Plan. As there are six services that Qwest agreed to move into price cap Basket 1, there are also six services that the parties agreed to be moved into Basket 3. Those services are: Stand By Line, Home Business Line, Packages, Uniform Call Distribution, Code Billing, and Uniform Access Solutions. With the exception of residential packages, these are business services. Mr. Teitzel's testimony explains the nature of these business services and extent of competition for them in Arizona. There is also considerable competition for residential local service packages in Arizona, as explained in Mr. Teitzel's testimony.

Overall, the services that the parties agreed to be moved into Basket 3 are notable by the significant level of demand loss as explained in Mr. Teitzel's testimony. Demand by Qwest's customers for some of these services has declined over 90% since the time the classification of those services was established in the current Price Plan.

VII. "CERTAIN PROBLEMS"

Q. DR. JOHNSON'S RESPONSIVE TESTIMONY DISCUSSES ISSUES THAT THE PROPOSED PRICE PLAN DOES NOT ADDRESS IN HIS OPINION. IS HE CORRECT?

A. No. Dr. Johnson lists three conceptually related issues that he feels are important and should have been covered more completely in the Price Plan. Those three issues are geographic cost differences, geographic competitive differences, and an improved universal service fund. I disagree with Dr. Johnson on all three issues. The settlement and the proposed Price Plan **does** address these issues to the extent that they are appropriate in a single carrier Price Plan such as the one in this proceeding.

Q. IN WHAT WAY DOES THE PROPOSED PRICE PLAN ADDRESS THESE ISSUES?

A. As I explained in my September 6, 2005 testimony, as part of the settlement Qwest agreed to withdraw its USF request in this proceeding. I explained that subsequent to Qwest's filing in May 2004, the Commission solicited comments from interested parties in an industry-wide rule making for possible changes to the state universal service fund. In Docket No. RT-00000H-97-0137 there is the clear ability for the Commission to change its rules and make any improvements suggested by Dr. Johnson should RUCO be interested in participating and advancing his ideas in that docket. Qwest's proposed Price Plan includes provisions to incorporate changes the

Commission may implement in the Arizona universal service fund, as those provisions affect Qwest. In the agreement Qwest is allowed to reflect USF assessments in its charges and should it receive funding, its retail revenues may be adjusted. This is the only practical manner to currently address future and currently unknown universal service fund changes since the proposed Price Plan is a Qwest-only form of regulation.

Issues concerning geographic cost and competition are largely overstated by Dr. Johnson. As indicated in Mr. Teitzel's testimony, most carriers in Arizona utilize statewide average pricing. This is true, not only for Arizona, but all 14 states where Qwest Communications operates. This is not surprising since it is very difficult and very expensive for telecommunications carriers to manage geographically de-averaged prices. What is somewhat puzzling is why Dr. Johnson complains about the significant impediments to competition for competitive carriers, when the major competitive carriers in Arizona support the settlement as in the public interest.

I agree with Dr. Johnson that there are differences in the cost of providing service in different areas of Qwest's service territory in Arizona. There are differences in the cost of providing almost any service in rural sparsely populated areas. Certainly, as competition continues to increase, continued retail price averaging will become more difficult due to Qwest's continued likely loss of low cost high margin customers. However, contrary to what Dr. Johnson would lead the Commission to believe, the proposed Price Plan specifically allows for these changes to the extent the Commission decides to make changes to statewide average pricing for Qwest.

VIII. CONCLUSION AND RECOMMENDATION

Q. COULD YOU PLEASE PROVIDE YOUR CONCLUSION AND RECOMMENDATION TO THE COMMISSION?

A. Dr. Johnson's testimony is rife with misleading omissions and errors. Because of these inaccuracies, his recommendations are not based on the proper facts of the settlement and proposed Price Plan. The provisions the parties have agreed upon for the Commission-directed fair value determination in this case have been distorted by Dr. Johnson. Qwest filed the revenue requirement part of the case at the direction of the Commission. As such, revenue requirement, revenue deficiencies, just and reasonable rates, and price changes became issues in the case. Since the primary form of regulation that the Commission applies to competitive carriers and their services is price regulation, it should be no surprise that movement toward parity of regulation for like services is of interest to Qwest.

Contrary to Dr. Johnson's view, there are multiple benefits for consumers. The changes from the current Price Plan and the proposed Price Plan are logical and well supported with competitive data. The agreed upon changes are an improvement for consumers over the current Price Plan were that to be the only basis of consideration by the Commission. But that should not be the Commission's only consideration. Like the current Price Plan that, in the Commission's words, "takes a step along the road to competition"[27], the proposed Price Plan takes additional steps along that road. Given that competition has grown significantly in Arizona since the current Price Plan was decided in 2001, the changes proposed in the proposed Price Plan are very conservative and certainly not "extreme".

Under the proposed Price Plan Qwest's pricing and revenues are limited and monitored by the Staff. There are different standards that have been applied to services that are subject to competition in three different levels: hard capped prices, limited pricing freedom, and higher pricing freedom. Qwest will not be able to extract "monopoly profits" as exaggerated by Dr. Johnson because its ability to price is limited by the proposed Plan and by the competitive market.

The Commission should disregard Dr. Johnson's supplemental testimony and approve the settlement and proposed Price Plan as submitted by the parties.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

[27] Arizona Corporation Decision No. 63487, p.22 line 9.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN MAYES

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 TELECOMMUNICATIONS ACCESS	)	DOCKET NO. T-00000D-00-0672

REBUTTAL EXHIBITS

OF

JERROLD L. THOMPSON

ON BEHALF OF

QWEST CORPORATION

OCTOBER 28, 2005

Current Plan Basket 1 Price Capped Categories	Proposed Plan Basket 1 Price Capped Categories
Flat Rate Residence	Flat Rate Residence
Flat Rate Business	Flat Rate Business
Residence Additional Lines	***Basket 2***
Business Additional Lines	***Basket 2***
Multi-Party Service	*Obsolete*
Res. Exchange Zone Increments	Res. Exchange Zone Increments
Bus. Exchange Zone Increments	Bus. Exchange Zone Increments
Low Use Option	Low Use Option
Service Station	Service Station
Telephone Assistance Plan	Telephone Assistance Plan
PBX Trunks	***Basket 2***
Caller ID Block	Caller ID Block
Toll Restriction	Toll Restriction
9xx Block (free service)	9xx Block (free service)
Basic Listings	Basic Listings
-	E911
-	Emergency Transport Backup
-	Disaster Recovery
-	10xxx Restriction
-	Non Publish Listings
-	Non List

Current Plan Basket 1 25% Price Flex Categories	Proposed Plan Basket 2 25% Price Flex Categories
Secretarial Answering	*Obsolete*
Stand By Line	***Basket 3***
Home Business Line	***Basket 3***
Direct Inward Dialing	Direct Inward Dialing
Custom Calling Service	Custom Calling Service
Market Expansion Line	Market Expansion Line
Basic Exchange Enhancement	Basic Exchange Enhancement
Open Switch Interval Protection	Open Switch Interval Protection
Caller ID Bulk Service	Caller ID Bulk Service
Custom Ring	Custom Ring
Hunting	Hunting
Singlenumber	*Obsolete*
Findme	*Obsolete*
Joint User	*Obsolete*
Non Publish Listings	***Basket 1***
Non Listed Service	***Basket 1***
Premium Listings	Premium Listings
Custom Number	Custom Number
Packages	***Basket 3***
Resale	Resale
E911	***Basket 1***
Emergency Transport Service	***Basket 1***
Uniform Call Distribution	***Basket 3***
Central Office Make Busy	Central Office Make Busy
Customnet	Customnet
Billed Number Screening	*Obsolete*
Code Billing	***Basket 3***
Message Delivery Service	Message Delivery Service
Message Waiting Indication	Message Waiting Indication
Disaster Recovery	***Basket 1***
Scoopline Restriction	*Free service*
10xxx Blocking	***Basket 1***
Digital Switched Service	Digital Switched Service
Uniform Access Solutions	***Basket 3***
Custom Services	Custom Services

State Retail Regulatio[n of] Local Exchange Providers

A Communications Daily White Paper

TUESDAY, OCTOBER 4, 2005 VOL. 25, WHITE PAPER

State	Company	Method Now In Use	Notes
Ala.	All Incumbents	Price Caps (1996)	Basic Exchange and access rates under nonindexed caps. Other services can rise up to 10% year, in aggregate, with rate design subject to PSC review. Earnings not regulated. No expiration date. 2004 state law lets incumbents, starting in 2005, opt into more-flexible capping system that bases rate regulation on population density. Plan deregulates retail rates other than residential basic exchange in dense urban areas. In less dense suburbs, rate hikes limited to 15% yearly through 2006, 20% in 2007 and 25% afterward. In rural areas, increases limited to 5% through 2007, gradually rising to 15% by 2010. A 2005 state law gave incumbents option of regime that will deregulate bundled and contract services statewide in summer 2006 and, starting 2008, let incumbents facing at least 2 local competitors opt out of state retail rate regulation. PSC has opened proceeding to reevaluate its entire regulatory scheme, hoping to entice at least some incumbents to remain under state rate regulation.
	CLECs	Rates Flexibly Regulated	Rates presumed competitive. CLECs must get state certificate by showing technical, financial and managerial competence. Must file tariffs and give notice of rate changes. CLEC tariff changes get regulatory staff review but normally aren't questioned.
Alaska	All Incumbents	Rate of Return	All large incumbents and most small ones are under rate of return regulation. Rate boosts up to 6% and rate drops can be decided in as few as 45 days under rate of return principles in annual filings. Other changes require full rate case. In markets designated competitive, incumbents can cut rates on 30 days' notice without prior state approval. Returns to previous levels may trigger state review. Incumbents can set limited-duration promotional rates to match competition without prior state approval. But revenues from services in competitive markets still count in rate-of-return calculations. Anchorage, Fairbanks and Juneau are designated competitive markets. Regulators in Sept. adopted new rules designating competitive any market where a facilities-based wireline carrier is providing local service in competition with the incumbent. Small incumbents -- under $500,000 annual revenue -- can opt out of state rate and earnings regulation with ratepayers' approval. Rates and earnings of incumbents under $50,000 annual revenue are deregulated.
	CLECs	Rates Flexibly Regulated	CLEC rates presumed competitive. CLECs must get state certificate by showing technical, financial and managerial competence. They must file tariffs and give 30 days' notice of changes. CLEC changes get regulatory staff review but normally aren't challenged.
Ariz.	Qwest	Rate of Return with Price Caps (2001)	Carrier under earnings-based regulation pegged to rate of return on "fair value" of its rate base. Regulators in 2001 set up price capping system to give Qwest pricing flexibility. Basic service rates frozen. Noncompetitive services can rise up to 25% a year. Competitive services flexibly priced, but subject to revenue cap for entire basket of competitive services. All service revenue counts in rate-of-return calculations. State constitution requires fair-value ratemaking, so major telecom deregulation would require voter approval of a constitutional amendment. Last such attempt failed in 2000. Staff in August urged extending price cap program through 2007 and allowing Qwest $43.3 million in rate hikes for nonbasic services over 3 years to correct revenue deficiency. In return, Qwest would drop a May 2004 proposal for rate-deregulated competitive zones in state's major cities and end litigation over a $12 million productivity adjustment ordered in April 2005. Decision possible this year.

	Other Incumbents	Rate of Return	Other incumbents come under fully tariffed earnings-based rule pegged to rate of return on "fair value" of rate base. They don't have pricing flexibility. State constitution requires fair-value ratemaking, so major telecom deregulation would require voter approval of a constitutional amendment. Last such attempt failed in 2000.
	CLECs	Rates Flexibly Regulated	CLEC rates presumed competitive. CLECs must get state certificate by showing technical, financial and managerial competence. They must file tariffs and give 30 days' notice of changes. Regulatory staff review all changes, and major changes may trigger hearings; minor changes generally aren't questioned. State constitution demands CLEC rates relate to "fair value" of their rate base, but a Nov. 2001 state Supreme Court ruling gave state regulators discretion to decide how CLEC assets' fair value was determined and how it was applied in setting CLEC rates. Fair value issues are decided on case by case as CLECs file tariffs for new services and rate changes.
Ark.	SBC, Alltel	Price Caps (1997)	Basic exchange and switched access under caps indexed to 75% of GDP-PI. Firms can aeek basic exchange rate deregulation in exchanges with effective local competition. Rates for all other services deregulated. SBC in late 2004 and early 2005 received basic exchange rate deregulation in its competitive urban markets. Alltel hasn't sought basic exchange rate deregulation. Earnings not regulated. No expiration date.
	Century	Rate of Return	Rate of return regulation applies to 203,000 access lines Century Tel bought in 2000 from Verizon. Century operates these lines in business unit separate from rest of its Ark. operation. It has option to switch to price caps but hasn't exercised it. Carrier filed rate case in 2003 and in Jan. 2004 got $3.1 million (12%) rate increase, about 1/10 what it sought.
	Other Incumbents	Price Caps (1997)	All other incumbents operate under price caps permitting basic exchange services to rise annually by lesser of 15% or $2 per line monthly. All other service rates deregulated. Earnings not regulated. No expiration date. Century Tel's original 45,000-line Ark. operation is under this cap system.
	CLECs	Rates Not Reviewed	CLEC rates presumed competitive. CLECs must obtain state certificate by showing technical, financial and managerial competence. They must file tariffs and give 30 days' notice of changes, but changes normally aren't reviewed. All CLECs must contribute to state universal service fund regardless of whether they are eligible to receive subsidies from fund.
Cal.	SBC, Verizon, Surewest Telecom, Citizens/Frontier	Price Caps (1990)	Rates for noncompetitive services frozen except for cost-justified changes. Competitive services flexibly priced. Plan's original inflation indexing suspended in 1995 by PUC; profit sharing suspended in 1999 for SBC and Verizon. In 1995, Surewest (formerly Roseville Telephone) and Citizens/Frontier joined system. PUC in 2002 opened comprehensive multiphase review of regulatory program for SBC and Verizon. In 2003, PUC concluded no major structural changes needed. PUC review of Verizon and SBC financials found profits understated 1997-99. Verizon understatements produced $12 million 2003 refund to customers. SBC's didn't require repayment. PUC reexamining price cap regulation programs for all 4 incumbents.
	Other Incumbents	Rate of Return	Seventeen other incumbents are under fully tariffed rate-of-return regulation. PUC in 1997 set one-time schedule for rate cases to ensure all small companies' rates received review. All filed rate cases that have been concluded. PUC required earnings-regulated small incumbents wanting to keep receiving state high-cost subsidies to file rate cases within 5 years of their last cases; otherwise, their state high-cost support will be phased out.
	CLECs	Rates Flexibly Regulated	CLEC rates presumed competitive. CLECs must get state certificate by showing technical, financial and managerial competence. They must file tariffs and give 30 days' notice of rate increases, 5 days' notice of cuts and 30 days' notice of changes to terms and conditions. Regulatory staff review changes but normally don't challenge them.
Colo.	Qwest	Price Caps (2005)	New system adopted in June 2005 to replace expired 1999 plan puts basic exchange on first residential line and first 5 business lines under nonindexed caps. Interexchange service rates deregulated statewide. Rates for business services to customers over 5 lines and optional or discretionary services deregulated in state's 5 largest cities and in any other market where sufficient competition can be shown. Earnings not regulated.

	Other Incumbents	Rate of Return	All other incumbents come under fully tariffed rate-of-return regulation. Other incumbents have option to petition for alternative regulation but none have done so.
	CLECs	Rates Flexibly Regulated	CLEC rates presumed competitive, except that residential basic exchange can't exceed $14.74 statewide cap set by state law for all providers. CLECs must get state certificate by attesting to technical, financial and managerial competence; affidavits presumed truthful. At start of service CLECs have option to file tariffs or price lists. Changes require 30 days' notice for rate hikes, 14 days' for cuts. Tariff and price list changes get regulatory staff review but normally aren't challenged. CLECs can opt into program applied to Qwest.
Conn.	SBC	Price Caps (1996-2006)	Noncompetitive services under caps indexed to GDP-PI. Caps don't change -- except by 1/2 any GDP-PI rise above 5% a year. Competitive services flexibly priced. Penalties assessed for failure to meet service quality targets. Earnings not regulated. Program last reviewed in 2001; no changes made. Next review due 2006.
	Other Incumbents	Rate of Return	Other incumbent telcos remain under fully tariffed rate-of-return regulation. No proceedings pending to change that. Regulators granted Verizon pricing flexibility under RoR in 2001. Verizon in 2003 proposed change to price caps, later withdrew filing. Regulators in 2005 reaffirmed contested Dec. 2004 decision to keep Verizon price flexibility through 2007.
	CLECs	Rates Not Reviewed	Rates presumed competitive. CLECs must get state certificate by showing technical managerial and financial competence. Must file tariffs and give 7 days' notice of rate changes, but changes normally aren't reviewed.
Del.	Verizon	Price Caps (1994-2011)	Basic services under caps indexed to GNP-PI minus 3%. Competitive services flexibly priced. Earnings not regulated. In June, PSC finished review of plan by extending it unchanged until Sept. 2011. No special conditions imposed.
	Other Incumbents	None.	
	CLECs	Cost-Based Rate Floor	Rates presumed competitive if they stay above incremental cost. CLECs must get certificate by showing technical, managerial and financial competence, and must post $10,000 performance bond. CLECs must file tariffs or price lists, with 3 days' notice of rate and service changes. Rate changes above cost floor normally get no further review.
D.C.	Verizon	Price Caps (2000-2006)	Basic residential rate frozen. Other basic residential and business services can rise up to 10% a year. Discretionary services can rise up to 15% annually. But percentage revenue increase can't exceed annual inflation rate. Competitive service rates deregulated, except they can't be priced below incremental cost. Earnings not regulated. Plan was to expire in 2004 but was extended through the end of 2006 in settlement giving Verizon a small local rate increase.
	Other Incumbents	None.	
	CLECs	Rates Not Reviewed	Rates presumed competitive. CLECs must get certificate by showing technical, financial and managerial competence. They must file tariffs and give notice of rate changes, but changes aren't reviewed.
Fla.	BellSouth, Verizon, Sprint	Price Caps (1995)	Basic services under caps indexed to GDP-PI minus 1%. Other services can rise 6% yearly in noncompetitive markets and up to 20% elsewhere. Access charges capped at interstate rate. Earnings not regulated. No expiration date. 2003 state law required major rate rebalancing to shift hundreds of millions of dollars from access charges onto local rates and let basic services be regulated like others after 2 years (3 years for Sprint). PSC in Dec. 2003 allowed these 3 telcos a total of $355 million in local rate hikes. Increases stayed pending court appeals but Fla. Supreme Court in June 2005 upheld them. Carriers plan to impose increases effective late Oct.
	Other Incumbents	Price Caps (1995)	Can elect price cap regulation under program similar to 3 large telcos'. Six of 7 eligible incumbents chose caps. One small incumbent remains under rate-of-return regulation.
	CLECs	Rates Flexibly Regulated	Rates presumed competitive. CLECs must get state certificate by showing technical, financial and managerial competence, must file tariffs. CLEC rules distinguish between those providing residential and small-business -- under 5 lines -- basic service and other providers. Rate changes by CLECs that provide residential/small business basic service require 30 days' notice and get PSC staff review but normally aren't challenged. Other CLECs aren't rate regulated; their changes take immediate effect.

Ga.	BellSouth	Price Caps (1995)	Basic rates under caps indexed to GDP-PI, access charges capped at interstate rate. All other retail service rates deregulated. Earnings not regulated. No expiration date. In 2000, BellSouth completed original infrastructure investment requirements of cap program. No new investment requirements have been linked to price caps.
	Other Incumbents	Price Caps (1996)	Option to elect price cap plan resembles that for BellSouth, but without infrastructure investment requirements. About 75% of state's 34 other independents picked price caps. The rest remain under fully tariffed rate-of-return regulation.
	CLECs	Rates Flexibly Regulated	Rates presumed competitive. CLECs must get state certificate by showing technical, financial and managerial competence. Must file tariffs, give 30 days' notice of rate hikes and new services and 7 days' notice of rate cuts. Regulatory staff review changes but normally don't challenge them.
Hawaii	Hawaiian Telcom	Rate of Return	Company, under traditional rate-of-return regulation, hasn't undergone general rate case since 1997. Formerly Verizon Hawaii, company was renamed and reorganized after being sold to N.Y.-based Carlyle Group in transaction that closed May. PUC sale-approval condition required new owners not file general rate case before 2009. State law requires cost-based rates and earnings-based oversight until PUC decides effective local competition exists.
	Other Incumbents	No Other Incumbents	
	CLECs	Rates Flexibly Regulated	CLEC rates presumed competitive. CLECs must get state certificate by showing technical, financial and managerial competence. CLECs must file tariffs and give notice of changes. Changes undergo regulatory staff review but normally aren't challenged.
Ida.	Qwest	Service Deregulation (1989)	Rates deregulated for all retail services except basic exchange provided to accounts with fewer than 5 lines. Basic exchange to customers under 5 lines was under rate-of-return regulation until June, when a state law put basic exchange under temporary price caps limiting annual rate hikes to 10%. Caps expire in 2008 unless PUC extends them to 2010. After caps expire, basic exchange will be deregulated. Law doesn't apply to Qwest's 35,000-line Lewiston service area in northern Idaho -- a separate Qwest operation under traditional rate-of-return regulation.
	Other Incumbents	Rate of Return	Other incumbents remain under fully tariffed rate-of-return regulation. Firms may petition for rate deregulation but none have done so.
	CLECs	Rates Not Reviewed	CLEC rates presumed competitive. CLECs must get state certificate by showing technical, financial and managerial competence. They must file price lists and give 10 days' notice of changes, but changes normally aren't reviewed.
Ill.	SBC	Price Caps (1995)	Residential rates and other noncompetitive services under caps indexed to GDP-PI minus 3%. Competitive services flexibly priced. Earnings not regulated. No expiration date. Firm must meet service quality standards. Under 2001 telecom law, price-regulated incumbent telcos must offer 3 grades of flat-rate local service at regulated rates; law also stipulates additional service quality requirements and penalties.
	Other Incumbents	Rate Of Return	Remain under fully tariffed rate-of-return regulation. No proceedings to change that.
	CLECs	Rates Flexibly Regulated	Rates presumed competitive. CLECs must get state certificate by showing technical, financial and managerial competence. CLECs must file tariffs. Initial tariffs for new entrants or new services receive regulatory staff review. Changes take effect on one day's notice, without regulatory review. CLECs choosing to participate in state universal service fund come under fund's rate benchmarking rules.
Ind.	SBC	Price Caps (2004-2007)	Basic residential and business services to customers below 5 lines under nonindexed caps. Hikes for vertical services limited to 38¢ a feature yearly. All other retail services and all service bundles considered competitive and rate deregulated except for floor set as cost plus 10%. Earnings not regulated. Company must meet service quality standards on pain of penalties up to $30 million annually. By mid-2008, SBC must make DSL available to 77% of customers, with at least 30% of new deployment in rural areas, and spend $850,000 on consumer education.
	Verizon	Price Caps (2004-2007)	Basic local rates under nonindexed caps. Company can impose single 25¢ hike for vertical services in 2006. All other retail services and all service bundles considered competitive and rate deregulated except for floor set at cost plus 10%. Earnings not regulated. Before 2008, company must make DSL available to 75% of customers, with 45% of new infrastructure in rural areas.

	Sprint	Price Caps (2004-2007)	Basic residential and small business services under nonindexed caps. Cumulative annual hikes for vertical services limited to 8.75% of annual revenues for services in this basket, and services must be priced at least 10% above cost. All other retail services and all service bundles considered competitive and rate deregulated except for floor set at cost plus 10%. Earnings not regulated. Company must meet service quality standards or risk losing pricing flexibility. Sprint must make DSL available to 70% of customers before 2009.
	Other Incumbents	Flexible Regulation	Investor-owned incumbents under 30,000 lines have pricing flexibility, but earnings subject to review. Telephone cooperatives deregulated.
	CLECs	Rates Flexibly Regulated	CLEC rates presumed competitive. CLECs must obtain state certificate by showing technical, financial and managerial competence. Must file tariffs, which can take effect on one day's notice. But all rate and service changes subject to regulatory staff review and possible challenge.
Iowa	Qwest, Iowa Telecom Services, Frontier Communications	Price Caps (1995)	A 2005 state law deregulated retail rates except for single-line basic exchange service. Basic exchange remains under caps but can rise $1 a year for residential and $2 a year for business, to a statewide cap of $19 monthly for residential service and $38 for business service. Earnings not regulated. Full rate deregulation allowed in any market where competitive alternatives exist. Nineteen markets designated competitive; others pending.
	Other Incumbents	Rates Not Reviewed	All other incumbents' rates and earnings deregulated since 1983. Companies must keep current tariffs on file and give 30 days' notice of changes. Rate changes aren't reviewed, but changes to other terms and conditions of service receive regulatory staff review and may be questioned.
	CLECs	Rates Flexibly Regulated	CLEC rates presumed competitive. CLECs must obtain state certificate by showing technical, managerial and financial competence. CLECs must file tariffs and give 30 days' notice of rate hikes, 15 days' notice for cuts. Regulatory staff review changes but normally don't challenge them. CLEC local calling areas are supposed to coincide with incumbent's, but CLECs can petition for waiver.
Kan.	SBC, Sprint	Price Caps (1998)	All services under caps indexed to GDP-PI minus 3.15% for basic services and 1.5% for optional and discretionary services. Earnings not regulated. No expiration date. Firms can petition for rate deregulation of competitive services in markets where competitors operate. SBC in June was granted rate deregulation for bundled services in Kansas City and Wichita and for multiline business services in Wichita. Request for Topeka rate deregulation denied.
	Other Incumbents	Rate of Return	Other incumbents remain under fully tariffed rate-of-return regulation. No proceedings pending to change that.
	CLECs	Rates Not Reviewed	CLEC rates presumed competitive. CLECs must obtain state certificate by showing technical, financial and managerial competence. They must file tariffs. Regulatory staff review changes to terms and conditions of service but normally don't question them. Rate changes aren't reviewed and take immediate effect.
Ky.	BellSouth	Price Caps (1995-2009)	Basic service rates under caps indexed to GDP-PI. Access capped at interstate levels. Rates for competitive services deregulated. Earnings not regulated. No specific expiration date; plan subject to periodic review. PSC in 2004 let program continue without major change but ordered BellSouth to eliminate rural zone charges by 2006. Next review due 2009.
	Cincinnati Bell	Price Caps (2004)	Basic local rates frozen. Rates for some vertical services and specialty business services frozen through 2006, then can rise to cap set at double initial rate. All other retail rates flexibly priced. Earnings not regulated. In 2001, PSC made Ky. regulation mirror Ohio regulation, including future changes. Telco in Ohio switched from company-specific plan to PUC generic price cap plan for incumbents mid-2004; Ky. adopted Ohio system late 2004.
	Other Incumbents	Rate Of Return	State's 17 other incumbents have option to propose price caps or other alternative regulation. Only Alltel Kentucky has chosen price caps on basic services with pricing flexibility for other services. Others under rate-of-return regulation.
	CLECs	Rates Flexibly Regulated	Rates presumed competitive. CLECs must register with PSC and file tariffs. Must give 15 days' notice of rate and service changes. CLEC changes get regulatory staff review but normally aren't questioned.

La.	BellSouth	Price Caps (1996)	Rates for residential and single-line business basic services under nonindexed caps, except series of rate changes intended to consolidate 8 local rate groups into one by 2006. After 2006, BellSouth may raise basic service rates up to 10% a year in competitive urban markets. Rates for competitive services deregulated. Earnings not regulated. Plan was to expire in April, but in Dec. 2003 PSC extended it indefinitely after splitting service quality, universal service and access service issues into separate dockets. Future reviews at PSC discretion. Telco completed infrastructure investment requirements by making DSL available throughout its service area.
	Other Incumbents	Price Caps (1997)	Basic and access services under nonindexed caps. Other services flexibly priced. Earnings not regulated. No expiration date. State's 11 other incumbent telcos have opted for caps at times since 1997, with regulatory conditions varying by carrier.
	CLECs	Rates Flexibly Regulated	CLEC rates presumed competitive. CLECs must get state certificate by showing technical, financial and managerial competence. Must file tariffs and give 10-30 days' notice of changes, depending on type. Regulatory staff review CLEC changes but normally don't challenge them.
Maine	Verizon	Price Caps (1995-2006)	Basic residential and business service rates frozen; nonbasic and competitive services flexibly priced except for operator services, capped at May 2002 levels. Verizon in 2003 completed local rate increases and toll rate cuts stipulated in plan. Plan lets Verizon petition for basic service rate increases due to external factors, and to petition for rate deregulation of business services to customers over 10 lines in markets qualifying as competitive. Plan requires Verizon to meet service quality standards on pain of $12.5 million in annual penalties. Plan vacated by state courts early 2003, reinstated late that year by PUC on public interest grounds. Current plan expires July 2006. PUC in March opened docket on successor plan. First phase will set starting revenue requirement and rates for successor plan; 2nd will address specifics of new price regulation plan. Proceeding in discovery phase, with initial briefs this fall.
	Other Incumbents	Rate Of Return	Other incumbents remain under fully tariffed rate-of-return regulation. In 2003, all underwent rate cases to get intrastate access charges down to interstate levels. PUC in June opened inquiry into petitions for price-based regulation by Pine Tree Telephone and Saco River Telephone, both Country Road Communications affiliates. First phase will address whether to consider alternative regulation; 2nd, specific plans. Schedule not set.
	CLECs	Rates Not Reviewed	Rates presumed competitive. CLECs must get state certificate by showng technical, financial and managerial competence. CLECs must file tariffs and give 30 days' notice of rate changes, but changes normally aren't reviewed.
Md.	Verizon	Price Caps (1996)	Noncompetitive services under caps indexed to GDP-PI minus 3-year average of CPI. Competitive service rates deregulated. Earnings not regulated. No expiration date. PSC has open docket to weigh price cap program changes. Verizon proposed to eliminate productivity offset and rate deregulation of toll and local business services. Case was opened to consider indexing 2002 and 2003 adjustments but expanded 2004 into general review of price cap program. Record completed in spring. PSC decision awaited.
	Other Incumbentsr	Rate Of Return	Only other incumbent telco remains under fully tariffed rate-of-return regulation. No pending proceeding to change that.
	CLECs	Rates Flexibly Regulated	Rates presumed competitive. CLECs must get state certificate by showing technical, financial and managerial competence. Must file tariffs and give 30 days' notice of rate changes. Regulatory staff review CLEC changes but normally don't challenge them.
Mass.	Verizon	Price Caps (2003)	Basic residential local service and analog private lines under nonindexed caps. All other retail services flexibly priced; rates can move anywhere above wholesale floor. Earnings not regulated. No expiration date. Verizon must meet service quality standards on pain of maximum annual penalty of 1% of intrastate retail revenue.
	Other Incumbents	Rate Of Return	Other incumbents under fully tariffed rate-of-return regulation. No proceedings to change that.
	CLECs	Rates Not Reviewed	Rates presumed competitive. CLECs must register with Telecom & Energy Dept. and file tariffs. Must give 30 days' notice of rate changes, but changes normally aren't reviewed.

Mich.	SBC	Price Caps (1995)	Noncompetitive services under caps indexed to Detroit-area CPI minus 1%. Rate cuts presumed competitive, not reviewed. Competitive service rates deregulated. Earnings unregulated. PSC late 2002 approved settlement agreement waiving rate freeze in 2000 law, allowed continued billing of state subscriber line charge at reduced rate in return for SBC dropping litigation on the law. PSC in Aug. approved rate deregulation for retail services of all telecom providers in 30 largest Mich. cities effective late Oct. after customers get notice. Order appealed to state courts. Regulation of SBC may be affected by Mich. Telecom Act sunset in Dec. and legislative efforts to write replacement law.
	Other Incumbents	Rate Freeze (2000)	2000 state law gave incumbents other than Ameritech and Verizon option to switch from indexed price caps to local rate freeze in return for deregulation of their intrastate switched access charges and waiver of law's requirement to expand local calling areas. All chose rate freeze. But since 2002, 22 incumbents allowed to adjust rates to respond to demand for expanded local calling areas. PSC in Aug. approved rate deregulation for retail services of all telecom providers in 30 largest Mich. cities effective late Oct. after customers get notice. Order appealed to state courts. Regulation of other incumbents may be affected by Dec. 2005 Mich. Telecom Act sunset and legislative efforts to write replacement law.
	CLECs	Rates Flexibly Regulated	Initial rates presumed competitive. CLECs must get state license by attesting to technical, managerial and financial competence; statements presumed true. Must begin service within 2 years of getting license. Must give notice of rate changes. Regulatory staff review rate increases but normally don't question them as long as rate remains below incumbent's. Rate reductions and limited-time promotional rates not reviewed, take immediate effect. 2000 state law gave CLECs option of accepting rate freeze in return for deregulation of intrastate access charges and waiver of legal requirements to widen local calling areas. No CLEC did. PSC in Aug. approved rate deregulation for retail services of all telecom providers in 30 largest Mich. cities effective late Oct. after customers get notice. Order appealed to state courts. CLEC regulation may be affected by Mich. Telecom Act sunset in Dec., and legislative response.
Minn.	Qwest	Price Caps (1999-2005)	Local exchange and access services under nonindexed caps. Other basic and emerging competitive services flexibly priced. Rates for fully competitive services deregulated. Firm must meet minimum service quality standards. Earnings unregulated. Plan was to expire at end of 2004 but state law extended it through 2005. Qwest and state are negotiating successor regulatory plan effective in 2006. The 2004 law also deregulated business rates in 3 major metro areas.
	Sprint, Citizens/Frontier	Price Caps (1996)	Basic services under nonindexed caps. Nonbasic and emerging competitive services flexibly priced. Rates deregulated for fully competitive services. Earnings not regulated. Carriers must meet infrastructure investment requirements. No expiration date but plans subject to periodic review. Sprint's plan was to have come up for review this fall but telco has requested extension through 2006 without change.
	Citizens Telecom	Rate of Return	Citizens properties bought in 1999 from former GTE remain under fully tariffed rate-of-return regulation. Company has option to seek alternative regulation but hasn't done so.
	Other Incumbents	Pricing Flexibility	Other incumbents, all under 50,000 lines, can elect flexible pricing system letting them price basic services to market unless greater of 500 or 5% of ratepayers seek PUC review of rate change. Nonbasic and emerging competitive services flexibly priced. Rates deregulated for fully competitive services. Earnings not regulated. No expiration date. Of 83 eligible small incumbents, 67 have opted for flexible pricing.
	CLECs	Rates Flexibly Regulated	CLEC rates presumed competitive. CLECs must get state certificate by showing technical, financial and managerial competence. They must file tariffs and give notice of changes, with notice period varying by type of change. Regulatory staff review but normally don't challenge changes.
Mo.	SBC, Sprint, Century Tel, Spectra/Century	Price Caps (1997)	Basic services under caps indexed to CPI's telecom component. Nonbasic services can rise up to 5% annually. Earnings not regulated. No expiration date. Companies can petition for rate deregulation in markets where competitors operate. SBC in 2001 won rate deregulation for certain large business services in St. Louis and Kansas City, for residential service in 2 St. Louis suburbs and for toll services statewide. SBC in July 2004 filed petition for statewide rate deregulation of all retail services. Bid mooted in 2005, when legislature deregulated rates for bundled services and for stand-alone services in any exchange where 2 or more local competitors operate. After law took effect in Aug., SBC immediately sought competitive status for roughly 2/3 of its 160 exchanges. Sprint filed for 5 exchanges, CenturyTel for 15 and Spectra for 5. All these petitions will be decided before Nov.

Okla.	SBC	Price Caps (1999-2005)	All services under nonindexed caps. Earnings unregulated. SBC must invest $200 million in network by program's end in 2005, including retiring all analog switches and deploying DSL service in specific geographic areas. Regulators in July approved new regulation plan that would let SBC set retail rates anywhere above cost floor -- except in rural areas, where local rate increases are limited to $2 per year. Order required SBC to expand rural-area DSL availability. Order stayed pending outcome of CLEC appeals to state Supreme Court, where case is pending.
	Other Incumbents	Streamlined Rate of Return	Other incumbents are under streamlined form of rate-of-return. They can raise monthly basic exchange rates by up to $2 yearly but boosts are subject to investigation and rollback if 15% of customers protest. Competitive services flexibly priced. All revenues count in rate-of-return calculations. Until 2004, system once covered only incumbents under 75,000 lines, but a new law applied it to all incumbents besides SBC.
	CLECs	Rates Flexibly Regulated	CLEC rates presumed competitive. CLECs must get state certificate by showing technical, financial and managerial competence. They must file tariffs and give up to 20 days' notice of changes. Changes receive regulatory staff review but normally aren't challenged.
Ore.	Qwest	Price Caps (2000)	Residential and small-business basic exchange, PBX trunks and payphone access services frozen except for cost-justified rate changes. Other services under nonindexed caps, with cost floors. Plan lets carrier seek right to change rates on short notice in competitive markets, and it has done so for most of its Ore. markets. Earnings unregulated. No expiration date.
	Verizon, Sprint, Century Tel	Rate of Return	These midsized incumbents are under traditional rate-of-return regulation. They can request right to change rates on short notice in competitive markets and have done so for most of their territories, but earnings count in rate-of-return calculations.
	Other Incumbents	Rates Not Reviewed	Retail rates and earnings of other incumbents, all under 50,000 lines, deregulated by state law since 1983. PUC can review rate changes if 10% of affected customers request it.
	CLECs	Rates Not Reviewed	CLEC rates presumed competitive. CLECs must get state certificate by showing technical, financial and managerial competence. Tariffs or price lists not required. CLEC rate, service changes aren't reviewed and can take immediate effect.
Pa.	All Incumbents	Price Caps (2002)	In 2002, state law moved incumbent telcos to price-based oversight, though some already were under company-specific cap plans. Details differ by telco, but plans have same outline: Basic services under indexed caps. Competitive services flexibly priced. Earnings not regulated. No expiration date. Revenue-neutral rate rebalancing permitted. All telcos had to restructure their access charges to recover fixed costs through flat rates. A Dec. 2004 state law ended price cap indexing formulas' productivity offsets to telcos agreeing to shorten an original 2015 broadband deployment deadline to 2008. All but 4 small firms agreed. That law also let incumbents certify that a service is competitive and exempted rural telcos under 50,000 lines from many competition obligations, effectively limiting rural competition to facilities-based providers.
	CLECs	Rates Usually Not Reviewed	Rates presumed competitive so long as they're at or below incumbents' rates. CLECs must get state certificate by showing technical, financial and managerial competence. CLECs must file tariffs and give 30 days' notice of rate hikes and a day's notice of reductions. Rate changes below incumbent's levels normally aren't reviewed but rates above the incumbent may have to be justified. A Dec. 2004 state law capped CLEC access charges at incumbents' level and freed CLECs from Lifeline and residential service obligations unless they are receiving federal universal service subsidies.
R.I.	Verizon	Price Caps (2003-2005)	Basic residential rates under nonindexed caps, except permitted increases of $1 per line in both 2003 and 2004, which Verizon made. PUC must review other proposed residential rate rises. Rates for all other retail services can be set anywhere above cost floors. Earnings unregulated. Plan required Verizon to donate up to $2 million annually in 2003 and 2004 to support Internet access for K-12 schools and public libraries, and meet service quality standards. Plan expires at year-end. PUC opened docket on successor plan; Verizon to file proposal this fall.
	Other Incumbents	No Other Incumbents	
	CLEC	Rates Not Reviewed	CLEC rates presumed competitive. CLECs must get state certificate by showing technical, financial and managerial competence. CLECs must file tariffs and give 30 days' notice of rate changes. Regulatory staff review CLEC changes but normally don't challenge them.

S.C.	BellSouth	Price Caps (1999)	Basic services under nonindexed caps. Other services flexibly priced. Rate changes for all other services can't up total revenues more than 5% per year. Earnings not regulated. No expiration date. 2005 state law deregulated rates for all retail service bundles offered by price-regulated incumbents, regardless of services comprising bundle.
	Sprint, Verizon	Price Caps (1999)	Basic services under caps indexed to CPI. Other services flexibly priced, but cumulative effect of rate changes for all other services can't raise total revenues more than 5% a year. Earnings unregulated. No expiration date. Sprint came under caps in 1999, Verizon in 2000. In 2005, S.C. deregulated rates for all retail service bundles offered by price-regulated incumbents, regardless of services in bundle.
	Other Incumbents	Price Caps (2004)	2004 state law set up optional system for other incumbents capping basic residential, business services at statewide average rates. Nonbasic services under caps indexed to national CPI. Competitive services flexibly priced, subject to revenue cap for competitive basket equal to 5% annually. Eleven firms have chosen this system. Other incumbents are under rate-of-return regulation. 2005 state law deregulated rates for all retail service bundles offered by price-regulated incumbents, regardless of services in bundle.
	CLECs	Rates Not Reviewed	CLECs must get state certificate by showing technical, financial and managerial competence and must file tariffs. On certification, CLECs wanting minimal regulation must request "presumptively valid" tariffing status. This means their tariffed rates are presumed competitive on 14 days' notice for rises or new services, 5 days' notice for cuts. Regulatory review of changes isn't required. CLECs not seeking presumptively-valid status must give 30 days' notice of tariff changes. All changes undergo formal regulatory review. All CLECs entering S.C. markets have chosen presumptively-valid status.
S.D.	All Incumbents	Rates Not Reviewed (2003)	Retail service rates for all incumbents deregulated. In Oct. 2003 PUC granted Qwest statewide retail rate deregulation on competition grounds. Other incumbents rate-deregulated by state law since 1987. For incumbents other than Qwest, state law allows for reregulation if most customers petitions for it, but that power hasn't been used.
	CLECs	Rates Not Reviewed	CLEC rates presumed competitive. CLECs must get state certificate by showing technical, financial and managerial competence. They must file tariffs and notify customers of rate and service changes. CLEC changes normally not reviewed.
Tenn.	BellSouth, Sprint, Citizens Telecom	Price Caps (1996)	All services under caps indexed to lesser of one-half GDP-PI or GDP-PI minus 2%. Rate changes exceeding caps allowed under revenue-neutral rate rebalancing, expansion of local calling areas or rate group changes. A 2005 state law deregulated retail rates for bundled services and customer-specific service contracts of price-regulated incumbents. Earnings not regulated. No expiration date. Cap system set by state law; changes require legislative action.
	Other Incumbents	Rate of Return	Other incumbents remain under fully-tariffed rate-of-return regulation. State law lets them opt into same price cap system as big incumbents or propose alternate regulation. No proposals are pending.
	CLECs	Rates Not Reviewed	Rates presumed competitive. CLECs must get state certificate by showing technical, financial and managerial competence. Must file tariffs and give 14 days' notice of rate increases; reductions take immediate effect. CLEC rate changes normally aren't reviewed.
Tex.	All Incumbents	Price Caps (1999-2007)	Residential basic, 911, Lifeline and carrier access under nonindexed caps. All other services flexibly priced, but services can't be priced below cost. Earnings unregulated. A 2005 state law gave incumbents option of new program that will deregulate retail rates of all providers in cities over 100,000 population effective Jan. 1, 2006. Old cap system will continue for telcos electing to stay with it. Law will deregulate rates in communities of 30,000 to 100,000 population Jan. 1 if 2 landline and a wireless carrier are competing against incumbent. Rates in communities under 30,000 will be deregulated Jan. 1, 2007 except where PUC decides meaningful competition is lacking. Intrastate access charges to be cut to interstate levels. Law vests video franchising authority with state, not municipalities. Law is being challenged in state courts; its application may be stayed.
	CLECs	Rates Not Reviewed	CLEC rates presumed competitive. CLECs must get state certificate by showing technical, financial and managerial competence. They must file tariffs, but changes normally aren't reviewed and they take immediate effect.

Utah	Qwest	Price Caps (2005)	A 2005 state law replaced a 1997 price cap regime with a new system capping residential basic exchange at current rates through 2007, while deregulating all other retail service rates. After 2007, PSC must lift residential cap in exchanges where local competitors offer residential basic exchange. Earnings unregulated. Previous laws gave Qwest significant retail rate deregulation in 2004-2005 due to competition in the state's more populous areas, and covering about 85% of total business lines and about 50% of residential lines.
	Other Incumbents	Streamlined Rate of Return	Other incumbents, all with fewer than 30,000 lines, get speedy administrative review of rates and earnings through expedited process. Other incumbents have option to switch to deregulation regime prescribed in 2005 law.
	CLECs	Rates Flexibly Regulated	CLEC rates presumed competitive. CLECs must get state certificate by showing technical, financial and managerial competence. They must file price lists and give 5 days' notice of changes. Regulatory staff review price list changes but normally don't question them.
Vt.	Verizon	Price Caps (2000-2008)	All services under nonindexed caps set at Sept. 2005 rates. Rates for services introduced after Sept. 2005 deregulated, except that they must stay above cost floors. Verizon must meet service quality standards on pain of penalties up to $10.5 million annually. Carrier must invest minimum $40 million annually in network infrastructure. Earnings not regulated. Plan requires $8.2 million in rate cuts, but cuts will be waived if Verizon volunteers to invest like amount to extend broadband service to unserved communities. Another $7 million in cuts held in abeyance pending Verizon separation of Yellow Pages operation from its white pages directories. Regulators approved this 3-year program to replace an expiring plan that was adopted in 2000.
	Other Incumbents	Streamlined Rate Of Return (2005-2008)	2005 state law allows state's 9 other incumbents to increase rates 9% total over 3 years without rate case, but basic service rates can't rise first year. Carriers can seek additional increases from regulators to cover external cost increases such as tax hikes or weather disasters. Earnings remain subject to regulatory review. Law sunsets July 2008.
	CLECs	Rates Flexibly Regulated	Rates presumed competitive except operator services, capped at Verizon rate. CLECs must get state certificate by demonstrating technical, financial and managerial competence. CLECs must file tariffs, with 45 days' notice of rate increases and 5 days' notice of reductions. Rate changes receive regulatory staff review but they normally aren't challenged. PSB considering rule changes to further lighten CLEC regulation.
Va.	Verizon Va. & Verizon South	Price Caps (2005)	Basic service rates capped at 1994 levels, adjusted annually for inflation as measured by GDP-PI. Nonbasic rates can rise up to 10% the first year and 1% more each succeeding year the program runs. Revenue-neutral price changes can be sought any time -- if no single rise exceeds the lesser of 25% or the basic-service rate cap, and if at least a year has passed since the last rate increase. Price cuts are subject to cost floor. Earnings not regulated. No expiration date.
	Sprint Telcos	Price Caps (1995)	Basic services under cap indexed to one-half GDP-PI. Discretionary services indexed to GDP-PI. Competitive services flexibly priced. Earnings unregulated. No expiration date. Carrier hasn't filed for changes in response to 2004 ban on below-cost service pricing.
	Other Incumbents	Rate Deregulation (2000)	Rates of telephone cooperatives deregulated. Investor-owned small telcos' rates semideregulated by statute. Telcos free to move rates up or down, if hikes are advertised and Corporation Commission doesn't receive excessive complaints.
	CLECs	Some Rates Regulated	Rates capped at incumbent's rate unless regulatory waiver is obtained. CLECs must get state certificate and file tariffs. CLEC rate drops take effect next day, normally aren't reviewed. Rate rise require 30 days' notice to customers and Corporation Commission.
Wash.	All Incumbents	Rate-of-Return	All incumbents under rate-of-return regulation, with no pending proceedings to change that situation. Firms can petition for rate deregulation of competitive services but revenues continue to be accounted for on the regulated side and in rate-of-return calculations. Rate deregulation granted to large incumbents' toll, directory assistance and business services to large customers in markets where competitors operate. Qwest in late 2003 got statewide rate deregulation for specialty business services, and in 2004 won statewide rate deregulation for all retail business telecom services. Verizon in April 2005 settled a rate case, getting $38.6 million of a $240 million increase it sought. State law lets incumbents seek alternative regulation but no petitions are are pending. Qwest operated under earnings-based alternative regulation until 1994, when it returned to rate-of-return regulation.

	CLECs	Rates Flexibly Regulated	CLEC rates presumed competitive. CLECs must register with state and attest to their competence to serve; affidavits presumed truthful. CLECs must file price lists and give 10 days' notice of changes. Changes receive regulatory staff review but normally aren't questioned.
W.Va.	Verizon	Incentive Regulation (1994-2005)	Basic rates under nonindexed caps, vertical services allowed to rise by rate of inflation (GDP-PI), competitive service rates deregulated. No rate case during program. Program required Verizon invest a minimum of $75 million per year in network, cut intrastate access charges to interstate levels, contribute $15 million toward cost of state E-911 mapping and addressing project, and contribute $8.5 million to public benefit projects approved by a State Telecommunications Users Council. Verizon in 2004 received approval to add several business digital data services to deregulated list. Plan expires at year-end. PSC staff and Verizon plan to meet this fall to discuss extension or replacement of plan.
	Frontier Communications	Incentive Regulation	Basic rates capped, vertical services allowed to rise by rate of (1994-2012) inflation (GDP-PI), firm can request rate deregulation for competitive services. No rate case during program. In May 2005, plan extended until end of 2012. Under extension order, Frontier must invest $95 minimum per access line a year in infrastructure ($116 million over next 7 years), contribute $132,000 per year to public benefit projects approved by State Telecommunications Users Council and reduce intrastate access charges to interstate levels. Frontier is the business name for Citizens Telecom.
	Other Incumbents	Rate Of Return	Other incumbents remain under fully-tariffed rate-of-return regulation. No proceedings to change that are pending.
	CLECs	Rates Flexibly Regulated	CLEC rates presumed competitive. CLEC must get state certificate by showing technical, financial and managerial competence. CLECs must file tariffs and give 14 days' notice of rate changes. All CLEC changes receive regulatory staff review but normally aren't challenged.
Wis.	SBC	Price Caps (1994)	Noncompetitive services under caps indexed to GDP-PI minus 3%. Competitive services flexibly priced. Earnings unregulated. No expiration date. Reviewed in 1999 and 2002, program continued without major change. Future reviews at discretion of PSC. No plans for full-scale review of cap program. In late 2004, regulators reclassified basic business and toll services as competitive and are reviewing SBC's request to declare residential service competitive in city and suburban market areas.
	Verizon	Price Caps (1995)	Noncompetitive services under caps indexed to GDP-PI minus 2%. Competitive services flexibly priced. Earnings not regulated. No expiration date. Reviewed in 1999 and 2002, plan continued without change. Future reviews at discretion of PSC. No plans to review cap program.
	Other Incumbents	Flexible Regulation	Of 68, 26 under price-based regulation; 42 under streamlined rate-of-return with some pricing flexibility. No earnings reviews unless they seek rates above statewide averages. Two telcos under traditional fully tariffed rate-of-return. State's 12 telephone cooperatives aren't rate regulated.
	CLECs	Rates Not Reviewed	CLEC rates presumed competitive. CLECs must register with PSC but needn't make showings or file tariffs or price lists. CLECs must give customers 30 days' notice of rate changes but changes normally aren't reviewed.
Wyo.	All Incumbents	Rates Not Reviewed (2003)	All incumbents free to set rates for retail services at any point above TSLRIC cost floor. An incumbent pricing basic local service above statewide benchmark rate of $23.10 monthly may see its state universal service support reviewed. Earnings not regulated. No expiration date.
	CLECs	Rates Not Reviewed	CLEC rates presumed competitive. CLECs must get state certificate by showing technical, financial and managerial competence and must file tariffs. Changes can take effect on a day's notice, normally aren't reviewed. Fully facilities-based CLECs' rate changes may be subject to regulatory staff review.

Source: State Utility Commissions

BEFORE THE ARIZONA CORPORATION COMMISSION

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 TELECOMMUNICATIONS ACCESS.	)	DOCKET NO. T-00000D-00-0672
STATE OF COLORADO COUNTY OF DENVER	)	AFFIDAVIT OF JERROLD L. THOMPSON
	) :	SS

Jerrold L. Thompson, of lawful age being first duly sworn, deposes and states:

1. My name is Jerrold L. Thompson. I am Executive Director of Retail Issues for Qwest Services Corporation in Denver, Colorado. I have caused to be filed written rebuttal testimony in support of the settlement agreement in Docket Nos. T-01051B-03-0454 and T-00000D-00-0672.

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.

Jerrold L. Thompson

Jerrold L. Thompson

SUBSCRIBED AND SWORN to before me this 24th day of October, 2005.

Catherine Hansen

Notary Public

My Commission Expires: CATHERINE I. HANSEN NOTARY PUBLIC STATE OF COLORADO

My Commission Expires July 25, 2008

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN MAYES

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 TELECOMMUNICATIONS ACCESS	) DOCKET NO. T-00000D-00-0672

DAVID L. TEITZEL

REBUTTAL TESTIMONY IN SUPPORT OF SETTLEMENT

ON BEHALF OF

QWEST CORPORATION

OCTOBER 28, 2005

TESTIMONY INDEX

EXECUTIVE SUMMARY

My rebuttal testimony focuses on issues raised in this docket in the testimonies of Dr. Ben Johnson on behalf of the Residential Utility Consumer Office ("RUCO") and Mr. Albert Sterman of the Arizona Consumers Council ("ACC") in regard to the status of competition in the telecommunications market in Arizona and how the level of current competition bears on the proposed settlement in this docket. Both of these witnesses contend the current telecommunications market in Qwest's service territory in Arizona is not sufficiently competitive to warrant Commission approval of the proposed settlement agreement regarding Qwest's Price Plan. While referencing the current state of telecommunications competition in Arizona, both witnesses discount the ever-expanding effects of wireless and Voice over Internet Protocol ("VoIP") competition in Arizona, and both witnesses ignore the fact that, under the terms of the proposed Price Plan which calls for statewide averaged Qwest local exchange rates, customers in rural areas of Qwest's service territory will benefit from competition in the more competitive areas of the state such as Phoenix and Tucson. Neither witness, while referencing the current telecommunications market in Arizona and discounting competition in the market as now being sufficient to warrant Commission support of the proposed Qwest Price Plan, presents current facts to support his opinions.

The current facts presented in my rebuttal testimony with respect to CLEC-based competition as well as "intermodal" wireless and VoIP competition demonstrate that competition for Qwest's services in Arizona is robust and continues to increase in intensity and diversity. Since the filing of my direct testimony in this docket over 17 months ago, in which I provided facts regarding telecommunications competition in Arizona at that time, the market has undergone a sea change. Not only has Qwest lost over 200,000 retail lines beyond the loss of 577,000 lines through December 2003 shown in my direct testimony, a number of events have occurred in the past 17 months that have radically altered the telecommunications market and will continue to drive such changes for the next several years. For example, the SBC/AT&T and Verizon/MCI mergers (which mark the end of the existence of the first and second largest interexchange carriers in the nation as independent market competitors) were announced and are now rapidly making their way through the regulatory approval process. Since each of these entities is now providing services in Arizona, the merged entities will be able to leverage their synergies to become even more powerful providers of telecommunications services in the state. Another example emblematic of the changing telecommunications paradigm is the recent purchase of Skype by eBay which will accelerate the adoption of "free" VoIP telephone services as alternatives to traditional telephone services of providers such as Qwest (it is also noteworthy that the SBC/AT&T and Verizon/MCI pending merger partners are now actively marketing their own versions of VoIP). Additionally, the number of wireless subscribers in Arizona has now grown to 3,299,222 and now exceeds the combined total of 3,159,283 ILEC and CLEC access lines in the state.

These are just three of the many significant market developments that have occurred in the 17 months since Qwest filed its direct testimony in this docket. The Arizona telecommunications market is competitive and competition will clearly continue to evolve and grow in the state. The present level of telecommunications competition in Qwest's Arizona service territory, and its continuing trajectory, fully warrants Commission approval of the proposed stipulation in Qwest's Price Plan.

I. IDENTIFICATION OF WITNESS

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

A. My name is David L. Teitzel. I am employed by Qwest Corporation ("Qwest") as Staff Director-Public Policy. My business address is 1600 7th Avenue, Room 3214, Seattle, WA, 98191.

Q. DID YOU PREVIOUSLY SUBMIT WRITTEN TESTIMONY IN THIS PROCEEDING?

A. Yes. I filed direct testimony in this docket on May 20, 2004, rebuttal testimony on December 20, 2004 and rejoinder testimony on January 27, 2005.

II. PURPOSE OF REBUTTAL TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. My rebuttal testimony responds to allegations by Dr. Johnson and Mr. Sterman that the current retail telecommunications market in Arizona is insufficiently competitive to warrant the relief identified in the proposed stipulated agreement regarding Qwest's Price Plan in this docket. In my rebuttal testimony, I provide facts regarding the current status of competition in the Arizona market showing that these allegations are ill-founded.

III. DR. BEN JOHNSON ("RUCO")

Q. AT PAGE 2, DR. JOHNSON STATES "UNDER THE PROPOSED PLAN, QWEST WILL HAVE GREATER FREEDOM TO EXPLOIT ITS REMAINING MONOPOLY POWER, BY INCREASING PRICES FOR SERVICES WHERE IT FACES RELATIVELY LITTLE COMPETITION." WOULD YOU COMMENT?

A. By this statement, Dr. Johnson appears to be attempting to sway the Commission toward his view that, in the current market, Qwest retains "monopoly" control of its retail services, which are the subject of Qwest's revised Price Plan at issue in this proceeding. Webster's New College Dictionary defines the term "monopoly" as "exclusive control by one group of the means of producing or selling a commodity or service." In view of the many alternatives that now exist for Qwest's retail services, Qwest no longer holds a "monopoly" in the retail telecommunications market in Arizona. Further, Dr. Johnson, at page 14, goes on to assert, without supporting facts, that "the limited degree of competition which currently exists for local exchange service is not sufficient to justify giving Qwest complete freedom to increase prices for these local exchange service packages." (emphasis added). He also contends at page 21 "the existing level of competition in many parts of Qwest's Arizona service territory is not strong enough to prevent Qwest from imposing substantial price increases on residential customers if the settlement is approved." (emphasis added). Since Dr. Johnson's contentions are framed in the present tense, my fact-based responses that follow showing that Qwest no longer holds a "monopoly" and that Qwest is currently facing significant competition are similarly framed.

a. The Current Competitive Environment

Q. IS COMPETITION IN THE TELECOMMUNICATIONS MARKET STATIC?

A. Definitely not. In fact, competition in the telecommunications industry is extraordinarily dynamic. Since Qwest filed its direct testimony in this proceeding in May 2004, a number of significant changes have occurred in the telecommunications industry that directly impact the Arizona market. For example, the SBC/AT&T and Verizon/MCI mergers were announced and are now rapidly making their way through the regulatory approval process. Since each of these entities is now providing services in Arizona, the merged entities will be able to leverage their synergies to become even more powerful telecommunications competitors in the state. In another example, after the FCC, in its Triennial Review Order, found that the Regional Bell Operating Companies ("RBOCs") were no longer required to offer UNE-P wholesale services, Qwest deployed its Qwest Platform Plus ("QPP") service as a replacement to UNE-P. This service is now available on a non-discriminatory basis to any CLEC wishing to utilize Qwest's network on a bundled basis to serve retail customers anywhere within Qwest's service territory in Arizona. A third example, and one symbolizing the changing telecommunications paradigm, is the recently-announced eBay purchase of Skype which will accelerate the adoption of "free" Voice over Internet Protocol ("VoIP") telephone services as alternatives to traditional telephone services of providers such as Qwest. Various major carriers, such as AT&T, MCI and XO, have launched their proprietary VoIP service offerings and independent VoIP providers, such as Vonage and SunRocket, have experienced significant increases in their customer bases. Finally, the number of wireless subscribers in Arizona has grown to 3,299,222 and now exceeds the combined total of 3,159,283 ILEC and CLEC access lines in the state.[1] Each of these market developments has occurred in the intervening 17 months since Qwest filed its direct testimony in this docket, each is a factor in the current Arizona telecommunications environment referenced by Dr. Johnson and each will drive additional telecommunications choices for Arizonans.

[1] *Local Telephone Competition, Status as of December 31, 2004*, Industry Analysis and Technology Division, Wireline Competition Bureau, July 2005. Tables 6 and 13.

Q. DOES DR. JOHNSON ACKNOWLEDGE THAT RETAIL TELECOMMUNICATIONS COMPETITION HAS INCREASED IN ARIZONA?

A. Yes. At Page 10 of his supplemental testimony, Dr. Johnson states: "RUCO agrees with Qwest that competitive conditions in the state have intensified since the Commission approved the current Plan." He is correct. However, even though he acknowledges that competition has intensified beyond the levels that existed when the Commission approved the existing Price Plan, which is inconsistent with the notion that a "monopoly" exists, his position apparently is that competition has not yet evolved to a point he believes is sufficient to support the negotiated terms of the Price Plan settlement in this docket.

Q. DO YOU HAVE CURRENT EVIDENCE THAT SHOWS THAT DR. JOHNSON'S OBSERVATION THAT "COMPETITIVE CONDITIONS HAVE INTENSIFIED" IN ARIZONA IS ACCURATE?

A. Yes. In my direct testimony, filed on May 20, 2004, I filed Confidential Exhibit DLT-17 showing the changes in Qwest retail line and wholesale in-service quantities in the Phoenix and Tucson MSA wire centers between December 2000 and December 2003. In Highly Confidential Exhibit DLT-2 attached to this rebuttal testimony, I update that data to reflect quantities in service as of March 2005 and to show quantities in wire centers outside the Phoenix and Tucson MSAs (where Dr. Johnson suggests Qwest faces "relatively little competition"). While there is no dispute that competitive levels are not homogenous throughout Qwest's service territory and the CLECs tend to focus their efforts on geographic markets where customers are concentrated (it is noteworthy that over 80% of the population of Arizona is within the Phoenix and Tucson MSAs)[2] and where margin opportunities are greatest, Highly Confidential Exhibit DLT-2 shows that competition for Qwest's retail services is certainly not restricted to the Phoenix and Tucson markets. In fact, the data shows that Qwest has lost an additional 151,000 retail residential and business lines in Phoenix and 35,000 in Tucson in March 2005 as compared to December 2003 (the latest vintage of Qwest retail line data in Confidential Exhibit DLT-17 attached to my direct testimony), and that Qwest has lost 38,000 retail residential and business lines in addition to those lost in the Phoenix and Tucson MSAs from December 2000 to March 2005.

Q. WHY DIDN'T CONFIDENTIAL EXHIBIT DLT-17 ATTACHED TO YOUR DIRECT TESTIMONY INCLUDE DATA FOR QWEST WIRE CENTERS BEYOND THE PHOENIX AND TUCSON MSAs?

A. The data in my original Confidential Exhibit DLT-17 was developed in support of Qwest's proposal in this docket to establish "competitive zones"

[2] U.S. Census Bureau: State and County Quick Facts, Arizona 2004 Population Estimate, http://quickfacts.census.gov/qfd/states/04/04027.html.

in the Phoenix and Tucson MSAs only. In settlement negotiations with parties in this docket, Qwest agreed to withdraw its competitive zones proposal to which that exhibit was related. However, Dr. Johnson's reference to the current competitive environment in Qwest's Arizona service territory in general now creates a need to update the data displayed in Confidential Exhibit DLT-17 for the Phoenix and Tucson wire centers as well as wire centers in the remainder of the state to demonstrate that Qwest is experiencing the effects of competition in virtually every area it serves.

Q. DOES THE DATA IN HIGHLY CONFIDENTIAL EXHIBIT DLT-2 SHOW THAT CLEC-BASED COMPETITION GENERALLY EXISTS THROUGHOUT QWEST'S SERVICE TERRITORY IN ARIZONA?

A. Yes. In fact, in addition to the Qwest retail access line summary in this exhibit, in-service counts of Local Interconnection Service ("LIS") trunks,[3] unbundled loops, UNE-P lines[4] and resold lines are provided. This data shows that CLECs are actively purchasing wholesale services from Qwest

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[3] LIS trunks are utilized by facilities-based CLECs to exchange traffic between the CLEC switch and Qwest's switches and are an indicator of the presence of CLECs serving the market via CLEC-owned loops or via UNE loops purchased from Qwest.

[4] While the FCC's ruled in its Triennial Review Order that RBOCs are no longer required to provide UNE-P service after a specific phase-out period, Qwest has deployed a replacement wholesale service entitled "Qwest Platform Plus" (QPP). As of March 2005, some UNE-P lines remained in service pending conversion to QPP. Therefore, the March 2005 quantities used for comparative purposes combine QPP lines with UNE-P lines remaining in service at that time.

not only in the Phoenix and Tucson areas, but in virtually every Qwest wire center in the state.

Q. YOUR HIGHLY CONFIDENTIAL EXHIBIT DLT-2 SHOWS THAT CERTAIN AREAS IN ARIZONA ARE SUBJECT TO INTENSE COMPETITION WHILE OTHER AREAS HAVE MODEST COMPETITION. DOES THE PROPOSED PRICE PLAN ADDRESS THIS ISSUE?

A. Yes. In fact, the proposed settlement in the pending price plan calls for continued statewide average pricing for the term of the plan or until such time as retail deaveraging is ordered by the Commission. Further, Dr. Johnson, at page 18 of his supplemental testimony, acknowledges Qwest Witness Jerrold Thompson's statement that "Qwest will continue to price its services to consumers in sparsely-populated areas of the state in similar ways to consumers in the highly-competitive areas of Phoenix and Tucson" (referencing Thompson Direct, p. 4). In other words, as Qwest adjusts prices during the term of the proposed Price Plan to respond to intense levels of competition in a particular area of the state, all Qwest consumers will realize the benefit of that price adjustment. In fact, such benefits have already been seen in Arizona. In response to Cox's strategy to price second residential access lines at a discount relative to primary residential lines, Qwest implemented a price reduction from the previous rate of $13.18 to $11.00 in April 2003 and then to $10.00 in April 2004 for Qwest additional access lines.[5] While Cox is presently competing with Qwest only in the Phoenix and Tucson areas, this reduction was implemented throughout Qwest's service territory in the state.

Q. DO YOU HAVE OTHER CURRENT EVIDENCE SHOWING QWEST'S SERVICES IN ARIZONA ARE SUBJECT TO STRONG COMPETITION?

A. Yes. For example, TNS Telecoms, an independent research entity, produces a quarterly market share analysis of telecommunications providers in each state based upon a combination of primary survey research and review of actual customer bills from their telecommunications providers. For its 2nd Quarter 2005 report,[6] TNS surveyed 651 customers and reviewed 181 telephone bills in Arizona. In this report, TNS calculated Qwest's "share of connections," which quantifies Qwest's proportion of the communications market in its service territory in Arizona, considering customers purchasing service from Qwest (including Qwest wireline service and/or Qwest wireless service), CLECs, cable telephony providers, wireless providers and VoIP providers (television service connections are not considered to be "communications connections" in this analysis). TNS found that, for 2nd Quarter 2005,

[5] Qwest Corporation Exchange and Network Services Price Cap Tariff, Section 5, Page 21, Release 3, Effective 4/1/04.

Qwest had a 33% share of communications connections in its service territory, as compared to a 65% connections share in 2nd Quarter 2000. Clearly, this data shows that customers in increasing numbers are finding alternatives to Qwest services to meet their communications needs.

Q. AT PAGES 10 AND 11 OF HIS SUPPLEMENTAL TESTIMONY, DR. JOHNSON COMPLAINS THAT, IN THE PROPOSED PRICE PLAN, ADDITIONAL LINES, PBX TRUNKS, CALLER ID BLOCK, ZONE INCREMENT CHARGES, STAND-BY LINE SERVICE, HOME BUSINESS LINE SERVICE, UNIFORM CALL DISTRIBUTION AND CODE BILLING ARE BEING RECLASSIFIED FROM BASKET 1 TO BASKETS 2 OR THREE. WOULD YOU DESCRIBE THE SERVICES HE IDENTIFIES?

A. Yes. As a preliminary matter, contrary to Dr. Johnson's testimony, Caller ID Block and Zone Increment Charges remain hard capped in Basket 1 under terms of the proposed Price Plan and I therefore don't address those services. With respect to the remaining services identified by Dr. Johnson in his supplemental testimony, I will discuss in the following sections why the competitive environment supports the proposed reclassification of each of these services.

[6] *Consumer Market Share Quarterly Summary Report 2Q2005*, TNS Telecoms, September 2005.

b. PBX Trunks

Q. PLEASE DEFINE PBX TRUNK SERVICE AS OFFERED BY QWEST.

A. Qwest's PBX trunk service is a local exchange business service, provided on either a two wire or a four wire basis, used to connect on-premises PBX equipment[7] to Qwest's local exchange network.[8] This service can be configured on a two way calling, inward only calling or outward only calling basis as demanded by the PBX customer and is available on a month-to-month or on a rate-stabilized basis. Qwest's recurring rate for a standard two way, two-wire PBX trunk is currently $38.51 while the four- wire PBX trunk is priced at $73.51.

Q. ARE OTHER PROVIDERS NOW OFFERING PBX TRUNKS WITHIN QWEST'S ARIZONA SERVICE TERRITORY?

A. Yes. In fact, I have reviewed tariffs and websites of a subset of well-known CLECs in Arizona and have summarized in Exhibit DLT-3 the local exchange services now available from a selection of these CLECs to illustrate the types of competitive PBX trunk services available. As shown in this exhibit, AT&T offers statewide flat-rated PBX trunk service at $35.65 per month within Qwest's service territory, Cox offers PBX trunk

[7] A Private Branch Exchange ("PBX") switch is customer-owned equipment located at the customer's premises and is essentially a small-scale version of a telephone company's central office switch, having many of the features and functions of the larger switch. PBX switches have been manufactured and sold by numerous manufacturers, such as Alcatel, AT&T, Ericsson, NEC, Northern Telecom, Siemens, Rolm and others and have been widely available for retail business applications since the 1960s.

service at a statewide rate of $35.00 per month in its Phoenix and Tucson markets, MCI offers analog PBX trunks service in the Phoenix and Tucson rate centers at $38.51 per month, SBC offers its "Access Advantage Plus Trunk" as a contracted service within the Phoenix and Tucson areas at $18.00 to $25.00 depending on length of term, Time Warner offers contracted analog PBX trunk service in the Phoenix and Tucson areas at $46.88 to $51.98 dependent on term and XO offers contracted two way analog PBX trunk service for $35.95 to $37.95 per month dependent on term. While this list is by no means comprehensive, it illustrates that PBX trunk service is now available from a variety of competitors in Arizona.

Q. WHAT CURRENT EVIDENCE DO YOU HAVE SHOWING THE IMPACT OF COMPETITION ON QWEST'S ARIZONA PBX TRUNK SERVICE CUSTOMER BASE?

A. Qwest's PBX in-service base has declined by nearly 50% between December 2000 and March 2005 from Confidential XXX to XXX (confidential figures are shown in Confidential Exhibit DLT-1). Clearly business PBX customers are finding direct alternatives to Qwest's PBX trunk services.

[8] Qwest Arizona Exchange and Network Services Price Cap Tariff, Section 5.3, Page 49.

c. Additional Local Exchange Lines.

Q. PLEASE DESCRIBE ADDITIONAL LINE LOCAL EXCHANGE SERVICE AS PROVIDED BY QWEST.

A. Qwest has established an "additional individual line" service to respond to changes in the competitive market in Arizona.[9] Additional line service is provided for residential and business customers. This service is simply a flat-rated access line in addition to the primary line at the customer's location that may be differentially priced in response to competition. For example, Qwest's residential additional line is priced at $10.00 per month while the primary residential line is priced at $13.18 per month.

Q. HAVE QWEST'S COMPETITORS OFFERED DIFFERENTIAL PRICING FOR ADDITIONAL LOCAL EXCHANGE LINES IN ARIZONA?

A. Yes. As shown in Exhibit DLT-3, Cox Communications offers a second line to its residential "Combination Service" customers in the greater Phoenix and Tucson areas (those who subscribe to Cox cable television service as well as Cox telephone service) for $8.50 per month while its primary residential line is priced at $11.75 per month. MCI offers its "Business B1 Multi-Line Service" in the Phoenix and Tucson rate centers at a recurring rate of $24.99 per month, while its "Business B-1" single line service is priced at $44.99 per month. SBC offers a "Multi-Line for

Residence" service in the greater Phoenix and Tucson areas at $16.00 per month while its primary line residential service is a packaged offering (includes 16 features) priced at $30.00 per month. Trinsic (f/k/a Z-Tel) offers an additional line residential package (including features) priced approximately $5.00 lower than its primary line residential package. Many other CLECs offer multi-line services without pricing distinctions between first and additional lines. Qwest's "additional line" pricing structure enables Qwest to react quickly to shifting market strategies with respect to the additional line market.

Q. WHAT CURRENT EVIDENCE DO YOU HAVE SHOWING THE IMPACT OF COMPETITION ON QWEST'S ARIZONA ADDITIONAL LINE SERVICE CUSTOMER BASE?

A. Qwest has experienced dramatic declines in additional line counts for both residence and business services. For example, Qwest's residential additional line in-service quantities declined over 40% between December 2000 to March 2005 from Confidential XXX to XXX and its business additional line in-service counts declined from Confidential XXX to XXX over this same period (confidential figures are shown in Confidential Exhibit DLT-1).

[9] Qwest Exchange and Network Services Price Cap Tariff, Section 5.2.4, Pages 21 and 22.

d. Stand By Line Service

Q. PLEASE DESCRIBE QWEST'S STAND BY LINE SERVICE.

A. Stand By Line Service is an additional line business service which allows business customers to expand access to their business and expand the capacity to make outgoing calls on an as-needed basis. This service is designed for customers that experience periodic peaks and valleys in calling volumes to and from their businesses. The service is priced at $17.00 per month and all inbound and outbound calls are priced at $0.05 per minute.[10]

Q. DO COMPETITIVE ALTERNATIVES EXIST TO QWEST'S STAND BY LINE SERVICE?

A. Yes. Business local exchange services available from CLECs in Arizona are competitive substitutes for Qwest's Stand By Line service. The customer's decision as to purchase of a Stand By Line vs. a CLEC's business access line will be driven by individual customer usage patterns: the customer will weigh the expected level of usage on the line in determining whether Stand By Line service or a CLEC's business line service best meets his or her needs. Additionally, as shown in Exhibit DLT-3, Eschelon provides a service in the greater Phoenix area entitled "Premium Seasonal Line" at $15.13 per month which serves precisely the same need as Qwest's Stand By Line. This service provides a "stand by" business line that is connected to the Eschelon switch but is not activated until the customer notifies Eschelon that its needs additional calling capacity.

Q. WHAT CURRENT EVIDENCE DO YOU HAVE SHOWING THE IMPACT OF COMPETITION ON QWEST'S ARIZONA STAND BY LINE SERVICE CUSTOMER BASE

A. Qwest's Stand By Line in-service access line base has declined in Arizona by over 50% between December 2000 and March 2005, from Confidential XXX to XXX (confidential figures are shown in Confidential Exhibit DLT-1).

e. Home Business Lines

Q. PLEASE DESCRIBE QWEST'S HOME BUSINESS LINE SERVICE.

A. Home Business Line service is a flat-rated business voice-grade service which includes the functionality of Custom Ringing and both business and residential listings. This service is designed for "work at home" customers who wish to have a business listing and combine residential and business usage on a single telephone line, and the service is priced at $36.03 per month.[11]

[10] Qwest Exchange and Network Services Price Cap Tariff, Section 5.2.5, Pages 29, 30.
[11] Qwest Exchange and Network Price Cap Tariff, Section 5.2.8, Pages 42, 43.

Q. DO COMPETITIVE ALTERNATIVES NOW EXIST IN ARIZONA TO QWEST'S HOME BUSINESS LINE SERVICE?

A. Yes. Clearly, any CLEC offering business local exchange services in Arizona, including the CLEC subset shown in Exhibit DLT-3, provides services substitutable for Qwest's Home Business Line service. Cox offers a service in its greater Phoenix and Tucson service territories marketed as "Home Office Line" priced at $30.00 per month. Arizona Dial Tone, which states it serves "most areas of Arizona,"[12] offers a Business Flat Rate service priced as low as $18.99 per month as an attractive alternative to Qwest's Home Business Line service. Eschelon offers its business "On Network Premium Measured Line Service" at $23.31 per month which includes a business directory listing and represents another alternative for the work at home business customer. Regal Telephone, which markets its service as being available in Qwest's service territory, offers a local exchange service priced at a flat $39.99 per month for residential and business applications. Trinsic offers its "Trinsic Spectrum Local Plus PPS" business local service in Qwest's Arizona service territory at an attractive rate of $26.00 per month which is yet another alternative to Qwest's Home Business Line.

[12] www.arizonadialtone.com, visited 10/17/05.

Q. WHAT CURRENT EVIDENCE DO YOU HAVE SHOWING THE IMPACT OF COMPETITION ON QWEST'S ARIZONA HOME BUSINESS LINE SERVICE CUSTOMER BASE?

A. Despite the popularity growth of home-based businesses, Qwest's Home Business Line service has seen a significant decrease in market demand, and Qwest's access line base for this service has nearly disappeared with a decline between December 2000 and March 2005 from Confidential XXX to XXX (confidential figures are shown in Confidential Exhibit DLT-1).

f. Uniform Call Distribution ("UCD") Service

Q. PLEASE DESCRIBE QWEST'S UNIFORM CALL DISTRIBUTION SERVICE.

A. Uniform Call Distribution service provides a method of automatically distributing a high volume of incoming calls to lines in a multi-line hunt group equally and is often used by companies' customer service groups to handle incoming calls. This arrangement places calls in queue if all customer service lines are busy and distributes the calls as representatives become available. This service is priced at $2.00 per line in the multi-line hunt group, and additional charges are applied if the subscriber needs specific queuing and delay announcement options.

g. Uniform Access Solution Service

Q. PLEASE DESCRIBE QWEST'S UNIFORM ACCESS SOLUTION SERVICE.

A. Uniform Access Solution ("UAS") service provides an arrangement that allows channels to function with one number per channel group. UAS includes a DS1 facility with common equipment and a network connection which provides switching for local exchange and toll network access. Each DS1 facility utilizes 1 through 24 channels configured with trunk-side termination and one number functionality. In other words, all 24 channels on the DS1 facility are accessed via the same telephone number. This service is targeted to the Enterprise business market, consisting of medium to large-sized business customers with digital PBX equipment, having a need for a group of employees receiving calls to be reached via a single number. The UAS DS1 facility is offered at a monthly rate of $150.00 (additional charges for common equipment and features also apply), and rate stability plans with terms ranging from 3 to 10 years are offered which provide escalating discounts based on length of term.[16]

Q. DO COMPETITIVE ALTERNATIVES EXIST TO QWEST'S UNIFORM ACCESS SOLUTION SERVICE?

[16] Qwest Exchange and Network Services Price Cap Tariff, Section 15.3, Pages 17-21.

A. Yes. Carriers providing digital PBX trunks, with DID capability, each represent a competitive alternative to Qwest's UAS service. As shown in Exhibit DLT-3, for example, MCI offers its Local Trunk 2 Way Direct (Analog and Digital) service in the Phoenix and Tucson rate centers at $91.51 per trunk. SBC Telecom offers its Access Advantage Plus Trunk service, which provides a trunk side connection to support direct inward dialing, in the greater Phoenix and Tucson areas at $25.00 per month. Time Warner provides its Digital Trunk Service in the Phoenix and Tucson areas at a rate of $250.00 for the digital facility. Each of these services can be configured to serve the same need as Qwest's UAS service.

Q. DO YOU HAVE CURRENT EVIDENCE THAT COMPETITION IS ERODING QWEST'S UAS CUSTOMER BASE?

A. Yes. Qwest's UAS customers have largely migrated away from this service to competitive alternatives. In fact, the number of DS1 and DS3 UAS facilities in service has declined precipitously between December 2000 and March 2005 from Confidential XXX to XXX (confidential figures are shown in Confidential Exhibit DLT-1).

h. Code Billing

Q. PLEASE DESCRIBE QWEST'S CODE BILLING SERVICE.

A. Code billing is a special toll billing arrangement which enables the customer to obtain details of toll calls through the use of code numbers assigned by the Company. The customer may associate the code numbers with specific stations, departments, projects, etc., for internal accounting purposes. Bills for toll calls will be rendered in accordance with the code number furnished to the toll operator at the time the call is placed. This service is intended for use primarily in PBX applications but may be used in conjunction with other business services. The recurring rate for up to 200 codes is $38.20, with additional groups of 50 codes priced at $9.55 per month.[17]

Q. DO COMPETITIVE ALTERNATIVES CURRENTLY EXIST TO QWEST'S CODE BILLING SERVICE?

A. Yes. Most modern PBX equipment has the ability to track calls in a fashion similar to Qwest's Code Billing service and ascribe them to the department or extension from which they originated. According to research entity Wikipedia:

> Functionally, the PBX performs three main duties:

[17] Qwest Exchange and Network Services Price Cap Tariff, Section 10.5.2, Page 8.

- Establishing connections (circuits) between the telephone sets of two users.
- Maintaining such connections as long as the user requires them.
- Providing information for accounting purposes (e.g., metering calls).

Clearly, with such PBX *functionality*, the customer has the ability to track telephone usage of extensions served by the PBX. In essence, Qwest's Code Billing service provides a convenient means of tracking such calls and removing that burden from the customer.

Q. DO YOU HAVE CURRENT EVIDENCE THAT COMPETITION IS ERODING QWEST'S CODE BILLING CUSTOMER BASE?

A. Yes. Because Qwest's Code Billing service has competed with similar functionality available from PBX equipment for over 20 years, it has largely been displaced. The demand for Qwest's Code Billing service is now de minimis. Customers are clearly finding other options for this service. In January 2003 this service generated monthly revenue of only Confidential $XXX. As of September 2005, the monthly revenue for this service had declined to Confidential $XXX (confidential figures are shown in Confidential Exhibit DLT-1).

i. Service Packages

Q. PLEASE DESCRIBE THE LOCAL EXCHANGE SERVICE PACKAGES OFFERED BY QWEST IN ARIZONA.

A. Qwest now offers a range of local service packages typically consisting of a grouping of optional features coupled to a flat residential or business exchange access line at a discounted price. In general, the service packages offered to mass market residential and business customers are marketed under the "Qwest Choice" brand. For example, the Qwest Choice Business package is offered at $39.99 per month and consists of a flat business line and three features. The Qwest Choice Business Plus package is a similar bundled offering but provides over twenty features in the package. For residential customers, the Qwest Choice Home package is offered at $12.81 and includes three standard features while the Qwest Choice Home Plus package is priced at $19.81 and includes over twenty features. The Choice Home package rates exclude the price of the associated residential access line.[18] For the primary residential line customer, the combined access line and Choice Home package rate is $25.99.

Q. DOES COMPETITION FOR QWEST'S SERVICE PACKAGES CURRENTLY EXIST IN ARIZONA?

A. Yes. In fact, packaging of services is a preferred means by which many CLECs, wireless carriers and internet telephony providers now offer service. I will discuss current wireless and internet telephony competition in following sections. With regard to CLECs in Arizona, Exhibit DLT-3 shows a sampling of the packaged services available from a subset of the CLECs in the state. For example, Cox Communications offers its "Simply 3 Package," consisting of a residential access line, Caller ID, Voice Messaging and Call Waiting at $19.95 per month. It also offers a more robust package consisting of a residential line plus 13 features at $26.70 per month. Cox also offers a "Business Line Advantage" package for business customers at $38.00 per month. MCI offers a wide range of packages including local service, features and long distance to its business customers in the Phoenix and Tucson rate centers with prices ranging from $27.99 to $59.99 depending on the number of features in the package. SBC offers its "Phone Solutions for Business" package in the greater Phoenix and Tucson areas, consisting of local business service and 14 features, at $42.00 per month as well as a "Multi-Line for Business" package, consisting of local service and 5 features, at $36.00 per month. Sprint now offers its "Sprint Complete Sense" residential package to customers in Qwest's UNE Zone 1 wire centers, consisting of an access line, 250 long distance minutes per month and a range of

[18] Qwest Exchange and Network Services Price Cap Tariff, Section 5.9, Pages 168-176.9.

calling features for $44.99 per month, as well as a "Sprint Complete Sense for Business" package in Qwest's UNE Zone 1 and 2 wire centers, consisting of a business local exchange line, a range of custom calling features and discounted long distance, for $39.95 per month. Trinsic offers residential service packages, marketed as "Trinsic Value" and consisting of an access line, four calling features and 50 minutes of long distance calling at $32.99 in Qwest UNE Zone 1, $33.99 in UNE Zone 2 and $53.99 in UNE Zone 3. Arizona Dial Tone offers its "Essential Package" to residential customers in "most areas of Arizona," consisting of a flat-rated residential line, a set of calling features and inside wiring maintenance for $39.99 per month. This discussion is only a small representation of the range of competitive packages available from Arizona CLECs. Each of these offerings is detailed in Exhibit DLT-3.

Q. HAVE COMPETITIVE SERVICE PACKAGES IMPACTED QWEST'S RESIDENTIAL AND BUSINESS CUSTOMER BASE?

A. Yes. Qwest has lost a substantial proportion of its local exchange access line base to competition in Arizona. As shown in Exhibit DLT-3, a large number of CLECs, including Cox, AT&T, MCI, Sprint, Trinsic and others are actively marketing packaged local exchange services in Arizona. Additionally, similar packaged offerings by intermodal wireless and VoIP providers are widely available. These competitive services have had a significant collective impact on Qwest's residential and business customer base as quantified earlier in my rebuttal.

j. Wireless Service Competition

Q. IN HIS ASSERTIONS REGARDING THE CURRENT STATE OF COMPETITION IN ARIZONA, DR. JOHNSON APPEARS TO DISREGARD WIRELESS SERVICES AS A VIABLE COMPETITIVE ALTERNATIVE TO QWEST LANDLINE SERVICES WHEN HE STATES "FEW LOCAL COMPETITORS HAVE ENJOYED SUCCESS IN PENETRATING THE LOCAL EXCHANGE MARKET." (JOHNSON AT 21). IS HE CORRECT IN DOING SO?

A. No. Wireless phones are now widely accepted by business and residential consumers alike for voice telephony. In addition, wireless providers are now augmenting their services with data applications such as dial-up wireless Internet access, text messaging and image transmission to bring additional functionality to their services and to attract new customers. The customer shift toward wireless substitution in Arizona can be seen by reviewing facts provided by the FCC in its most recent Local Telephone Competition Report.[19] From December 2000 to December 2004, the FCC's data shows that Incumbent telephone

[19] Local Telephone Competition: Status as of December 31, 2004, *Industry Analysis and Technology Division, Wireline Competition Bureau*, July 2005.

company access lines in Arizona decreased from 3,073,779 to 2,367,011 a reduction of 706,768.[20] Over this same period, CLEC access in the state increased from 165,597 to 792,272, an increase of 626,675.[21] On a net basis (Incumbent and CLEC lines combined), wireline access lines in Arizona declined by 80,093 from 2000 to 2004, suggesting that other forms of competition beyond wireline-based competition are impacting the market. In contrast, wireless subscriber counts in Arizona over this same timeframe grew from 1,855,115 to 3,299,222, an increase of 1,444,107, or 78%.[22] Since wireline and wireless services both provide voice telephony functionality and demand for voice telephone services should logically be growing at least on the same pace as population growth in Arizona, it is clear that wireless service is supplanting wireline service for many Arizonans.

Q. HAS THE FCC RELEASED ANY ADDITIONAL DATA SHOWING THE INCREASING TREND IN SUBSTITUTION OF WIRELESS SERVICE FOR TRADITIONAL WIRELINE SERVICES?

A. Yes. In its most recent Commercial Mobile Radio Service ("CMRS") competition report,[23] the FCC provides facts with regard to the percentage of households who have "cut the cord" (disconnected wireline telephone

[20] *Id, Table 9.*
[21] *Id., Table 8.*
[22] *Id., Table 13.*

service and rely exclusively on wireless service for their voice telecommunications needs). The FCC states:

> Total wireless substitution has grown significantly in recent years. According to a 2004 survey done for the Centers for Disease Control (CDC), 5.5 percent of adults lived in households with only wireless phones in the second half of 2004, up from 4.4 percent in the first half of 2004 and 2.8 percent in the first half of 2003.[24]

The FCC's data indicates a linear increase in the proportion of wireline subscribers who have "cut the cord," and there is no sign that this trend is abating. However, this data only tells part of the story. In many instances, subscribers remove a second landline in favor of wireless service and/or shift a significant amount of telephone usage to wireless service. In each of these instances, demand for Qwest wireline telephone service is reduced. The FCC states:

> Even when not "cutting the cord" completely, consumers appear increasingly to choose wireless service over traditional wireline service, particularly for certain uses. A recent study showed that one-third of households receive more than half of their calls on wireless phones, with 9 percent receiving almost all their calls wirelessly. In the *Ninth Report,* we discussed the pressures that wireless growth is placing on companies which offer wireline services. In 2004 these trends continued, as the number of landlines declined by around 1.2 percent quarterly in the second and third quarters of 2004, and wireline long distance voice revenues continued to erode. At the end of 2004, there were more wireless subscribers than wireline in the United States – 176

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[23] Annual Report and Analysis of Competitive Market Conditions With Respect to Commercial Mobile Services, Tenth Report, September 30, 2005.

[24] *Id*, p. 72, ¶196.

million access lines versus more than 184 million wireless subscribers.[25]

It is clear that the national wireless substitution trends identified by the FCC are mirrored in Arizona.

Q. DOES OTHER EVIDENCE EXIST SUPPORTING THE FCC'S CONCLUSIONS THAT WIRELESS SERVICES ARE SUBSTITUTES FOR TRADITIONAL WIRELINE SERVICE APPLICATIONS?

A. Yes. Other independent experts have studied the phenomenon of wireless substitution and echo the FCC's conclusions. For example, the Yankee Group reports that "more than 36% of local calls and 60% of long distance calls have been replaced by wireless."[26] Additionally, at the Regional Oversight Committee ("ROC") meeting in September 2004, attended by regulators from Qwest's 14 in-Region states, Western Wireless' CEO John Stanton reported "increasing numbers of consumers have cut the cord or are primarily using their wireless phone for their telecommunication needs," and estimated the proportion of consumers engaging in such substitution now exceeds 5% and is expected to increase to 30% by 2008."[27] Independent research firm Instat/MDR concurs with Mr. Stanton, as shown in a February 2004 CNET News.com article, which states: "by 2008, nearly a third of all U.S. wireless

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[25] *Id.*, p. 73, ¶197.

[26] *The Success of Wireline/Wireless Strategies Hinges on Delivering Consumer Value*, P. 7, The Yankee Group, October 2004.

subscribers won't have a landline phone in their home, according to a forecast released Wednesday by high-tech market research firm Instat/MDR. That's a dramatic increase in what's known as cord cutting."[28] In short, there is no evidence that the rate of substitution of wireless service for traditional wireline service is abating. Rather, all evidence is that such substitution will continue to increase at an exponential rate.

Q. WHAT WIRELESS CARRIERS ARE NOW ACTIVE IN PROVIDING SERVICES IN QWEST'S SERVICE TERRITORY IN ARIZONA?

A. Competitive wireless service is now available in Qwest's service territory in Arizona from various major carriers such as Sprint PCS, T-Mobile, Verizon, Cingular, Cricket and Alltel. Virtually every Qwest customer within Qwest's service territory in the state is within the wireless coverage area of at least one of these providers.

Q. DO YOU HAVE CURRENT EVIDENCE SHOWING THE SERVICES OFFERED BY THESE PROVIDERS IS AN ATTRACTIVE ALTERNATIVE TO QWEST'S LOCAL EXCHANGE SERVICES?

A. Yes. Wireless services now provide functionality nearly identical to wireline service, from the perspective that both provide switched voice

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[27] Western Wireless ROC presentation, September 2004.

[28] *"Cord Cutting"Frays Phone Revenues,* CNET News.com, February 25, 2004.

communication capability, access to directory assistance, access to popular calling features (such as call waiting, caller I.D., voice messaging, etc), access to operator services, number portability (e.g.: customers may now port a wireline telephone number to a wireless carrier and vice versa) and access to E911 service. Beyond these similarities, wireless services provide tangible benefits to elderly or disabled persons not available with Qwest's wireline service: wireless service is highly portable and the small wireless telephones can easily be carried by an elderly person in a shirt pocket or the pocket of a housecoat. If such a person were to fall and be physically unable to reach a wireline telephone, the extra convenience of a wireless telephone readily at hand to summon emergency help could avert dire consequences.

From a price perspective, various options are available from the Arizona wireless carriers designed to meet the diverse needs of customers. In some instances, the customer may have a need for only standard telephone service, without any features, for use in occasionally contacting family members or for emergencies. The price for Qwest's standard flat residential telephone service in Arizona, including the EUCL charge, is $19.48 per month. Currently, T-Mobile offers its "Basic Plan" in Arizona, which includes 60 "anytime" minutes and 500 weekend/evening minutes, voice messaging, is available in Arizona at $29.99 per month.[32] Cricket offers its "Unlimited Access" service for $45.00 per month, which includes unlimited local calling, Call Waiting, Caller ID, 3-Way calling and Voice Messaging as well as the benefit of mobility.[33] Alltel offers its Greater Freedom Plan at $29.99 per month, which includes 300 anytime minutes, Call Waiting, Caller I.D., 3-Way Calling and Voice Messaging. Each of these plans, as well as representative wireless offerings of other wireless carriers in Arizona, is shown in Exhibit DLT-4. While there are a wide variety of additional calling plans available from the wireless providers currently serving Arizona, this small sampling of plans shows that packaged wireless plans that are directly competitive with Qwest's Choice Home package are now readily available.

Q. IS IT YOUR CONTENTION THAT WIRELESS SERVICE CAN CURRENTLY BE CONSIDERED A DIRECT SUBSTITUTE FOR QWEST WIRELINE SERVICES IN EVERY APPLICATION?

A. No. Qwest does not maintain that wireless service is viewed by every Arizona customer as a complete substitute for traditional wireline service. A certain number of customers will never switch from wireline service to wireless service no matter how attractive wireless service becomes. However, it is clear, when current facts regarding wireless service

[32] www.T-Mobile.com, visited 10/17/05.

functionality, price and convenience are examined, wireless service is now a viable substitute for Qwest's wireline services for many Arizonans -- including RUCO's constituents -- and that the rate of such substitution will continue to increase. Clearly, this form of competition is real, continues to grow in intensity and represents a form of price constraining competition in the Arizona market.

k. Voice over Internet Protocol Competition

Q. IN SUGGESTING THE CURRENT ARIZONA TELECOMMUNICATIONS MARKET IS INSUFFICIENTLY COMPETITIVE TO WARRANT RUCO'S SUPPORT OF THE PROPOSED PRICE PLAN IN ARIZONA, DR. JOHNSON DISREGARDS THE PRESENCE OF VOICE OVER INTERNET PROTOCOL AS A VIABLE COMPETITIVE ALTERNATIVE TO QWEST'S LOCAL EXCHANGE SERVICES IN THE STATE. WOULD YOU COMMENT?

A. Dr. Johnson presented no facts in his surrebuttal to support the notion that VoIP does not represent a competitive substitute for Qwest's wireline service. As a preliminary matter, some contend that a broadband connection is needed to enable VoIP service and the price of the broadband connection renders VoIP non-price competitive with Qwest's

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[33] www.mycricket.com, visited 10/18/05.

local exchange services. However, this precept implies that a customer only purchases broadband service to facilitate VoIP. In fact, Qwest does not contend that customers purchase broadband services strictly to facilitate VoIP. Rather, customers purchase broadband services for internet access and entertainment purposes. For these customers, there is no incremental cost for broadband when they elect to add VoIP service and the cost of broadband is therefore not a factor in their VoIP purchase decision.

Q. DO YOU HAVE EVIDENCE OF THE GROWTH OF BROADBAND INTERNET ACCESS SERVICE IN ARIZONA?

A. Yes. Broadband access lines in Arizona have grown at an astounding rate from 153,500 in December 2000 to 750,882 in December 2004, an increase of over 389%.[34] The FCC found that "99% of the country's population lives in the 95% of zip codes where a provider reports having at least one high-speed service subscriber."[35] In other words, broadband service is now widely available and Arizona customers have embraced this service in large and rapidly increasing numbers. Each of these customers represents a potential VoIP subscriber.

[34] *High Speed Services for Internet Access: Status as of December 31, 2004*, Industry Analysis and Technology Division, Wireline Competition Bureau, July 2005, table 8.
[35] *Id.*, P. 4.

Q. WHICH PROVIDERS ARE NOW OFFERING VOIP SERVICES IN ARIZONA?

A. Currently, there are at least eight VoIP providers (excluding Qwest) serving Arizona, including Vonage, Lingo/Primus, AT&T, MCI, Verizon, SunRocket, Packet8, XO and Skype. Several of these providers, such as Vonage, Sunrocket and Lingo/Primus focus on the residential and small business markets while others, such as XO, focus strictly on the business market. For example, XO announced on July 26 its launch of the XOptions Flex service, "an integrated VoIP solution that offers business customers combined unlimited local and long distance calling, dedicated internet access and web hosting for a flat monthly rate."[36] Additionally, XO recently received Internet Telephony's "Excellence Award for 2005." In acknowledging this award, XO was quoted as saying:

> "We're very excited to have XOptions Flex recognized as a leading voice over IP solutions for businesses," said Craig Collins, vice president of product management and marketing communications at XO Communications. "This recognition reflects not only Internet Telephony's review but the strong endorsement of ***more than 1,500 businesses across the country that have signed on as XOptions Flex customers in just five months since it was launched.***"[37] (emphasis added).

Clearly, XO, already a significant competitor in the business market in Arizona, has enjoyed a strong growth rate in its recently-introduced VoIP

[36] TR State News Wire, July 26, 2005.

business service. Additionally, Vonage, which is probably the best recognized independent residential VoIP provider, recently announced that it now has over 1 million subscribers in the U.S.[38]

Q. DO YOU HAVE EVIDENCE OF THE PROJECTED GROWTH RATE OF VOIP TELEPHONY SERVICES?

A. Yes. While VoIP providers such as Vonage are currently reporting impressive subscriber totals, industry experts forecast exponential VoIP growth. For example, Frost and Sullivan found that VoIP market revenue totaled $295.1 million in 2004 and expect it to reach $4,076.7 million in 2010, a growth rate of over 1,200%.[39] Additionally, the Yankee Group reported on October 12, 2005:

> As the US consumer broadband internet market passes a significant household penetration threshold, the addressable market for broadband content and applications is strengthening. More than one-third of US households – or more than half of all online US households – now subscribe to a high-speed internet service.[40]

Clearly, independent market analysts believe that VoIP service has tremendous growth potential and that a significant proportion of the population is now capable of utilizing this service.

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37 http://biz.yahoo.com/prnews/051003/nym136.html?.v=21

38 http://www.vonage.com/corporate/aboutus_fastfacts.php

39 Real World Network, Trend and Forecasts, *North American Residential VoIP Market to Increase Growth*, July 19, 2005.

Q. CAN YOU PROVIDE EXAMPLES OF THE RANGE OF VOIP OFFERINGS CURRENTLY AVAILABLE IN ARIZONA THAT REPRESENT ALTERNATIVES TO QWEST'S WIRELINE SERVICES?

A. Yes. VoIP services available in Arizona are feature-rich and typically include unlimited long distance calling in the standard service price. For example, Vonage offers a "Basic 500" plan which includes 500 local or toll minutes per month and a package of features including call waiting, caller ID, 3 way calling and voice messaging for $14.99 per month.[41] Vonage also has a "Premium Unlimited" package with unlimited local and long distance calling for $24.99 per month. In comparison, Qwest's stand-alone flat residential service rate (including the EUCL charge) is $19.48 per month (including no features as compared to Vonage's VoIP service which includes a variety of features at no additional charge), while the Qwest residential Choice Home (including EUCL) rate is $32.99 per month, and long distance calling is an additional charge for both of these Qwest service options. Similar to Vonage, SunRocket offers a feature-rich residential VoIP service with unlimited local and long distance calling at $24.95 per month (a prepaid $199 annual payment option is also offered for this service, which is equivalent to $17.00 per month).[42] Lingo/Primus offers a comparable residential VoIP plan at $19.95, MCI offers its VoIP

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[40] Yankee Group DecisionNote Market Analysis, October 12, 2005.
[41] http://www.vonage.com, visited 8/10/05.

Neighborhood Unlimited plan for $29.99 and Verizon offers its Voicewing Unlimited plan at $19.99 per month. Details of these and other VoIP plans now available in Arizona are contained in Exhibit DLT-5.

Q. IN THE PAST, LACK OF ACCESS TO 911 EMERGENCY SERVICE PROVIDERS WAS IDENTIFIED AS A REASON THAT VOIP SERVICE MAY NOT BE CONSIDERED TO BE A DIRECT SUBSTITUTE FOR TRADITIONAL WIRELINE SERVICE. DOES THIS REMAIN TRUE IN THE CURRENT MARKET?

A. No. In fact, the primary issue regarding VoIP E911 currently being addressed by the industry is the problem of "nomadic" E911 in instances where customers transport their VoIP equipment to a location other than the location to which the equipment is registered and attempt to place an E911 call from the remote location.[43] Unless the VoIP provider is notified that the customer has changed locations, the E911 call will show the name and address of the location at which the VoIP equipment was originally registered. For example, if customer John Smith registers his VoIP equipment at 123 Main Street in Tucson, Arizona, subsequently takes his VoIP equipment with him on a business trip to Chicago and places an E911 call on that equipment from Chicago without notifying his VoIP service provider, the E911 operator will recognize his call as

[42] http://www.sunrocket.com, visited 8/11/05.

originating at 123 Main Street in Tucson. However, if the customer is not "nomadic" and simply uses his or her VoIP equipment at a fixed location as a landline replacement (and has properly notified the VoIP provider of the address of the fixed location), 911 calls from that fixed location are recognized by the E911 operator with the telephone number, name and address of the party at that location. In a recent article in USA Today, AT&T discussed a solution it has devised to address the problem of nomadic VoIP, as follows:

> AT&T's nomadic solution, called Heartbeat, uses its internet network to track the location of users. Here's how it works: when VoIP customers power down, AT&T's network will automatically suspend VoIP service. Once the phone adapter is plugged back in , AT&T will ask the user to verify his or her location. For customers who indicate they haven't moved, service will be instantly restored. If they have moved, they'll be directed to an 800 number or web page to register the new location.[44]

Again, so long as the VoIP subscriber properly registers his or her location with the VoIP provider, the E911 operator will automatically receive the 911 caller's name, telephone number and street address.

Q. HAVE YOU TAKEN ANY ACTIONS TO VERIFY THAT E911 SERVICE PERSONNEL ARE ABLE TO RECOGNIZE THE 911 CALLER'S

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[43] The FCC has ordered all VoIP providers to make their VoIP services fully 911-capable by November 28, 2005, particularly in instances where the customer is "nomadic."

[44] *AT&T Solves VoIP's 911 Issue*, USA Today, October 12, 2005.

TELEPHONE NUMBER, NAME AND ADDRESS WHEN A CALL IS PLACED TO 911 FROM A VOIP-SERVED TELEPHONE?

A. Yes. I personally subscribed to SunRocket VoIP service in June 2005 and maintained that service until October 2005 as a means of testing VoIP service functionality in a residential application. Upon initiating service, I was directed by SunRocket to enter my name, telephone number and address into SunRocket's customer service website to ensure 911 emergency calls are accurately handled. After doing so, I placed a 911 test call and verified with the 911 service operator that my name, telephone number and street address appeared correctly on the 911 provider's equipment.

From the perspective of establishing VoIP telephone service, there is no dispute that extra steps are required of the customer to ensure E911 functionality. However, once these easy to follow steps are completed (and as long as the customer uses the VoIP service in the primary location at which it is registered), the customer can be assured of E911 functionality equivalent to that provided with standard wireline telephone service. To the extent E911 VoIP functionality has been considered a barrier to customer adoption of VoIP service, that barrier has been largely demolished and will be entirely removed by the end of 2005.

Q. IS THE AVAILABILITY OF VOIP SERVICES IN ARIZONA CURRENTLY LIMITED TO CUSTOMERS WITH DSL OR CABLE MODEM BROADBAND INTERNET ACCESS?

A. No. In fact, I participated as a witness in the Arizona Corporation Commissions' generic investigation into telecommunications competition in Arizona on February 4, 2005 (Docket No. T-00000I-04-0749). I was present when Brooke Schulz, Senior Vice President for Vonage, addressed the Commission. She testified:

> We actually have evidence of customers in Arizona using our service over satellite broadband.[45]

It appears, based on Ms. Schulz's assertion during this proceeding, that Arizona subscribers are now able to utilize wireless broadband connections to avail themselves of VoIP services. Clearly, the VoIP market continues to rapidly evolve as a competitive telecommunications option for an increasingly large customer base.

[45] Transcript of hearing, pp. 22-36.

IV. MR. ALBERT STERMAN (ACC)

Q. AT PAGE 2 OF HIS TESTIMONY, MR. STERMAN COMPLAINS THAT THE SERVICES RECLASSIFIED IN THE PROPOSED PRICE PLAN ARE NOT "TRULY COMPETITIVE UNLESS THEY ARE AVAILABLE AS WANTED FROM A VARIETY OF VENDORS." WOULD YOU COMMENT?

A. Yes. Apparently, Mr. Sterman's concern is that, if a service such as Qwest Choice Home cannot be purchased from a carrier other than Qwest as a stand-alone service, it should not be considered as being subject to competition. Mr. Sterman misses the point. In Arizona, it is a fact that a large number of competitors currently offer packaged services that compete directly with Qwest Choice Home service. He is correct that a customer cannot presently subscribe to a Qwest residential access line and separately purchase a package of calling features from a competitor of Qwest's. From a technical standpoint, since the access line and features related to that access line are provided from the same carrier's switch, one cannot be divorced from the other when providing service to the customer. However, a variety of competitive alternatives exist to Qwest packaged services from CLECs, wireless carriers and VoIP providers as discussed earlier in my rebuttal testimony.

Q. MR. STERMAN ASSERTS THAT "FEW LOCAL COMPETITORS HAVE ENJOYED SUCCESS IN PENETRATING THE LOCAL EXCHANGE MARKET." WOULD YOU COMMENT?

A. Yes. Mr. Sterman's statement appears to be his opinion, but he has not supplied any facts whatsoever to support his opinion. As discussed earlier in my rebuttal testimony, the facts are that a broad array of competitors, including CLECs, cable telephony providers, wireless carriers and VoIP providers are now active in the Arizona market. I provided data from independent research entity TNS Telecoms showing that Qwest now has approximately one third of the telecommunications connections within its service territory in the state. With regard to CLEC competition alone, the FCC found in its most recent Local Telephone Competition report that CLECs had captured 25% of the wireline service market in Arizona in December 2004, nearly one year ago.[46] Finally, as discussed earlier in my rebuttal testimony, CLECs are active in nearly every Qwest wire center in the state, wireless service is available from at least one carrier throughout Qwest's service territory and VoIP services are currently available from to customer with a broadband internet connection.

Q. FINALLY, MR. STERMAN ARGUES THAT "QWEST CONTINUES TO ENJOY A DOMINANT SHARE OF MOST ARIZONA

[46] Local Telephone Competition: Status as of December 31, 2004, *Industry Analysis and Technology Division, Wireline Competition Bureau,* July 2005, Table 6.

TELECOMMUNICATIONS MARKET (sic), AND ITS COMPETITORS ARE FAR TOO SMALL TO PROVIDE AN ADEQUATE SUBSTITUTE FOR CONTINUED PRICING CONSTRAINTS, SUCH AS THOSE CONTAINED IN THE CURRENT PLAN." WHAT CONCERNS DO YOU HAVE WITH HIS ARGUMENT?

A. I have several. First, Mr. Sterman presents absolutely no analysis or facts to support his contention that Qwest "enjoys a dominant market share" in Arizona. It is entirely unclear whether Mr. Sterman's focus in his assertion is on the wireline telecommunications market or whether his focus is on the broader market for voice communications. In either instance, he is incorrect that Qwest "dominates" the market. A wide variety of deregulated competitors have made, and continue to make, successful inroads into Qwest's market as discussed earlier in my testimony.

Second, Mr. Sterman ignores the consideration addressed in Dr. Johnson's testimony regarding Qwest witness Jerrold Thompson's statement that Qwest will continue to maintain statewide average pricing for its local telecommunications, and to the extent that supranormal competition in a particular part of the state drives Qwest to reduce prices, those price reductions will occur statewide. In effect, customers in rural areas of Qwest's service territory will realize the benefits of competitive pressures in more highly competitive areas of the state.

Finally, Mr. Sterman's reference to Qwest's competitors being "far too small to provide an adequate substitute for continued pricing constraints" is flatly off base. There can be no argument that Cox is a very significant competitor in the greater Phoenix and Tucson areas. There can be no argument that the soon-to-be merged SBC/AT&T and Verizon/MCI (each of which is already an active competitor in Arizona) are competitors of enormous scale and scope. There can be no argument that broadband services are enjoying exponential penetration growth rates and that the potential market for VoIP services will grow apace. Mr. Sterman's factually-unsupported opinion with regard to the texture of the competitive telecommunications market in Arizona should be given no weight.

V. CONCLUSION

Q. PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY.

A. In my rebuttal testimony, I addressed issues raised in the surrebuttal testimony of Dr. Ben Johnson and the settlement testimony of Mr. Albert Sterman. Both witnesses maintain the current telecommunications environment is not sufficiently competitive to warrant approval of Qwest's Price Plan. Both witnesses ignore the ever-growing effects of wireless and VoIP competition in the Arizona telecommunications market. Both witnesses ignore the fact that, under terms of the proposed Price Plan which call for statewide averaged local exchange rates, customers in rural areas of Arizona will benefit from the effects of competition in the more competitive areas of the state. Neither witness, while referring to the current competitive telecommunications market in Arizona, presents current facts to support his opinions.

The facts presented in my rebuttal with respect to CLEC-based competition as well as wireless and VoIP competition demonstrate that competition for Qwest's services in Arizona is robust and, in fact, continues to increase in intensity. In a competitive market such as this, it is appropriate that regulation should diminish. Qwest's proposed Price Plan is entirely appropriate in the competitive Arizona telecommunications market.

Q. IN VIEW OF THE EVIDENCE YOU HAVE PRESENTED, DO YOU HAVE A RECOMMENDATION TO OFFER THE COMMISSION?

A. Yes. The current telecommunications market contains a wide and varying array of competitors representing continually expanding price-constraining competition to Qwest's retail services. In view of this level of competition, I recommend the Qwest Price Plan as discussed in the testimonies of Mr. Thompson and Mr. Grate be approved.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN MAYES

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 TELECOMMUNICATIONS ACCESS	))))	DOCKET NO. T-00000D-00-0672

REBUTTAL EXHIBITS

OF

DAVID L. TEITZEL

ON BEHALF OF

QWEST CORPORATION

OCTOBER 28, 2005

INDEX OF EXHIBITS

DESCRIPTION	EXHIBIT
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Qwest Retail and Wholesale Volumes in Arizona	Highly Confidential DLT-2
Sample of Selected CLEC Services in Arizona	DLT-3
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Sample of Selected VoIP Services in Arizona	DLT-5

CONFIDENTIAL INFORMATION

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QWEST RETAIL AND WHOLESALE VOLUMES IN THE PHOENIX MSA

Phoenix MSA Wire Centers	CLLI Code	Qwest Retail Bus. Access Lines 12/00	Qwest Retail Bus. Access Lines 12/03	Qwest Retail Bus. Access Lines 03/05	Diff Bus. 03/05 - 12/03	% Diff. Bus. 03/05 - 12/03	Qwest Retail Res. Access Lines 12/00	Qwest Retail Res. Access Lines 12/03	Qwest Retail Res. Access Lines 03/05	Diff Res. 03/05 - 12/03	% Diff. Res. 03/05 - 12/03	Qwest Total Retail Access Lines 12/00	Qwest Total Retail Access Lines 12/03	Qwest Total Retail Access Lines 03/05	Diff. Total 03/05 - 12/03	% Diff. Total 03/05 - 12/03
Agua Fria Sunrise	AGFIAZSRDS0															
Buckeye	BCKYAZMARS1															
Beardsley	BRDSAZMADS0															
Chandler Main	CHNDAZMADS0															
Chandler South	CHNDAZSODS0															
Chandler West	CHNDAZWEDS0															
Coolidge	CLDGAZMARS1															
Circle City	CRCYAZNMRS1															
Casa Grande	CSGRAZMADS0															
Cave Creek	CVCKAZMADS0															
Dudleyville	DDVLAZNMRS1															
Deer Valley	DRVYAZNODS0															
Eloy	ELOYAZ01RS1															
Florence	FLRNAZMARS1															
Ft. McDowell	FTMDAZMADS0															
Rio Verde	FTMDAZNORS1															
Coldwater (Goodyear)	GDYRAZCWDS0															
Gila Bend	GLBNAZMARS1															
Glendale	GLDLAZMADS0															
Higley	HGLYAZMADS1															
Queen Creek (Higley)	HGLYAZQCDS2															
Kearny	KRNYAZMARS1															
Litchfield Park	LTPKAZMADS0															
Gilbert (Mesa)	MESAAZGIDS0															
Mesa	MESAAZMADS0															
Mammoth	MMTHAZMARS1															
Maricopa	MRCPAZMARS1															
New River	NWRVAZMADS0															
Oracle	ORCLAZMARS1															
Foothills	PHNXAZ81DS0															
Bethany West (Phoenix)	PHNXAZBWDS0															
Cactus (Phoenix)	PHNXAZCADS0															
Phoenix East	PHNXAZEADS0															
Greenway (Phoenix)	PHNXAZGRDS0															
Laveen (Phoenix)	PHNXAZLVDS0															
Phoenix Main	PHNXAZMADS1															
Mid Rivers (Phoenix)	PHNXAZMRDS0															
Maryvale (Phoenix)	PHNXAZMYDS0															

REDACTED

HIGHLY CONFIDENTIAL

QWEST RETAIL AND WHOLESALE VOLUMES IN THE PHOENIX MSA

Arizona Corporation Commission
Docket No. T-01051B-03-0454
Docket No. T-00000D-00-0672
Qwest Corporation - Highly Confidential DLT-2
Exhibits of David L. Teitzel
October 28, 2005

Phoenix MSA Wire Centers	CLLI Code	Qwest Retail Bus. Access Lines 12/00	Qwest Retail Bus. Access Lines 12/03	Qwest Retail Bus. Access Lines 03/05	Diff Bus. 03/05 - 12/03	% Diff. Bus. 03/05 - 12/03	Qwest Retail Res. Access Lines 12/00	Qwest Retail Res. Access Lines 12/03	Qwest Retail Res. Access Lines 03/05	Diff Res. 03/05 - 12/03	% Diff. Res. 03/05 - 12/03	Qwest Total Retail Access Lines 12/00	Qwest Total Retail Access Lines 12/03	Qwest Total Retail Access Lines 03/05	Diff. Total 03/05 - 12/03	% Diff. Total 03/05 - 12/03
Phoenix Northeast	PHNXAZNEDS0															
Phoenix North	PHNXAZNODS1															
Phoenix Northwest	PHNXAZNWDS0															
Pecos (Phoenix)	PHNXAZPPDS0															
Peoria (Phoenix)	PHNXAZPRDS0															
Phoenix Southeast	PHNXAZSEDS0															
Phoenix South	PHNXAZSODS0															
Sunnyslope (Phoenix)	PHNXAZSYDS0															
Phoenix West	PHNXAZWEDS0															
Pinnacle Peak	PRVYAZPPDS0															
Scottsdale Main	SCDLAZMADS0															
Shea (Scottsdale)	SCDLAZSHDS0															
Thunderbird (Scottsdale)	SCDLAZTHDS0															
San Manuel	SNMNAZMADS0															
Superior	SPRRAZMARS1															
Super East	SPRSAZEADS0															
Super Main	SPRSAZMADS0															
Super West	SPRSAZWEDS0															
Stanfield	STFDAZMARS1															
Tempe	TEMPAZMADS0															
McClintock (Tempe)	TEMPAZMCDS0															
Tolleson	TLSNAZMADS0															
Wickenburg	WCBGAZMARS1															
White Tanks	WHTKAZMARS2															
Whitlow	WHTLAZMADS0															
Wintersburg	WNBGAZ01RS1															
Phoenix MSA TOTAL																

REDACTED

QWEST RETAIL AND WHOLESALE VOLUMES IN THE PHOENIX MSA

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Qwest Corporation - Highly Confidential DLT-2
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Phoenix MSA Wire Centers	CLLI Code	LIS Trunks 12/03	LIS Trunks 03/05	Unb. Loops 12/03	Unb. Loops 03/05	UNE-P Res. 12/03 [1]	QPP / UNE-P Res. 03/05	UNE-P Bus. 12/03 [1]	QPP / UNE-P Bus. 03/05	Resold Res. Lines 12/03	Resold Res. Lines 03/05	Resold Bus. Lines 12/03	Resold Bus. Lines 03/05
Agua Fria Sunrise	AGFIAZSRDS0												
Buckeye	BCKYAZMARS1												
Beardsley	BRDSAZMADS0												
Chandler Main	CHNDAZMADS0												
Chandler South	CHNDAZSODS0												
Chandler West	CHNDAZWEDS0												
Coolidge	CLDGAZMARS1												
Circle City	CRCYAZNMRS1												
Casa Grande	CSGRAZMADS0												
Cave Creek	CVCKAZMADS0												
Dudleyville	DDVLAZNMRS1												
Deer Valley	DRVYAZNODS0												
Eloy	ELOYAZ01RS1												
Florence	FLRNAZMARS1												
Ft. McDowell	FTMDAZMADS0												
Rio Verde	FTMDAZNORS1												
Coldwater (Goodyear)	GDYRAZCWDS0												
Gila Bend	GLBNAZMARS1												
Glendale	GLDLAZMADS0												
Higley	HGLYAZMADS1												
Queen Creek (Higley)	HGLYAZQCDS2												
Kearny	KRNYAZMARS1												
Litchfield Park	LTPKAZMADS0												
Gilbert (Mesa)	MESAAZGIDS0												
Mesa	MESAAZMADS0												
Mammoth	MMTHAZMARS1												
Maricopa	MRCPAZMARS1												
New River	NWRVAZMADS0												
Oracle	ORCLAZMARS1												
Foothills	PHNXAZ81DS0												
Bethany West (Phoenix)	PHNXAZBWDS0												
Cactus (Phoenix)	PHNXAZCADS0												
Phoenix East	PHNXAZEADS0												
Greenway (Phoenix)	PHNXAZGRDS0												
Laveen (Phoenix)	PHNXAZLVDS0												
Phoenix Main	PHNXAZMADS1												
Mid Rivers (Phoenix)	PHNXAZMRDS0												
Maryvale (Phoenix)	PHNXAZMYDS0												

REDACTED

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QWEST RETAIL AND WHOLESALE VOLUMES IN THE PHOENIX MSA

Arizona Corporation Commission
Docket No. T-01051B-03-0454
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Qwest Corporation - Highly Confidential DLT-2
Exhibits of David L. Teitzel
October 28, 2005

Phoenix MSA Wire Centers	CLLI Code	LIS Trunks 12/03	LIS Trunks 03/05	Unb. Loops 12/03	Unb. Loops 03/05	UNE-P Res. 12/03 [1]	QPP / UNE-P Res. 03/05	UNE-P Bus. 12/03 [1]	QPP / UNE-P Bus. 03/05	Resold Res. Lines 12/03	Resold Res. Lines 03/05	Resold Bus. Lines 12/03	Resold Bus. Lines 03/05
Phoenix Northeast	PHNXAZNEDS0												
Phoenix North	PHNXAZNODS1												
Phoenix Northwest	PHNXAZNWDS0												
Pecos (Phoenix)	PHNXAZPPDS0												
Peoria (Phoenix)	PHNXAZPRDS0												
Phoenix Southeast	PHNXAZSEDS0												
Phoenix South	PHNXAZSODS0												
Sunnyslope (Phoenix)	PHNXAZSYDS0												
Phoenix West	PHNXAZWEDS0												
Pinnacle Peak	PRVYAZPPDS0												
Scottsdale Main	SCDLAZMADS0												
Shea (Scottsdale)	SCDLAZSHDS0												
Thunderbird (Scottsdale)	SCDLAZTHDS0												
San Manuel	SNMNAZMADS0												
Superior	SPRRAZMARS1												
Super East	SPRSAZEADS0												
Super Main	SPRSAZMADS0												
Super West	SPRSAZWEDS0												
Stanfield	STFDAZMARS1												
Tempe	TEMPAZMADS0												
McClintock (Tempe)	TEMPAZMCDS0												
Tolleson	TLSNAZMADS0												
Wickenburg	WCBGAZMARS1												
White Tanks	WHTKAZMARS2												
Whitlow	WHTLAZMADS0												
Wintersburg	WNBGAZ01RS1												
Phoenix MSA TOTAL													

REDACTED

[1] Qwest maintains information regarding each access line (and the associated telephone numbers) served by CLECs via UNE-P, which is strictly a wholesale service to which no particular class of service is assigned. Qwest does not have tracking information in any retail or wholesale service database identifying UNE-P lines as being used for business or residential purposes. In an effort to determine the business/residential split of the UNE-P access lines in service, Qwest has compared each of the UNE-P telephone numbers (as of December 31, 2003) with the listings in the white pages database (as of March 3, 2004) to determine whether these listings are in the business or residential sections of the white pages database.

QWEST RETAIL AND WHOLESALE VOLUMES IN THE TUCSON MSA

Tucson MSA Wire Centers	CLLI Code	Qwest Retail Bus. Access Lines 12/00	Qwest Retail Bus. Access Lines 12/03	Qwest Retail Bus. Access Lines 03/06	Diff Bus. 03/05 - 12/03	% Diff. Bus. 03/05 - 12/03	Qwest Retail Res. Access Lines 12/00	Qwest Retail Res. Access Lines 12/03	Qwest Retail Res. Access Lines 03/06	Diff Res. 03/05 - 12/03	% Diff. Res. 03/05 - 12/03	Qwest Total Retail Access Lines 12/00	Qwest Total Retail Access Lines 12/03	Qwest Total Retail Access Lines 03/05	Diff. Total 03/05 - 12/03	% Diff. Total 03/05 - 12/03
Coronado	CRNDAZMADS1															
Green Valley	GNVYAZMADS0															
Marana	MARNAZMARS1															
Catalina (Tucson)	TCSNAZCADS0															
Cortaro (Tucson)	TCSNAZCODS0															
Craycroft (Tucson)	TCSNAZCRDS0															
Tucson East	TCSNAZEADS0															
Flowing Wells (Tucson)	TCSNAZFWDS0															
Tucson Main	TCSNAZMADS1															
Mt. Lemmon (Tucson)	TCSNAZMLRS2															
Tucson North	TCSNAZNODS0															
Rincon (Tucson)	TCSNAZRNDS0															
Tucson Southeast	TCSNAZSEDS0															
Tucson South	TCSNAZSODS0															
Tucson Southwest	TCSNAZSWDS0															
Tanque Verde (Tucson)	TCSNAZTVDS0															
Tucson West	TCSNAZWERS1															
Vail North	VAILAZNORS1															
Vail South	VAILAZSODS0															
TUCSON MSA TOTAL																

REDACTED

QWEST RETAIL AND WHOLESALE VOLUMES IN THE TUCSON MSA

Tucson MSA Wire Centers	CLLI Code	LIS Trunks 12/03	LIS Trunks 032/05	Unb. Loops 12/03	Unb. Loops 03/05	UNE-P Res. 12/03 [1]	QPP / UNE-P Res. 03/05	UNE-P Bus. 12/03 [1]	QPP / UNE-P Bus. 03/05	Resold Res. Lines 12/03	Resold Res. Lines 03/05	Resold Bus. Lines 12/03	Resold Bus. Lines 03/05
Coronado	CRNDAZMADS1												
Green Valley	GNVYAZMADS0												
Marana	MARNAZMARS1												
Catalina (Tucson)	TCSNAZCADS0												
Cortaro (Tucson)	TCSNAZCODS0												
Craycroft (Tucson)	TCSNAZCRDS0												
Tucson East	TCSNAZEADS0												
Flowing Wells (Tucson)	TCSNAZFWDS0												
Tucson Main	TCSNAZMADS1												
Mt. Lemmon (Tucson)	TCSNAZMLRS2												
Tucson North	TCSNAZNODS0												
Rincon (Tucson)	TCSNAZRNDS0												
Tucson Southeast	TCSNAZSEDS0												
Tucson South	TCSNAZSODS0												
Tucson Southwest	TCSNAZSWDS0												
Tanque Verde (Tucson)	TCSNAZTVDS0												
Tucson West	TCSNAZWERS1												
Vail North	VAILAZNORS1												
Vail South	VAILAZSODS0												
TUCSON MSA TOTAL													

REDACTED

[1] Qwest maintains *information regarding each access line (and the associated telephone numbers)* served by CLECs via UNE-P, which is strictly a wholesale service to which no particular class of service is assigned. Qwest does not have tracking information in any retail or wholesale service database identifying UNE-P lines as being used for business or residential purposes. In an effort to determine the business/residential split of the UNE-P access lines in service, Qwest has compared each of the UNE-P telephone numbers (as of December 31, 2003) with the listings in the white pages database (as of March 3, 2004) to determine whether these listings are in the business or residential sections of the white pages database.

QWEST RETAIL AND WHOLESALE VOLUMES BEYOND THE PHOENIX AND TUCSON MSAS

Arizona Corporation Commission
Docket No. T-01051B-03-0454
Docket No. T-00000D-00-0672
Qwest Corporation - Highly Confidential DLT-2
Exhibits of David L. Teitzel
October 28, 2005

All Other Wire Centers	CLLI Code	Qwest Retail Bus. Access Lines 12/00	Qwest Retail Bus. Access Lines 12/03	Qwest Retail Bus. Access Lines 03/05	Diff Bus. 03/05 - 12/03	% Diff. Bus. 03/05 - 12/03	Qwest Retail Res. Access Lines 12/00	Qwest Retail Res. Access Lines 12/03	Qwest Retail Res. Access Lines 03/05	Diff Res. 03/05 - 12/03	% Diff. Res. 03/05 - 12/03	Qwest Total Retail Access Lines 12/00	Qwest Total Retail Access Lines 12/03	Qwest Total Retail Access Lines 03/05	Diff. Total 03/05 - 12/03	% Diff. Total 03/05 - 12/03
Ashfork	ASFKAZMARS1															
Bisbee	BISBAZMARS1															
Black Canyon	BLCNAZMARS1															
Benson	BNSNAZMADS0															
St. David (Benson)	BNSNAZSDDS0															
Chino Valley	CHVYAZMADS0															
Camp Verde	CMVRAZMARS1															
Cottonwood Main	CTWDAZMADS0															
Cottonwood South	CTWDAZSORS1															
Douglas	DGLSAZMARS1															
Flagstaff East	FLGSAZEADS0															
Flagstaff Main	FLGSAZMADS0															
Flagstaff South	FLGSAZSORS1															
Globe	GLOBAZMARS1															
Grand Canyon	GRCNAZMARS1															
Humboldt	HMBLAZMARS1															
Hayden	HYDNAZMARS1															
Joseph City	JSCYAZMARS1															
Miami	MIAMAZMARS1															
Munds Park	MSPKAZMADS0															
Nogales Main	NGLSAZMARS1															
Nogales Midway	NGLSAZMWDS0															
Page	PAGEAZMADS0															
Pima	PIMAAZMARS1															
Pine	PINEAZMARS1															
Palominas	PLMNAZMARS1															
Prescott East	PRSCAZEARS0															
Prescott Main	PRSCAZMADS0															
Elgin (Patagonia)	PTGNAZELRS1															
Patagonia Main	PTGNAZMARS1															
Payson	PYSNAZMADS0															
Sedona Main	SEDNAZMADS0															
Sedona South	SEDNAZSORS3															
Safford	SFFRAZMADS0															
Somerton	SMTNAZMARS1															
Sierra Vista Main	SRVSAZMADS0															
Sierra Vista North	SRVSAZNORS1															
Sierra Vista South	SRVSAZSODS0															
Tombstone	TMBSAZMARS1															

REDACTED

HIGHLY CONFIDENTIAL

All Other Wire Centers	CLLI Code	Qwest Retail Bus. Access Lines 12/00	Qwest Retail Bus. Access Lines 12/03	Qwest Retail Bus. Access Lines 03/05	Diff Bus. 03/05 - 12/03	% Diff. Bus. 03/05 - 12/03	Qwest Retail Res. Access Lines 12/00	Qwest Retail Res. Access Lines 12/03	Qwest Retail Res. Access Lines 03/05	Diff Res. 03/05 - 12/03	% Diff. Res. 03/05 - 12/03	Qwest Total Retail Access Lines 12/00	Qwest Total Retail Access Lines 12/03	Qwest Total Retail Access Lines 03/05	Diff. Total 03/05 - 12/03	% Diff. Total 03/05 - 12/03
Tonto Creek	TNCKAZMARS1															
Tubac	TUBCAZMARS1															
Willcox	WLCXAZMARS1															
Williams	WLMSAZMARS1															
Wellton	WLTNAZMARS1															
Winslow	WNSLAZMADS1															
Yarnell	YRNLAZMARS1															
Fortuna (Yuma)	YUMAAZFTDS1															
Yuma Main	YUMAAZMADS0															
Yuma Southeast	YUMAAZSEDS0															
ALL OTHER TOTAL																

REDACTED

Arizona Corporation Commission
Docket No. T-01051B-03-0454
Docket No. T-00000D-00-0672
Qwest Corporation - Highly Confidential DLT-2
Exhibits of David L. Teitzel
October 28, 2005

All Other Wire Centers	CLLI Code	LIS Trunks 12/03	LIS Trunks 03/05	Unb. Loops 12/03	Unb. Loops 03/05	UNE-P Res. 12/03 [1]	QPP / UNE-P Res. 03/05	UNE-P Bus. 12/03 [1]	QPP / UNE-P Bus. 03/05	Resold Res. Lines 12/03	Resold Res. Lines 03/05	Resold Bus. Lines 12/03	Resold Bus. Lines 03/05
Ashfork	ASFKAZMARS1												
Bisbee	BISBAZMARS1												
Black Canyon	BLCNAZMARS1												
Benson	BNSNAZMADS0												
St. David (Benson)	BNSNAZSDDS0												
Chino Valley	CHVYAZMADS0												
Camp Verde	CMVRAZMARS1												
Cottonwood Main	CTWDAZMADS0												
Cottonwood South	CTWDAZSORS1												
Douglas	DGLSAZMARS1												
Flagstaff East	FLGSAZEADS0												
Flagstaff Main	FLGSAZMADS0												
Flagstaff South	FLGSAZSORS1												
Globe	GLOBAZMARS1												
Grand Canyon	GRCNAZMARS1												
Humboldt	HMBLAZMARS1												
Hayden	HYDNAZMARS1												
Joseph City	JSCYAZMARS1												
Miami	MIAMAZMARS1												
Munds Park	MSPKAZMADS0												
Nogales Main	NGLSAZMARS1												
Nogales Midway	NGLSAZMWDS0												
Page	PAGEAZMADS0												
Pima	PIMAAZMARS1												
Pine	PINEAZMARS1												
Palominas	PLMNAZMARS1												
Prescott East	PRSCAZEARS0												
Prescott Main	PRSCAZMADS0												
Elgin (Patagonia)	PTGNAZELRS1												
Patagonia Main	PTGNAZMARS1												
Payson	PYSNAZMADS0												
Sedona Main	SEDNAZMADS0												
Sedona South	SEDNAZSORS3												
Safford	SFFRAZMADS0												
Somerton	SMTNAZMARS1												
Sierra Vista Main	SRVSAZMADS0												
Sierra Vista North	SRVSAZNORS1												
Sierra Vista South	SRVSAZSODS0												
Tombstone	TMBSAZMARS1												

REDACTED

QWEST RETAIL AND WHOLESALE VOLUMES BEYOND THE PHOENIX AND TUCSON MSAS

All Other Wire Centers	CLLI Code	LIS Trunks 12/03	LIS Trunks 03/05	Unb. Loops 12/03	Unb. Loops 03/05	UNE-P Res. 12/03 [1]	QPP / UNE-P Res. 03/05	UNE-P Bus. 12/03 [1]	QPP / UNE-P Bus. 03/05	Resold Res. Lines 12/03	Resold Res. Lines 03/05	Resold Bus. Lines 12/03	Resold Bus. Lines 03/05
Tonto Creek	TNCKAZMARS1												
Tubac	TUBCAZMARS1												
Willcox	WLCXAZMARS1												
Williams	WLMSAZMARS1												
Wellton	WLTNAZMARS1												
Winslow	WNSLAZMADS1												
Yarnell	YRNLAZMARS1												
Fortuna (Yuma)	YUMAAZFTDS1												
Yuma Main	YUMAAZMADS0												
Yuma Southeast	YUMAAZSEDS0												
ALL OTHER TOTAL													

REDACTED

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SAMPLE OF SELECTED CLEC SERVICES IN ARIZONA

Carrier	Certification Date	Service Name	Service Description	Pricing	Target Market	Availability	Source
Arizona Dialtone, Inc.		Basic Service	Flat rate residential line; includes Universal Service Charge, Federal Taxes, and SLC	$29.98 per month	Residential	Most areas of Arizona	www.arizonadialtone.com visited 10-17-05
		Essential Package	Basic Service plus features, Caller ID, Inside Wire Maintenance Plan	$39.99 per month	Residential	Most areas of Arizona	www.arizonadialtone.com visited 10-17-05
		Essential Package Plus	Essential Package plus Voice Mail	$47.98 per month	Residential	Most areas of Arizona	www.arizonadialtone.com visited 10-17-05
		Basic Monthly Exchange Service	Residential Service	$19.99 - $49.99 per month	Residential	Most areas of Arizona	Arizona DialTone Inc, Arizona Tariff No. 3 reviewed 10-17-05
		Basic Monthly Exchange Service	Business Flat Rate Service	$18.99 - $99.99 per month	Business	Most areas of Arizona	Arizona DialTone Inc, Arizona Tariff No. 3 reviewed 10-17-05
		Prepaid Residential Local Exchange Service	Basic Rate	$15.00 - $45.00 per month	Residential	Most areas of Arizona	Arizona DialTone Inc, Arizona Tariff No. 3 reviewed 10-17-05
AT&T		AT&T CallVantage Service Plan	VoIP service; unlimited local and long distance calling in the US and to Canada	$29.99 per month	Residential	Qwest Territory	www.local.att.com, visited 10-17-05
		At&T CallVantage Local Plan	VoIP service; includes local calls; calls to Canada and US territories are 4¢ per minute	$19.99 per month	Residential	Qwest Territory	www.local.att.com, visited 10-17-05
		AT&T CallVantage Small Office Plan	VoIP service; includes two lines; unlimited domestic calls; calls to Canada on 1st line; non-local calls up to 500 minutes per month on 2nd line	$49.99 per month	Small Business	Qwest Territory	www.local.att.com, visited 10-17-05
		AT&T One Rate USA Plan	Local line, 4 features, unlimited direct dial long distance and local toll	$49.95 per month	Residential	Qwest Territory	AT&T, Arizona Local Exchange Service Tariff - reviewed 10-17-05.
		Call Plan Unlimited	Local Service	$19.95 per month	Residential	Qwest Territory	AT&T, Arizona Local Exchange Service Tariff - reviewed 10-17-05.
		Call Plan Unlimited Plus	Local Service	$14.95 per month	Residential	Qwest Territory	AT&T, Arizona Local Exchange Service Tariff - reviewed 10-17-05.
		Call Plan Deluxe	Local service	$29.95 per month	Residential	Qwest Territory	AT&T, Arizona Local Exchange Service Tariff - reviewed 10-17-05.
		AT&T Local Exchange Service	Main and Additional Business Line associated with ACC Business	$29.50 per month	Business	Qwest Territory	AT&T, Arizona Local Exchange Service Tariff - reviewed 10-17-05.

SAMPLE OF SELECTED CLEC SERVICES IN ARIZONA

Carrier	Certification Date	Service Name	Service Description	Pricing	Target Market	Availability	Source
		AT&T Local Exchange Service	DOD, 2-Way, One Way In Local Trunk associated with ACC Business	$34.65 per month	Business	Qwest Territory	AT&T, Arizona Local Exchange Service Tariff - reviewed 10-17-05.
		AT&T Local Exchange Service	DID Trunk associated with ACC Business	$75.15 per month	Business	Qwest Territory	AT&T, Arizona Local Exchange Service Tariff - reviewed 10-17-05.
		All In One Local Exchange Service	Line charge for Local Exchange Service	Plan B Flat $34.95 per month; Plan K Flat $32.95 per month	Business	Qwest Territory	AT&T, Arizona Local Exchange Service Tariff - reviewed 10-17-05.
Citynet Arizona		Basic Service	Flat Rate Service - Residential	$26.36 per month	Residential	Qwest territory	www.cc.state.az.us/utility/tariff/citynet%20az.pdg visited on 10-17-05.
		Basic Service	Flat Rate Service - Business	$60.80 per month	Business	Qwest territory	www.cc.state.az.us/utility/tariff/citynet%20az.pdg visited on 10-17-05.
		PBX Trunk Service	Flat Rate PBS Trunk	$77.02 per month	Business	Qwest territory	www.cc.state.az.us/utility/tariff/citynet%20az.pdg visited on 10-17-05.
Cox Communications		Cox Simply 3 Package	Residential Line plus Caller ID, Voice Mail and Call Waiting and no Long distance Monthly Fee	$19.95 per month	Residential	Phoenix and Tucson	www.cox.com, visited 10-17-05
		Cox Solution Package	Residential Line plus Cox Solution Package that includes 13 features	$26.70 per month	Residential	Phoenix and Tucson	www.cox.com, visited 10-17-05
		Cox Business Line Advantage	Business Line plus choice of two differnece 15 feature packages	$38.00 per month and add Voice Mail for $10.00 per line per month	Business	Phoenix and Tucson	www.cox.com, visited 10-17-05
		Basic Residential Service without Cox Cable or Cox Internet	Local Access Line Flat Rate Service only	$13.00 per month	Residence	Phoenix and Tucson	Cox Arizona Telcom Tariff No. 1, visited 10-17-05.
		Basic Residential Service with Cox Cable or Cox Internet	Local Access Line Flat Rate Service - Combination Service - First Line	$11.75 per month	Residence	Phoenix and Tucson	Cox Arizona Telcom Tariff No. 1, visited 10-17-05.
		Basic Residential Service with Cox Cable or Cox Internet	Local Access Line Flat Rate Service - Combination Service - Second Line	$8.50 per month	Residence	Phoenix and Tucson	Cox Arizona Telcom Tariff No. 1, visited 10-17-05.
		Cox Connection-60 Package	Local Access Line, Solutions feature package, 60 minutes of long distance service	$29.95 per month	Residence	Phoenix and Tucson	Cox Arizona Telcom Tariff No. 1, visited 10-17-05.
		Cox Connection-90 Package	Primary Local Access Line and one non-primary access line, Solutions feature package, 90 minutes of long distance service	$39.95 per month	Residence	Phoenix and Tucson	Cox Arizona Telcom Tariff No. 1, visited 10-17-05.

SAMPLE OF SELECTED CLEC SERVICES IN ARIZONA

Carrier	Certification Date	Service Name	Service Description	Pricing	Target Market	Availability	Source
		Cox Unlimited Connection Package	Local Access Line, Solutions feature package, unlimited residential minutes of long distance service, and Voice Mail	$44.95 per month	Residence	Phoenix and Tucson	Cox Arizona Telcom Tariff No. 1, visited 10-17-05.
		Basic Business Service	Local Access Line Flat Rate Service	$30.00 per month M-M; $28.00 per month 1-3 years; $26.00 per month 5 years	Business	Phoenix and Tucson	Cox Arizona Telcom Tariff No. 1, visited 10-17-05.
		Home Office Service	A flat rated Business Service in a Residence Location	$30.00 per month	Business	Phoenix and Tucson	Cox Arizona Telcom Tariff No. 1, visited 10-17-05.
		PBX Service	Local Trunk - Basic charge per trunk	$35.00 per month	Business	Phoenix and Tucson	Cox Arizona Telcom Tariff No. 1, visited 10-17-05.
Eschelon		Eschelon Advantage Line	*Flat rate service based upon UNE-P*	$32.99/Mo.	Business	Phoenix	Eschelon Arizona Tariff No. 3, visited 10-17-05.
		On Network Local Service - Premium Business Line Service	Flat rate business service	$32.99/Mo.	Customers with 3-50 station lines using the Company's own switching facilities.	The following Company collocation central offices: Chandler Main, Chandler West, Deer Valley North, Glendale, Mesa, Scottsdale Main, Scottdale Shea, Scottsdale Thunderbird, Phoenix Cactus, Phoenix East, Phoenix Gateway, Phoenix, Main, Phoenix Northeast, Phoenix North, Phoenix Northwest, Phoenix Southeast, Phoenix Sunnyslope, Phoenix West	Eschelon Arizona Tariff No. 3, visited 10-17-05.
		On Network Local Service - Premium Seasonal Line	Line remains installed on the switch but is turned down until the customer requests it be turned up.	$15.13 per month - turned up; 50% off - turned down; usage charges apply	Customers who have busy times or other special needs	SAME	Eschelon Arizona Tariff No. 3, visited 10-17-05.
		On Network Local Service - Premium Measured Line	Bills a flat monthly rate that includes usage allowance	$23.31 per month., usage charges	Business	SAME	Eschelon Arizona Tariff No. 3, visited 10-17-05.

Carrier	Certification Date	Service Name	Service Description	Pricing	Target Market	Availability	Source
		Market Expansion Line	A resold product that allows the customer to have a telephone number out of a particular central office without having a physical presence in the area served by the central office.	$18.50 per month; Usage $0.10 per call.	Business	Phoenix	Eschelon Arizona Tariff No. 3, visited 10-17-05.
MCI		Local Line	Flat Rate Local Service and Feature Package Plan	$32.78 per month Plan 1 $40.00 per month Plan 2	Business	Phoenix and Tucson Rate Centers	MCImetro Access Transmission Services Minnesota Tariff No. 1, Section 3, reviewed 08-17-05
		Local Trunk - Basic	Analog and digitial voice grade channels for traffic	$38.51 per month	Business	Phoenix and Tucson Rate Centers	MCImetro Access Transmission Services Arizona Tariff No. 1, reviewed 10-17-05
		Local Trunk DID (Analog & Digital)	Digitial voice grade channel for one-way inbound traffic	$91.51 per month per trunk	Business	Phoenix and Tucson Rate Centers	MCImetro Access Transmission Services Arizona Tariff No. 1, reviewed 10-17-05
		Local Trunk 2 Way Direct (Analog & Digital)	Provides two-way direct dial digital connection for both inbound and outbound traffic	$91.51 per month per trunk	Business	Phoenix and Tucson Rate Centers	MCImetro Access Transmission Services Arizona Tariff No. 1, reviewed 10-17-05
		Residential Service Plans	Local service, long distance service and features dependent upon plan options. Customers are required to designate MCIMetro for its local service and MCI WorldCom for its long distance service.	Rates varies based on zones, feature package, and number of lines per account and are per month. Primary Line. RZA Zone 1 $52.99 Zone 2 $57.99; RZB $31.99; RZC $29.99; RLC Zone 1 $25.99 Zone 2 $24.99; RLE $33.99; RLG $Zone 1 $28.99 Zone 2 $36.99; RLH Zone 1 $40.99 Zone 2 $46.99	Residential (Only available to customers who have service with Qwest or other carrier who offers Qwest resale or UNE-P service) and previously enrolled in grandfathered service plans.	Phoenix and Tucson Rate Centers	MCImetro Access Transmission Services Arizona Tariff No. 1, reviewed 10-17-05

SAMPLE OF SELECTED CLEC SERVICES IN ARIZONA

Carrier	Certification Date	Service Name	Service Description	Pricing	Target Market	Availability	Source
		Residential Service Plans	Local service, long distance service and features dependent upon plan options. Customers are required to designate MCIMetro for its local service and MCI WorldCom for its long distance service.	Rates varies based on zones, feature package, and number of lines per account and are per month. Two or more Lines. RZA-1 $20.00; RZB-1 $20.00; RLC Zone 1 $21.99 Zone 2 $24.99	Residential (Only available to customers who have service with Qwest or other carrier who offers Qwest resale or UNE-P service) and previously enrolled in grandfathered service plans.	Phoenix and Tucson Rate Centers	MCImetro Access Transmission Services Arizona Tariff No. 1, reviewed 10-17-05
		Residential Service Plans	Local service and features dependent upon plan options.	Rates varies based on zones, feature package, and are per month. RLD Zone 1 $25.99 Zone 2 $28.99; RLD-1 Zone 1 $31.99 Zone 2 $35.99; RLD-3 Zone 1 $28.99 Zone 2 $33.99	Residential (Only available to customers who have service with Qwest or other carrier who offers Qwest resale or UNE-P service) and previously enrolled in grandfathered service plans.	Phoenix and Tucson Rate Centers	MCImetro Access Transmission Services Arizona Tariff No. 1, reviewed 10-17-05
		Business B1 Service	Local and long distance service, available under *Offering A, B, C, D, and E.* Customers are required to designate MCIMetro for its local service and MCI WorldCom for its long *distance service.*	Offering A - $44.99/Mo. Offering B - $55.99/Mo. *Offering C* - $69.99/Mo. Offering D - $94.99/Mo. Offering E - $194.99/Mo.	Small Business	Phoenix and Tucson Rate Centers	MCImetro Access Transmission Services Arizona Tariff No. 1, reviewed 10-17-05
		Business B1 Multi-Line Service	Local and long distance service. Customers are required to designate MCIMetro for its local service and MCI WorldCom for its long distance service.	$24.99 *per month*	*Small Business*	Phoenix and Tucson Rate Centers	MCImetro Access Transmission Services Arizona Tariff No. 1, reviewed 10-17-05
		Business Service A	*Local service only*	$39.99 *per month*	*Small Business*	*Phoenix and Tucson* Rate Centers	MCImetro Access Transmission Services Arizona Tariff No. 1, reviewed 10-17-05

SAMPLE OF SELECTED CLEC SERVICES IN ARIZONA

Carrier	Certification Date	Service Name	Service Description	Pricing	Target Market	Availability	Source
		Business B2 Service	Local and long distance service and feature package available under Offering A, and B. Customers are required to designate MCIMetro for its local service and MCI WorldCom for its long distance service.	Offering A - $59.99/Mo. Offering B - $34.99/Mo.	Small Business	Phoenix and Tucson Rate Centers	MCImetro Access Transmission Services Arizona Tariff No. 1, reviewed 10-17-05
		Business B2 Multi-Line Service	Local and long distance service and feature package available under Offering A, and B. Customers are required to designate MCIMetro for its local service and MCI WorldCom for its long distance service.	Offering A - $44.99/Mo. Offering B - $27.99/Mo.	Small Business	Phoenix and Tucson Rate Centers	MCImetro Access Transmission Services Arizona Tariff No. 1, reviewed 10-17-05
		Business Service B	Local service only	Primary Line - $29.99/Mo. Additional Line - $27.99/Mo.	Small Business	Phoenix and Tucson Rate Centers	MCImetro Access Transmission Services Arizona Tariff No. 1, reviewed 10-17-05
		MCI Business Services I Local	Flat Rate Service. Local Line per line and Local *Trunks (Basic, DID, and 2* Way Direct) per trunk.	Plan 1 $40.00 per month	Business	Phoenix and Tucson Rate Centers	MCImetro Access Transmission Services Arizona Tariff No. 1, reviewed 10-17-05
		MCI Business Services I Local Line Solution	Flat Rate Service. Local Line.	Plan 1 $35.00 per month Plan 2 $40.00 per month	Business	Phoenix and Tucson Rate Centers	MCImetro Access Transmission Services Arizona Tariff No. 1, reviewed 10-17-05
		MCI Business Services I Local and Long Distance - *Line* Solution Service	Flat Rate Local Service and Long Distance	$60.00 per month	Business	Phoenix and Tucson Rate Centers	MCImetro Access Transmission Services Arizona Tariff No. 1, reviewed 10-17-05
		MCI Business Services I Local and Long Distance	Flat Rate Local Service and Long Distance	Offering A - $55.99/Mo. Offering B - $65.99/Mo. Offering C - $1,400.00/Mo.	Business	Phoenix and Tucson Rate Centers	MCImetro Access Transmission Services Arizona Tariff No. 1, reviewed 10-17-05
Mountain Telecommunications		Basic Service	Network Access Line	$40.00 per month	Business and Residential	Qwest territory	www.cc.state.az.us/utility/tariff/mountain_telecom.pdg *visited on 10-17-05.*
Regal Telephone Company		Basic Service	Local Exchange Service	$39.99 per month	Business and Residential	Qwest territory	www.cc.state.az.us/utility/tariff/regaltele1.pdg visited on 10-17-05.

Carrier	Certification Date	Service Name	Service Description	Pricing	Target Market	Availability	Source
SBC Telecom		SBC Phone Solution for Business	Local service, 14 features	$42 per month	Business	Agua Fria, Buckeye, Casa Grande, Cave Creek, Circle City, Coolidge, Coronado, Deer Valley, Eloy, Florence, Fort McDowell, Green Valley, Higley, Marana, Maricopa, New River, Paradise Valley, Phoenix Metropolitan, Superstition, Tubac, Tucson, Vail, Wickenburg	SBC Telecom, Inc., Local Exchange Tariff No. 1, Section 4, reviewed 10-17-05
		SBC Multi-Line for Business	Local Service, 5 features	$36.00 per month	Business	SAME	SBC Telecom, Inc., Local Exchange Tariff No. 1, Section 4, reviewed 10-17-05
		Basic Business Line	5 or more lines at a single location	$29.00 per month	Business	SAME	SBC Telecom, Inc., Local Exchange Tariff No. 1, Section 4, reviewed 10-17-05
		Access Advantage Plus Line - SBC Phone Solution for Business	Provides the customer with local access to the public switched network with a line-side digital voice grade connection	$18.00 - $25.00 per month per channel depending on term	Business	SAME	SBC Telecom, Inc., Local Exchange Tariff No. 1, Section 4, reviewed 10-17-05
		Access Advantage Plus Line - SBC Multi-Line for Business	Provides the customer with local access to the public switched network with a line-side digital voice grade connection	$13.00 - $20.00 per month per channel depending on term	Business	SAME	SBC Telecom, Inc., Local Exchange Tariff No. 1, Section 4, reviewed 10-17-05
		Access Advantage Plus Trunk	Provides the customer with local access to the public switched network, with a trunk-side digital voice grade connection	$18.00 - $25.00 per month per Trunk depending on term	Business	SAME	SBC Telecom, Inc., Local Exchange Tariff No. 1, Section 4, reviewed 10-17-05
		SBC Phone Solution for Residence	Local service, 16 features	$30.00 per month	Residential	SAME	SBC Telecom, Inc., Local Exchange Tariff No. 1, Section 4, reviewed 10-17-05
		SBC Multi-Line for Residence	Local service	$16.00 per month	Residential	SAME	SBC Telecom, Inc., Local Exchange Tariff No. 1, Section 4, reviewed 10-17-05
Sprint		Sprint Basic	Unlimited local calling	$34.99 per month	Residence	All or portions of Qwest Wire centers in UNE Zones 1	Sprint Arizona Local Exchange Tariff No. 4, reviewed 10-17-05

SAMPLE OF SELECTED CLEC SERVICES IN ARIZONA

Carrier	Certification Date	Service Name	Service Description	Pricing	Target Market	Availability	Source
		Sprint Complete Sense 250SM	Unlimited local, 250 anytime Dial 1 Minutes for toll and domestic long distance, custom calling features	$44.99 per month	Residence	All or portions of Qwest Wire centers in UNE Zones 1	Sprint Arizona Local Exchange Tariff No. 4, reviewed 10-17-05
		Sprint Complete Sense 250SM with International	Unlimited local, 250 anytime Dial 1 Minutes for toll and domestic long distance, custom calling features, discounted International calling	$47.99 per month	Residence	All or portions of Qwest Wire centers in UNE Zones 1	Sprint Arizona Local Exchange Tariff No. 4, reviewed 10-17-05
		Sprint Complete Sense PlusSM	Unlimited local calling	$19.99 per month	Residence	All or portions of Qwest Wire centers in UNE Zones 1	Sprint Arizona Local Exchange Tariff No. 4, reviewed 10-17-05
		Sprint Complete Sense PlusSM with International	Unlimited local calling with discounted international calling	$22.99 per month	Residence	All or portions of Qwest Wire centers in UNE Zones 1	Sprint Arizona Local Exchange Tariff No. 4, reviewed 10-17-05
		Sprint Complete Sense 50SM	Unlimited local, 50 anytime Dial 1 Minutes for toll and domestic long distance, custom calling features	$34.99 per month	Residence	All or portions of Qwest Wire centers in UNE Zones 1	Sprint Arizona Local Exchange Tariff No. 4, reviewed 10-17-05
		Sprint Complete Sense 50SM with International	Unlimited local, 50 anytime Dial 1 Minutes for toll and domestic long distance, custom calling features, discounted international calling	$37.99 per month	Residence	All or portions of Qwest Wire centers in UNE Zones 1	Sprint Arizona Local Exchange Tariff No. 4, reviewed 10-17-05
		Sprint Complete Sense UnlimitedSM II	Unlimited local, unlimited anytime Dial 1 Minutes for toll and domestic long distance, custom calling features	$49.99 per month	Residence	All or portions of Qwest Wire centers in UNE Zones 1	Sprint Arizona Local Exchange Tariff No. 4, reviewed 10-17-05
		Sprint Complete Sense UnlimitedSM II with International	Unlimited local, unlimited anytime Dial 1 Minutes for toll and domestic long distance, custom calling features, discounted international calling	$52.99 per month	Residence	All or portions of Qwest Wire centers in UNE Zones 1	Sprint Arizona Local Exchange Tariff No. 4, reviewed 10-17-05
		Sprint Local BusinessSM	Unlimited local calling.	$59.95 per month	Business	All or portions of Qwest Wire centers in UNE Zones 1 and 2	Sprint Arizona Local Exchange Tariff No. 4, reviewed 10-17-05
		Sprint Complete Sense for BusinessSM	Unlimited local calling, custom calling feature, discounted long distance calling.	$39.95 per month	Business	All or portions of Qwest Wire centers in UNE Zones 1 and 2	Sprint Arizona Local Exchange Tariff No. 4, reviewed 10-17-05
		Sprint Complete Sense for BusinessSM with International	Unlimited local calling, custom calling feature, discounted long distance and international calling.	$45.90 per month	Business	All or portions of Qwest Wire centers in UNE Zones 1 and 2	Sprint Arizona Local Exchange Tariff No. 4, reviewed 10-17-05

Carrier	Certification Date	Service Name	Service Description	Pricing	Target Market	Availability	Source
		Sprint Complete Sense for BusinessSM Unlimited	Unlimited local calling, custom calling feature, unlimited long distance calling.	$74.95 per month	Business	All or portions of Qwest Wire centers in UNE Zones 1 and 2	Sprint Arizona Local Exchange Tariff No. 4, reviewed 10-17-05
		Sprint Complete Sense for BusinessSM Unlimited with International	Unlimited local calling, custom calling feature, unlimited long distance and discounted international calling.	$80.90 per month	Business	All or portions of Qwest Wire centers in UNE Zones 1 and 2	Sprint Arizona Local Exchange Tariff No. 4, reviewed 10-17-05
		Sprint Complete Sense for BusinessSM Premium	Unlimited local calling, custom calling feature, unlimited long distance calling, Voice Mail.	$89.95 per month	Business	All or portions of Qwest Wire centers in UNE Zones 1 and 2	Sprint Arizona Local Exchange Tariff No. 4, reviewed 10-17-05
		Sprint Complete Sense for BusinessSM Premium with International	Unlimited local calling, custom calling feature, unlimited long distance and discounted international calling, Voice Mail.	$95.90 per month	Business	All or portions of Qwest Wire centers in UNE Zones 1 and 2	Sprint Arizona Local Exchange Tariff No. 4, reviewed 10-17-05
Time Warner		Basic Business Line	Provides a customer with one or more analog, voice grade telephonic communications channel	$31.05 - $33.75 per month depending on term; Non-IBL/VersiPak Customers	Business	Phoenix and Tucson	Time Warner Arizona Tariff No. 1, Section 3, reviewed 10-17-05
		Basic Business Line	Provides a customer with one or more analog, voice grade telephonic communications channel	$40.50 - $55.50 per month depending on term; qualified IBL/VersiPak Customers	Business	Phoenix and Tucson	Time Warner Arizona Tariff No. 1, Section 3, reviewed 10-17-05
		PBX Analog Trunk Service	Provides a customer with a single, voice-grade telephonic communications channel from a customer-provided PBX to the public switched telecommunications network	$46.88 - $51.98 per month depending on term; Non-IBL/VersiPak Customers	Business	Phoenix and Tucson	Time Warner Arizona Tariff No. 1, Section 3, reviewed 10-17-05
		PBX Analog Trunk Service	Provides a customer with a single, voice-grade telephonic communications channel from a customer-provided PBX to the public switched telecommunications network	$48.75 - $57.00 per month depending on term; qualified IBL/VersiPak Customers	Business	Phoenix and Tucson	Time Warner Arizona Tariff No. 1, Section 4, reviewed 10-17-05

SAMPLE OF SELECTED CLEC SERVICES IN ARIZONA

Carrier	Certification Date	Service Name	Service Description	Pricing	Target Market	Availability	Source
		Digital Trunk Service	Provides a customer with connection to the Company switch via a DS1 digital fiber optic transmission facility operating at 1.544 Mbps.	Digital Facility - $250.00 per month. Plus per month trunk charges of $19.00 - $54.00 in Phoenis and $13.50 - 51.00 in Tucson depending on term	Business	Phoenix and Tucson	Time Warner Arizona Tariff No. 1, Section 4, reviewed 10-17-05
Trinsic Communications, Inc. (formerly known as Z-Tel Communications, Inc.)		Trinsic Value with PVA	Basic Local Residential Local Exchange Line with 4 custom calling features and 50 minutes of long distance calling	Primary Line per month: $32.99 UNI Zone 1, $33.99 UNI Zone 2, $53.99 UNI Zone 3	Residential	Qwest Territory	Trinsic Arizona Tariff No. 5, Section 4 and 10, reviewed 10-17-05
		Trinsic Value with PVA	Basic Local Residential Local Exchange Line with 4 custom calling features and 50 minutes of long distance calling	Secondary Line per month: $28.00 UNI Zone 1, $28.00 UNI Zone 2, $49.00 UNI Zone 3	Residential	Qwest Territory	Trinsic Arizona Tariff No. 5, Section 4 and 10, reviewed 10-17-05
		Trinsic Spectrum Local Plus PPS	*Local Business Exchange* Line with or without Hunting	*$26.00 per month*	Business	Qwest Territory	Trinsic Arizona Tariff No. 5, Section 4 and 10, reviewed 10-17-05
XO Arizona, LLC		Basic Business Line	Local service	$30.35 per month for 1 or 2 years, $28.40 per month for 3 years	Business	Phoenix Metropolitan Area	XO Arizona, Local Exchange Services Tariff No. 1, Section X, reviewed 10-17-05
		PX Analog Trunk Service	Analog voice grade channels for traffic	In Only: $37.80 - $41.25 ; Out Only: $30-95 - $33.85: Two-Way: $34.95 - $37.85. All rates per month depending on term.	Business	Phoenix Metropolitan Area	XO Arizona, Local Exchange Services Tariff No. 1, Section X, reviewed 10-17-05

SAMPLE OF SELECTED WIRELESS SERVICES IN ARIZONA

	Sprint PCS		
	Fair and Flexible America Plans		
RATES/CHARGES	**Option 1**	**Option 2**	**Option 3**
Price	$29.99	$34.99	$55.99
Anytime Minutes	200	400	1000
Overage	**$5 per 50 minutes up to 700. Above 700, 10¢ each**	**$5 per 50 minutes up to 900. Above 900, 10¢ each**	**$5 per 50 minutes up to 1500. Above 1500, 10¢ each**
FEATURES			
Call Waiting	$0.00	$0.00	$0.00
Caller ID	$0.00	$0.00	$0.00
3-Way Calling	$0.00	$0.00	$0.00
Voicemail	$0.00	$0.00	$0.00
Total Monthly Rate w/Features	**$40.00**	**$55.00**	**$105.00**
PLAN DETAILS			
Free Long Distance	YES-Nationwide	YES-Nationwide	YES-Nationwide
Plan Description	Plan includes Unlimited Night and Weekend Minutes. Hours for Night & Weekend Minutes starting at 9 p.m. are Mon.-Thurs. from 9 p.m. to 7 a.m., and Fri. 9 p.m. to Mon. 7 a.m. No Roaming Charges.	Plan includes Unlimited Night and Weekend Minutes. Hours for Night & Weekend Minutes starting at 9 p.m. are Mon.-Thurs. from 9 p.m. to 7 a.m., and Fri. 9 p.m. to Mon. 7 a.m. No Roaming Charges.	Plan includes Unlimited Night and Weekend Minutes. Hours for Night & Weekend Minutes starting at 9 p.m. are Mon.-Thurs. from 9 p.m. to 7 a.m., and Fri. 9 p.m. to Mon. 7 a.m. No Roaming Charges.

Source: www.sprint.com visited on 10/17/05. Plans are based on Phoenix area.

Sourc

T-Mobile

Single Line Rate Plans

Basic Plan	Basic Plus Plan	Get More Plan	Get More 3000 Plan	Prepay
$19.99	$29.99	$39.99	$49.99	See Chart Below
60	300	600	3000	0
45¢ per add'l minute	40¢ per add'l minute	40¢ per add'l minute	35¢ per add'l minute	

$0.00	$0.00	$0.00	$0.00	Not available
$0.00	$0.00	$0.00	$0.00	Not available
$0.00	$0.00	$0.00	$0.00	Not available
$0.00	$0.00	$0.00	$0.00	Not available
$19.99	**$29.99**	**$39.99**	**$49.99**	**See Chart Below**

YES-Nationwide	YES-Nationwide	YES-Nationwide	No- 10¢ per minute	
Includes 500 Weekend Minutes.	Includes Weekend Minutes. Weekend Minutes are those between 12:00 a.m. Saturday and 11:59 p.m. Sunday, local standard time.	Includes Unlimited Night and Weekend Minutes. Night calls are defined as calls that start after 9:00 PM or before 6:59 AM. Weekend Minutes are those between 12:00 a.m. Saturday and 11:59 p.m. Sunday, local standard time. For the 3-Day Weekend plan, weekend minutes are those		

:e: www.T-Mobile.com visited on 10/17/05. Plans are based on 85016 area code.

T-Mobile Prepay Refill card	Whenever	Gold Rewards Whenever Minutes	Expiration	
Value	Minutes®		(days)	Once you've added $100.00 in refills to your account, you automatically become a Gold Rewards
$10.00	30	50	30	customer and get at
$25.00	130	150	90	least 15% more
$50.00	400	460	90	minutes with every
$100.00	1000	1000	365	refill and your minutes

SAMPLE OF SELECTED WIRELESS SERVICES IN ARIZONA

Verizon			
			Prepay
$39.99	$59.99	$79.99	10¢ per minute
450	900	1350	NA
45¢ per add'l minute	**40¢** per add'l minute	**35¢** per add'l minute	**NA**
$0.00	$0.00	$0.00	$0.00
$0.00	$0.00	$0.00	$0.00
$0.00	$0.00	$0.00	$0.00
$0.00	$0.00	$0.00	$0.00
$39.99	**$59.99**	**$79.99**	**10¢ per minute**
YES-Nationwide	YES-Nationwide	YES-Nationwide	YES-Nationwide
Includes unlimited calling to other Verizon Wireless customers. No Roaming Charges. Also includes Call Forwarding and No Answer/Busy Transfer Night Hours: (M-F): 9:01pm - 5:59am Wknd Hours: 12:00am Sat-11:59pm Sun	Includes unlimited calling to other Verizon Wireless customers. No Roaming Charges. Also includes Call Forwarding and No Answer/Busy Transfer Night Hours: (M-F): 9:01pm - 5:59am Wknd Hours: 12:00am Sat-11:59pm Sun	Includes unlimited calling to other Verizon Wireless customers. No Roaming Charges. Also includes Call Forwarding and No Answer/Busy Transfer Night Hours: (M-F): 9:01pm - 5:59am Wknd Hours: 12:00am Sat-11:59pm Sun	Daily Access Charge of 99¢.

Source: www.verizonwireless.com visited on 10/17/05. Plans are based on Phoenix area.

Cingular			
Cingular Nation GSM Plans			
			Prepay
$39.99	$59.99	$79.99	See Below
450 Rollover	900 Rollover	1350 Rollover	
45¢ per add'l minute	**40¢** per add'l minute	**35¢** per add'l minute	

$0.00	$0.00	$0.00	$0.00
$0.00	$0.00	$0.00	$0.00
$0.00	$0.00	$0.00	$0.00
$0.00	$0.00	$0.00	$0.00
$39.99	**$59.99**	**$79.99**	**All features above included**

YES-Nationwide	YES-Nationwide	YES-Nationwide	YES-Nationwide
Includes 5000 Night and Weekends minutes, unlimited Mobile to Mobile minutes, Nights are 9:00 p.m. to 6:00 a.m. Weekends are 9:00 p.m. Friday to 6:00 a.m. Monday	Includes Unlimited Night and Weekends minutes, unlimited Mobile to Mobile minutes, Nights are 9:00 p.m. to 6:00 a.m. Weekends are 9:00 p.m. Friday to 6:00 a.m. Monday	Includes Unlimited Night and Weekends minutes, unlimited Mobile to Mobile minutes,Nights are 9:00 p.m. to 6:00 a.m. Weekends are 9:00 p.m. Friday to 6:00 a.m. Monday	Two options: -Unlimited Mobile to Mobile: $1.00 per day access charge only on days when you use your phone; get unlimited mobile to mobile calling to over 50 million Cingular customers and pay 10 cents per minute for all other calls. OR -$0.25 per minute: one simple rate for all your calls.

Source: www.cingular.com visited on 10/17/05. Plans are based on Phoenix area.

Rollover Minutes accumulate and expire through 12 rolling bill periods. Bill Period 1 (activation) unused Anytime Minutes will not carry over. Bill Period 2 unused Anytime Minutes will begin to carry over. Rollover Minutes accumulated starting with Bill Period 2 will expire each bill period as they reach a 12 bill period age. Rollover Minutes will also expire immediately upon default or if customer changes to a non-Rollover plan.

SAMPLE OF SELECTED WIRELESS SERVICES IN ARIZONA

Cricket				
Unlimited Basic	**Unlimited Classic**	**Unlimited Plus**	**Unlimited Access**	**Prepaid**
$30.00	$35.00	$45.00	$45.00	10¢ per minute
Unlimited	Unlimited	Unlimited	Unlimited	None
NA	NA	NA	NA	NA
$0.00	$0.00	$0.00	$0.00	$0.00
Not included	Not included	Not included	$0.00	$0.00
Not included	Not included	Not included	$0.00	$0.00
Not included	Not included	Not included	$0.00	$0.00
$30.00	**$35.00**	**$45.00**	**$45.00**	**10¢ per minute**

No - 8¢ per minute	No - 8¢ per minute	YES-Nationwide	YES-Nationwide	**10¢ per minute**
Unlimited Local Calls from customer's Cricket Service area. Free Incoming Calls, Free Mobile-to-Mobile minutes.	Unlimited Local Calls from customer's Cricket Service area. Free Incoming Calls, Free Mobile-to-Mobile minutes. For an additional $5 per month get Voice Mail, Caller ID, plus 2 Directory Assistance calls per month.	Unlimited Local and Long Distance calls from customer's Cricket Service area. Free Incoming Calls, Free Mobile-to-Mobile minutes. For an additional $5 per month get Voice Mail, Caller ID, plus 2 Directory Assistance calls per month.	Unlimited Night and Weekend Minutes for $5 extra. 50 state toll free calling from your home area. Two way Text messaging also included.	Free incoming calls and Text messages.

Source: www.mycricket.com visited on 10/18/05. Plans based on Phoenix area.

SAMPLE OF SELECTED WIRELESS SERVICES IN ARIZONA

AllTel			
Greater Freedom Plans			
$29.99	**$39.99**	**$49.99**	**$59.99**
$29.99	$39.99	$49.99	$59.99
300	1000	1000	1200
45¢ per minute	**40¢ per minute**	**40¢ per minute**	**40¢ per minute**

$0.00	$0.00	$0.00	$0.00
$0.00	$2.99	$0.00	$0.00
$0.00	$0.00	$0.00	$0.00
$0.00	$1.99	$0.00	$0.00
$29.99	**$39.99**	**$49.99**	**$59.99**

No - 15¢ per minute	YES-Nationwide	YES-Nationwide	YES-Nationwide
		Night minutes are Mon. — Thurs. 9 p.m. — 5:59 a.m. Weekend minutes are Fri. 9 p.m. — Mon. 5:59 a.m. Unlimited Nights/Weekends and Mobile-to-Mobile.	Night minutes are Mon. — Thurs. 9 p.m. — 5:59 a.m. Weekend minutes are Fri. 9 p.m. — Mon. 5:59 a.m. Unlimited Nights/Weekends and Mobile-to-Mobile.

Source: www.alltel.com visited on 10/18/05

SAMPLE OF SELECTED VOIP SERVICES IN ARIZONA

Residential	Vonage				Lingo/Primus				
	Premium Unlimited	Basic 500			Lingo Link	Basic	Unlimited		
Basic Rate -	$24.99	$14.99	$49.99	$39.99	$7.95	$14.95	$19.95	$49.95	$99.95
FEATURES									
Call Waiting	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Caller ID	$0.00	$0.00	$0.00	$0.00	NA	$0.00	$0.00	$0.00	$0.00
3-Way Calling	$0.00	$0.00	$0.00	$0.00	NA	$0.00	$0.00	$0.00	$0.00
Voicemail	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00	$0.00
Total Monthly Rate w/Features	**$24.99**	**$14.99**	**$49.99**	**$39.99**	**$7.95**	**$14.95**	**$19.95**	**$49.95**	**$99.95**
PLAN DETAILS									
Unlimited Local Calls	Yes	500 minutes of local or LD	Yes	1500 minutes of local or LD	Unlimited Calling to other Lingo customers only.	500 Calling Minutes	Yes	Yes	Yes
Free Long Distance	Yes - Nationwide, Canada & Puerto Rico	500 minutes of local or LD- Nationwide, Canada & Puerto Rico	Yes - Nationwide, Canada & Puerto Rico	1500 minutes of local or LD- Nationwide, Canada & Puerto Rico	Unlimited Calling to other Lingo customers only.	500 Calling Minutes to US, Canada and Western Europe.	Unlimited calling to US, Canada and Western Europe.	Unlimited calling to US, Canada and Western Europe.	Unlimited calling to US, Canada, Western Europe and add'l coutnies
Installation Chg/Activation Fee	FREE	FREE	FREE	FREE	$29.95	$29.95	$29.95	$29.95	$29.95
Other Details			Free dedicated FAX line.		First month is free.	First month is free.	First month is free.	Free Fax line with 500 minutes of faxing.	*Select international business VoIP subscription includes calls from Lingo business VoIP subscribers to 35 additional countries.

www.twcMinnesota.com visited on 8/10/05
www.vonage.com visited on 8/10/05
www.lingo.com visited on 8/10

SAMPLE OF SELECTED VOIP SERVICES IN ARIZONA

AT&T			MCI				Verizon		SunRocket	
CallVantage			Neighborhood Broadband				Voicewing		Signature Service	
Local Plan	Service Plan	[redacted]	Value	500	Unlimited	[redacted]	Voicewing 500	Voicewing Unlimited	Monthly Edition	Annual Edition
$19.99	$29.99	$49.99	$9.99	$19.99	$29.99		$19.95	$19.99	$24.95	$199 per year
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00		$0.00	$0.00	No	No
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00		$0.00	$0.00	$0.00	$0.00
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00		$0.00	$0.00	No	No
$0.00	$0.00	$0.00	$0.00	$0.00	$0.00		$0.00	$0.00	$0.00	$0.00
$19.99	$29.99	$49.99	$9.99	$19.99	$29.99	Not Publicly A	$19.95	$19.99	$24.95	$199 per year
Yes	Yes	Yes	3¢ a minute	500 minutes of combined Local and LD	Yes	Unknown	500 outbound minutes to anywhere in the U.S.- 4¢/minute	Yes	Yes	Yes
No - 4¢ a minute	Yes - US and Canada	Yes - US and Canada	3¢ a minute	500 minutes of combined Local and LD	Unlimited Calls to US and Canada	Unknown	500 outbound minutes to anywhere in the U.S.- 4¢/minute thereafter	Unlimited LD to anywhere in US including Puerto Rico	Unlimited calling to US and Canada	Unlimited calling to US and Canada
$29.95	$29.95	$29.95				Unknown	Free if ordered online.	Free if ordered online.	Free	Free
CallVantage customers do not pay Federal USF or FCC Line Charges and pay lower Federal Excise Tax.	CallVantage customers do not pay Federal USF or FCC Line Charges and pay lower Federal Excise Tax.	CallVantage customers do not pay Federal USF or FCC Line Charges and pay lower Federal Excise Tax.								

www.usa.att.com/callvantage visited on 8/10
www.mci.com visited on 8/10
www.verizon.com visited on 8/10
www.sunrocket.com vistited on 8/11

SAMPLE OF SELECTED VOIP SERVICES IN ARIZONA

[redacted]	Packet8					Skype
	Freedom Unlimited	Freedom Int'l	[redacted]			Skype for Windows
	$19.95	$19.95	$39.95	$19.95	$9.95	FREE
	$0.00	$0.00	$0.00	No	No	No
	$0.00	$0.00	$0.00	No	No	$0.00
	$0.00	$0.00	$0.00	No	No	No
	$0.00	$0.00	$0.00	$0.00	No	$0.00
	$19.95	$19.95	$39.95	$19.95	$19.95	$199 per year
	Yes	1,000 PSTN minutes	Yes	250 minutes	NA	Skype to Skyp calls are free.
	Yes	1,000 PSTN minutes	Yes - US and Canada	250 minutes	NA	Skype to Skype calls are free. Skypout users can call many worldwide locations for 23¢ per minute
	Free	Free	$39	$39	$19.95	Free
	International rates apply to all outgoing calls outside of the US (including Alaska and Hawaii) and Canada.	International rates apply to all outgoing calls outside of the US (including Alaska and Hawaii) and Canada. Other international plans are available - Unlimited Plus Asia - $49.90; Unlimited Plus Europe - $49.90 and Unlimited Plus Eurasia - $79.80.	Virtual Office service costs: - $39.95 per extension, per month, plus 3% FET. - $99 for the equipment (special business telephone and broadband adapter), - $39.00 for activation - $1.50 Regulatory Recovery Fee - $18.95 for shipping	Virtual Office Metered Extension is just like our current unlimited extension for Virtual Office differing only in price and the minutes included. The new metered extension includes 250 minutes of calling to the US and Canada, + 3.9 cents a minute thereaf	Virtual Extension is an extension that can be reached from the auto-attendant, by an extension call and by a DID. The extension is not associated with a physical Virtual Office telephone but can be forwarded out to remote numbers for 3.9 cents per minute	Skype Voicemail is sold on a subscription basis: a 12 month subscription is 15 euros and 3 months is 5 euros.

www.packet8.com visited on 8/11
www.skyp.com visited on 8/11

BEFORE THE ARIZONA CORPORATION COMMISSION

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 TELECOMMUNICATIONS ACCESS.	)	DOCKET NO. T-00000D-00-0672
	)	AFFIDAVIT OF DAVID L. TEITZEL
STATE OF WASHINGTON COUNTY OF KING	) :	SS

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

1. My name is David L. Teitzel. I am Staff Director - Public Policy for Qwest Services Corporation in Seattle, Washington. I have caused to be filed written rebuttal testimony in support of the settlement agreement in Docket Nos. T-01051B-03-0454 and T-00000D-00-0672.

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 October, 2005.

LORI L. WHITE
NOTARY PUBLIC
STATE OF WASHINGTON
COMMISSION EXPIRES 7-10-07

Notary Public

My Commission Expires: 7/10/07

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN MAYES

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PHILIP E. GRATE

REBUTTAL TESTIMONY IN SUPPORT OF SETTLEMENT

ON BEHALF OF

QWEST CORPORATION

OCTOBER 28, 2005

TESTIMONY INDEX

EXECUTIVE SUMMARY

Rebuttal of Marylee Diaz Cortez, CPA

Decision No. 67734 requires Qwest to demonstrate that the terms of the Renewed Price Plan give ratepayers "full credit for the value of the April 1, 2005 productivity adjustment..." that was suspended. Section 10 of the Agreement satisfies this requirement by providing that during Year 1 of the Plan Qwest's opportunity to increase rates up to its stipulated $31.8 million revenue deficiency is reduced by $12 million for the April 1, 2005 productivity adjustment. Ms. Diaz Cortez argues that the $12 million limitation on Qwest's opportunity to increase its rates does not satisfy Qwest's obligation because it "does not render ratepayers in a better position than they were before the settlement agreement."

Ms. Diaz Cortez incorrectly asserts that in order to give ratepayers full credit for a suspended rate reduction, ratepayers must receive a rate reduction. However, Decision No. 67734 does not call for a rate reduction. It calls for ratepayers to receive full credit for the rate reduction. RUCO fails to acknowledge that because Qwest is entitled to recover its stipulated $31.8 million revenue deficiency, reducing that recovery by $12 million in Year 1 bestows a $12 million benefit on Arizona ratepayers that gives them full credit for the rate reduction that would have been in effect between April 1, 2005 and April 1, 2006. RUCO also fails to acknowledge that the Agreement stipulates a revenue deficiency that is $127.7 million smaller than the $159.5 revenue deficiency that RUCO advocated.

Rebuttal of Ben Johnson, Ph.D.

Dr. Johnson argues that, as a matter of policy, the Agreement should be rejected unless it is as good as or better than the current Price Plan for residential and other mass market consumers. I testify that it would be inappropriate for the Commission to adopt RUCO's parochial criteria for evaluating the Agreement. The constituents of the public interest are not limited to just those Qwest customers that RUCO represents. They also include all other customers to whom Qwest provides service, Qwest's investors, Qwest's employees, Qwest's competitors and Arizona's economy. The testimony of Jerrold Thompson recounts the many provisions of the revised Price Plan designed specifically to benefit consumers. Dr. Johnson's testimony fails to mention these consumer benefits, much less to meaningfully incorporate them into his assessment of the Revised Price Plan.

Dr. Johnson argues the Revised Price Plan should be benchmarked against the current Price Plan. I disagree. The proper benchmark is current conditions including the current state of competition in Arizona telephony and the Company's current financial performance and productivity. Mr. Teitzel's rebuttal testimony provides a thorough review of the current state of competition in Arizona telephony. My testimony addresses

Qwest's financial performance and productivity. I conclude that after more than century of relatively steady access line growth, Qwest's loss of 26 percent of it retail access lines in the last four calendar years marks an unprecedented and fundamental change in the course Arizona telephony that has a profound effect on the Company's financial performance and productivity. A revised price plan must reflect these fundamental changes.

Dr. Johnson identifies certain features of the Revised Price Plan that he considers problematic. One such problem is that it does not subject certain services to annual adjustments for inflation minus a 4.2 percent Productivity Offset that is a feature of the current Price Plan. My testimony explains the origin of the 4.2 percent Productivity Offset and provides a financial explanation of the reasons why it's elimination under the Revised Price Plan is appropriate.

I analyze the practical application of RUCO's proposed regulatory regime under which the vast majority of Qwest's rates would continue to be adjusted by an annual inflation minus 4.2 percent Productivity Offset. I show that under RUCO's proposal Qwest is virtually assured of being unable to recover any significant portion of its revenue deficiency and explain why it is probable that the continuation of the 4.2 percent Productivity Offset would exacerbate Qwest's revenue deficiency.

Arguing that "It is not yet time to begin thinking about providing the Company with the type of extreme pricing flexibility that it seeks through this proposal," Dr. Johnson recommends that the Agreement be rejected. My testimony offers an alternative perspective, that of the Staff of the New York Public Service Commission which released a White Paper on Competition in New York in late September. The White Paper concluded that every residential service that Verizon New York sells except for a basic service offering should have full pricing flexibility.

Unlike RUCO, the NYPSC Staff conducted an analysis of access line and minutes-of-use loss of incumbent local exchange companies from which they concluded, "It is clear based upon the continued loss of access lines and minutes of use...that the current system is imposing unreasonable burdens on incumbent telephone companies."

I then compare the data the NYPSC Staff reviewed for Verizon New York with the same data for Qwest Arizona. The comparison shows remarkably similar levels of access line loss, minutes of use loss, revenue declines and pre-tax operating return declines.

RUCO's conclusions and the NYPSC Staff's conclusion stand in stark contrast to one another. RUCO justifies its opposition to the Agreement on the grounds that Qwest retains substantial "residual monopoly power" in Arizona. The NYPSC Staff concludes that "The provision of telecommunications services is no longer a natural monopoly. A regulatory regime that ignores that reality will not work." Qwest's Arizona financial data—especially its rapid and unprecedented access line and local service revenue losses—refutes RUCO's conclusion and supports the same conclusion for Arizona that the NYPSC Staff reached for New York.

I. IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Philip E. Grate. My business address is Qwest Corporation, 1600 7th Avenue, Seattle, Washington.

Q. ARE YOU THE SAME PHILIP E. GRATE WHO FILED DIRECT TESTIMONY IN SUPPORT OF SETTLEMENT AND DIRECT, REBUTTAL AND REJOINDER TESTIMONY IN THIS PROCEEDING?

A. Yes.

II. PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY IN SUPPORT OF AGREEMENT?

A. This testimony is in rebuttal of testimony offered on behalf of the Residential Utility Consumer Office (RUCO) in opposition of the Commission's adoption of the agreement among Qwest Corporation ("Qwest"), the Arizona Corporation Commission Utilities Division Staff ("Staff"), the Department of Defense and All Other Federal Executive Agencies, the regulated subsidiaries of MCI, Inc., Time Warner Telecom of Arizona, LLC, the Arizona Utility Investors Association, Cox Arizona Telcom, LLC, and XO Communications Services, Inc., (collectively "the Parties") to a Settlement Agreement ("Agreement") of the pending Qwest application for renewal of its current Price Plan with modifications. Specifically I respond to the Supplemental Testimonies in opposition to the Agreement of Marylee Diaz Cortez, CPA and Ben Johnson, Ph.D.

III. REBUTTAL OF MARYLEE DIAZ CORTEZ

Giving Full Credit for the Suspended April 1, 2005 Rate Reduction

Q. TO WHAT ISSUE RAISED IN MS. DIAZ CORTEZ'S TESTIMONY ARE YOU RESPONDING?

A. Ms. Diaz Cortez argues that the Agreement does not satisfy a requirement set forth in the Commission's Decision No. 67734.

Q. PLEASE EXPLAIN THE REQUIREMENT.

A. The Commission approved a three year Price Plan (current Price Plan) for Qwest effective April 1, 2001.[1] Among other things, it called for adjustments to Basket 1 rates to reflect inflation and a productivity factor set at 4.2 percent. The price adjustments were to be made annually on April 1. Although the three year term of the current Price Plan ended in 2004, the Commission ordered Qwest to continue the annual price adjustments until the Commission either modifies the current Price Plan or terminates it.[2]

[1] Decision No. 63487.
[2] Decision Nos. 66772 and 67047.

On Qwest's motion to suspend the inflation-minus productivity factor adjustment scheduled for April 1, 2005, the Commission entered Decision No. 67734 which made the following finding:

> [T]he Commission certainly has the discretion to suspend the April 1, 2005 reduction, to accommodate comprehensive settlement discussions in this case. We do not believe that a mere suspension of the April 1, 2005 reduction would violate Scates (footnote omitted), or the principle that the Commission cannot modify rates absent a fair value finding. We are not terminating the April 1, 2005 adjustment. The liability associated with the April 1, 2005 adjustment will continue to accrue. We will address the accrued liability for the April 1, 2005 adjustment in the final rate order in this docket.[3]

The Commission also found:

> Qwest has the burden of demonstrating that the terms of any Renewed Plan or other form of rate regulation that may ultimately be approved, whether produced by settlement or through litigation, include full credit for the value of the April 1, 2005 productivity adjustment being given to ratepayers.[4]

Ms. Diaz Cortez maintains that the Agreement does not satisfy this requirement.

Q. WHY DOES MS. DIAZ CORTEZ BELIEVE THE AGREEMENT DOES NOT SATISFY THIS REQUIREMENT?

A. According to Ms. Diaz Cortez: "RUCO does not believe the provisions of the settlement regarding the productivity adjustment 'include credit for the *full* value'."[5]

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[3] Decision No. 67734.
[4] *Id.*
[5] Supplemental Testimony in opposition to Qwest's Settlement Agreement of Marylee Diaz Cortez, CPA, page 5, lines 26 to 27.

Ms. Diaz Cortez maintains that had Qwest implemented a rate reduction on April 1, 2005, it "would have put ratepayers in a better position than they had been prior to the April 1, 2005 adjustment."[6] Had the rate reduction been implemented April 1, 2005, she argues, ratepayers would have realized a $12 million reduction in rates by April 1, 2006.[7] She believes that the Agreement does not demonstrate that ratepayers receive full credit for the value of the April 1, 2005 productivity adjustment because it "does not render ratepayers in a better position than they were before the settlement agreement."[8] She believes that because the Agreement does not call for a temporary $12 million rate reduction, it does not put ratepayers in a better position than they were prior to April 1, 2005.[9]

Q. DO YOU AGREE?

A. No. Ms. Diaz Cortez believes that unless ratepayers enjoy a temporary rate reduction, they have not received full credit for the value of the April 1, 2005 productivity adjustment.[10] I disagree. Ms. Diaz Cortez equates full credit with a rate reduction. Decision No. 67734 does not. Had the Commission intended that the obligation to give ratepayers full credit be satisfied exclusively through a temporary rate reduction, Decision No. 67734 would have said so.

[6] *Id.* page 7, line 3 to line 6
[7] *Id.*, page 7, line 3
[8] *Id.* page 7, line 6 to line 8
[9] *Id.* page 5, line 30 to page 6, line 11.
[10] "The agreement merely restricts the amount that Qwest can *raise* prices in Basket 2. Thus, the provisions of the settlement agreement do not give ratepayers full credit for the value of 1the productivity adjustment as required by Decision No. 67734." Supplemental Testimony in opposition to Qwest's Settlement Agreement of Marylee Diaz Cortez, CPA, page 6, line 8 to line 11.

Further, if a Basket 1 rate reduction were the only acceptable means of providing ratepayers with full credit for the suspended April 1, 2005 productivity adjustment, there would have been no reason to suspend it. However, because Decision No. 67734 did just that, it is clear that the Commission recognized that parties to a settlement could provide for satisfaction of the liability by means other than a rate reduction.

Q. PLEASE EXPLAIN HOW THE AGREEMENT PROVIDES RATEPAYERS FULL CREDIT FOR THE VALUE OF THE APRIL 1, 2005 PRODUCTIVITY ADJUSTMENT.

A. In Decision No. 66772 the Commission concluded: "The Commission cannot order termination of the Plan, or adopt a modified Plan without making a finding of fair value and a determination that the rates therein are just and reasonable." Thus, ratepayers are subject to the finding of Qwest's revenue requirement in this proceeding.[11] Ms. Diaz Cortez's direct testimony was pre-filed November 18, 2004. It claimed that Qwest's revenue deficiency is $159.5 million.[12] Section 2 of the Agreement stipulates a revenue deficiency of $31.8 million. Thus, compared to RUCO's position, the Agreement puts ratepayers in a better position by the difference between $159.5 million and $31.8 million or $127.7 million. Neither Ms.

[11] RUCO wholly supported this position in its Response to Emergency Motion to Suspend the Inflation Minus Productivity Factor Adjustment, dated 8 February 2005, p. 4, line 12 to page 5, line 3.
[12] Docket Nos. T-01051B-03-0454 & T-0000D-00-0672, Direct Testimony of Marylee Diaz Cortez, p. 2, line 7 to line 8. Rebuttal Testimony of Marylee Diaz Cortez, Schedule MDC-1, Column F, Line 8.

Diaz Cortez's nor Dr. Johnson's testimony acknowledges this benefit of the Agreement to ratepayers.

Section 10 of the Agreement provides that during Year 1 of the Plan, Qwest's opportunity to increase rates up to its stipulated $31.8 million revenue deficiency is reduced by $12 million for the April 1, 2005 productivity adjustment. This $12 million limitation on Qwest's opportunity to increase its rates to recover its revenue deficiency provides full credit for the $12 million annual reduction in rates that would have been in effect between April 1, 2005 and April 1, 2006, when it is assumed the revised Plan will take effect.

Decision No. 66772 requires a revenue requirement finding. To the extent the finding is of a revenue deficiency, Qwest is entitled to recover it in rates. RUCO's testimony opposing the Agreement fails even to acknowledge the revenue deficiency much less Qwest's right to recover it. Prohibiting Qwest from recovering $12 million of revenue deficiency that it is otherwise entitled to recover provides Arizona ratepayers full credit for the April 1, 2005 rate reduction by shielding them from $12 million of Qwest rate increases for one year.

The $12 million prohibition places Arizona ratepayers in a better position than if Qwest's opportunity were not so limited because it shields them from $12 million of rate increases necessary for Qwest to recover its revenue deficiency. It also places

Qwest in a $12 million worse position than were there no such prohibition. RUCO opposes the $12 million prohibition simply because it is not what RUCO prefers.

Q. WHAT DOES RUCO PREFER?

A. RUCO vigorously opposed Qwest's motion to suspend the April 1, 2005 productivity adjustment because it wanted Arizona ratepayers to enjoy a rate decrease.[13] The Commission's purpose in granting Qwest's motion was to avoid a temporary rate decrease followed by a subsequent rate increase under a revised Price Plan that could cause consumer confusion.[14] Now RUCO argues that the only way Qwest's obligation can be satisfied is if ratepayers enjoy a temporary rate decrease. Thus, under the pretense of opposing the Agreement, RUCO now seeks to undo what the Commission intended to achieve with Decision 67734.

Q. HOW DOES MS. DIAZ CORTEZ PROPOSE THAT RATEPAYERS ENJOY A TEMPORARY RATE REDUCTION?

A. She recommends that all Qwest 1FR and 1FB customers receive a credit on their monthly bills equal to a twelve month amortization of the value of the April 1, 2005 productivity adjustment that was foregone during the suspension period.[15]

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[13] Response to Emergency Motion to Suspend the Inflation Minus Productivity Factor Adjustment, 8 February 2005.
[14] Decision No. 67734, p. 6, lines 2 through 7.
[15] Docket Nos. T-01051B-03-0454 & T-0000D-00-0672, Testimony of Marylee Diaz Cortez, p. 6, l. 16.

Q. HAD THE COMMISSION DENIED THE MOTION TO SUSPEND THE APRIL 1, 2005 RATE REDUCTION, WHAT WOULD HAVE HAPPENED?

A. The rate reduction would have been included in Qwest's revenue requirement calculation as a pro-forma adjustment. Thus, Qwest's revenue deficiency would have been greater by the amount of the rate decrease.

Q. WOULD QWEST HAVE REDUCED 1FR AND 1FB RATES?

A. No. The current Price Plan requires Qwest to choose which rates it will adjust in order to implement the Basket 1 inflation-minus-productivity adjustment. Qwest has never chosen to implement a Basket 1 adjustment by reducing 1FR or 1FB rates. Nor would Qwest have reduced 1FR or 1FB rates April 1, 2005. Under the cover of opposing the Agreement, RUCO aims to bootstrap a rate reduction on 1FR and 1FB services whose prices would not have been reduced even if the Commission had not suspended the April 1, 2005 adjustment.

IV. REBUTTAL OF BEN JOHNSON, PH. D.

Q. TO WHICH PORTION OF DR. JOHNSON'S TESTIMONY ARE YOU RESPONDING?

A. I am responding to Dr. Johnson's testimony regarding the benchmark he proposes for evaluating the merits of the Agreement, his testimony regarding service baskets and competition and his proposal that the Commission reject the Agreement.

Appropriate Benchmark

Q. HOW WOULD DR. JOHNSON HAVE THE COMMISSION EVALUATE THE AGREEMENT?

A. Dr. Johnson testifies:

> [I]f the proposed settlement is worse for [residential and other mass market consumer] customers than the existing plan, it fails to advance important public policy goals, or it fails to adequately address important policy issues which were supposed to be dealt with in this proceeding. (sic) the Commission should reject the proposed settlement...

In other words, Dr. Johnson argues that, as a matter of policy, the Agreement should be rejected unless it is as good as or better than the current Price Plan for residential and other mass market consumers.

Q. DO YOU AGREE?

A. As a preliminary matter I should point out that Jerrold Thompson's testimony recounts the many provisions of the revised Plan designed specifically to benefit consumers. Dr. Johnson's testimony fails to mention these consumer benefits, much less to meaningfully incorporate them into his assessment of the Revised Price Plan.

That notwithstanding, it would be inappropriate for the Commission to adopt RUCO's parochial criteria for evaluating the Agreement. The constituents of the public interest are not limited to just those Qwest customers that RUCO represents. They also include all other customers to whom Qwest provides service, Qwest's investors, Qwest's employees, Qwest's competitors and Arizona's economy.

Q. WHAT BENCHMARK DOES RUCO PROPOSE FOR EVALUATING THE MERITS OF THE AGREEMENT?

A. Dr. Johnson states:

> When analyzing the proposed settlement, the Commission should determine whether the proposal is in the public interest. In order to make such a determination, the Commission needs a benchmark to evaluate the merits of the proposed settlement. <u>That benchmark should be the status quo</u>. In evaluating whether the settlement is an improvement over the status quo, the Commission should focus on whether or not the proposed settlement furthers important public policy objectives, such as establishing robust and effective competition in the telecommunications market, preventing the exploitation of monopoly power where competition is not fully effective, and preserving and promoting universal service.[16] (emphasis added)

In other words, Dr. Johnson would have the Commission gauge the Revised Price Plan against the Current Price Plan.

Q. DOES QWEST AGREE WITH DR. JOHNSON'S PROPOSED BENCHMARK?

A. No. The proper benchmark for evaluating the public interest is current conditions—including the current state of competition in Arizona telephony and the Company's current financial performance and productivity—not a plan based on conditions that existed well over half a decade ago. Mr. Teitzel's rebuttal testimony provides a thorough review of the current state of competition in Arizona telephony and

[16] Docket No's. T-01051B-03-0454 and T-00000D-00-0672, Responsive Testimony of Ben Johnson, Ph.D. On Behalf of the RUCO, p. 7, line 22 to p. 8. line 4.

concludes that competition in Arizona is now robust and intensifying. My testimony addresses Qwest's financial performance and productivity. I conclude that after more than century of relatively steady access line growth, Qwest's loss of 26 percent of it retail access lines in the last four calendar years marks an unprecedented and fundamental change in the course Arizona telephony that has profoundly curtailed the Company's financial productivity. A revised price plan must reflect these fundamental changes.

Q. IS THE AGREEMENT IN THE PUBLIC INTEREST?

A. Despite RUCO's withdrawal from settlement negotiations, the Agreement achieves a reasonable balance between the interests of RUCO's constituents and the interests of other affected parties—in light of the current state of telephony in Arizona and Qwest's financial condition.

The parties to the Agreement represent a broad cross section of constituencies to the public interest. All of these parties agree the Agreement is in the pubic interest. RUCO's parochial criteria for evaluating the plan and its failure to acknowledge the Plan's many consumer benefits has blinded it to the broader public interest and to the balance the settlement parties have achieved with the Revised Price Plan.

Alleged Problems with Service Baskets and Competition

Inflation-Minus-4.2%-Productivity Adjustment

Q. DOES DR. JOHNSON IDENTIFY OTHER PROBLEMS WITH THE TERMS OF THE AGREEMENT?

A. Yes. Using the status quo of the current Price Plan as his benchmark, Dr. Johnson evaluates the terms of the Revised Price Plan and concludes that it has specific problems when compared to the current Price Plan. Specifically, beginning on page 12, line 22, Dr. Johnson's testimony provides:

> Under the current plan, individual rates for additional local exchange access lines are capped at the prices that were in place when the current plan was first approved. Further, these services are in Basket 1, and are therefore subject to an overall basket price cap equal to the change in GDP-PI minus 4.2%. To the extent inflation is less than 4.2%, at least some of the prices for basket 1 services must decline.
>
> In contrast, under the proposed plan, prices for additional access lines (for both business and residential customers) will no longer be subject to a hard cap, and they will no longer be subject to mandatory reductions in prices when inflation runs less than 4.2%. In fact, under the proposed settlement, revenues from Basket 2 services can increase up to $43.8 million, so the additional line rates could immediately be increased by 25%, and Qwest could thereafter increase these prices by as much as 25% per year, until they reach monopoly profit-maximizing levels ("whatever the traffic will bear").
>
> Similar problems apply to exchange zone increment charges applicable to additional lines, as well as rates for PBX trunks and caller ID block. Even more rapid movement to monopoly profit-maximizing price levels will be possible with respect to services that will be moved from the current basket 1 to the proposed basket 3. These include Stand-by Line Service, Home Business Line Service, Uniform Call Distribution, Code Billing and certain service bundles. Price increases for these services are currently constrained by the requirement that prices not increase by more than inflation minus 4.2% (an allowance for cost reductions due to productivity), as part of basket 1. Under the proposed plan, these services would be moved to basket 3, and Qwest would be given

essentially unlimited freedom to raise prices, even if competition is weak or nonexistent. (emphasis added)

Q. PLEASE EXPLAIN THE INFLATION-MINUS-4.2-PERCENT-PRODUCTIVITY ADJUSTMENT.

A. Under the current Price Plan, the rates of Basic/Essential Non-competitive Services in Basket 1 are capped by a Price Cap Index subject to annual adjustment by an Inflation-minus-Productivity indexing mechanism. The Price Cap Index is capped at zero but has no lower bound under the indexing mechanism. The indexing mechanism measures inflation as the annual percent change in the Gross Domestic Product Price Index and establishes an annual Productivity Offset of 4.2 percent.

Q. WHAT IS THE PURPOSE OF THE 4.2 PERCENT PRODUCTIVITY OFFSET?

A. In its Decision adopting the current Price Plan, the Commission stated that the purpose of the Productivity Offset in a price cap plan is to pass on a carrier's "reasonably anticipated increases in productivity" to consumers through rates.[17]

Q. ON WHAT DATA WAS THE 4.2 PERCENT ANNUAL PRODUCTIVITY OFFSET BASED?

A. The 4.2 percent Productivity Offset was based on an analysis of Qwest's historic productivity growth in Arizona from 1995 through 1998.[18] The analysis showed that

[17] Docket No. T-01051B-99-0105 ET AL, Decision No. 63487, p. 9, line 26.
[18] Docket No. T-01051B-99-0105 ET AL, Decision No. 63487, p. 10, line 9.

Qwest's productivity in Arizona during this four year period was 3.7 percent. Qwest Corporation—Exhibit PEG-SR01 provides the calculation of the 3.7 percent.

Q. WHY WAS THE PRODUCTIVITY OFFSET USED IN THE CURRENT PRICE PLAN SET AT 4.2 PERCENT INSTEAD OF 3.7 PERCENT?

A. The 4.2 percent Productivity Offset was the sum of Qwest's 3.7 percent productivity in Arizona measured over the four year period from 1995 to 1998 and a 0.5 percent "consumer dividend."[19]

Q. PLEASE EXPLAIN WHAT "PRODUCTIVITY" IS.

A. As explained in a study carried out on behalf of the National Association of Accountants:

> Productivity in its economic sense, is "a relationship of output to associated inputs, in real (physical volume) terms." Usually the relationship is expressed as the ratio of output to input, where the input may include one or more of the factors of production such as labor, capital, fuel, materials, and land. * * *
>
> Unfortunately, this rather straightforward definition of productivity is usually impossible to apply in practice. How does one define the numerator, physical output? It is easy enough if the output is a single uniform product—for example, steel of a single variety; however, if the output consists of several different products, a simple calculation of output is impossible. Similarly, the input defies simple definition if more than one factor—for example, labor hours and tons of material—are included.
>
> To avoid the need for aggregating unlike terms in the numerator or denominator of the productivity ratio, analysts have substituted dollar values for physical values in numerator and denominator or both. Thus, instead of using a

[19] Docket No. T-01051B-99-0105 ET AL, Decision No. 63487, p. 5, line 14.

measure like number of tons of steel per labor hour as a productivity ratio, the analyst might substitute sales per employee or sales to total cost input.[20]

Q. SEVERAL OF YOUR EXHIBITS ARE PRODUCTIVITY CALCULATIONS. DO THOSE CALCULATIONS RELY ON DOLLAR VALUES FOR BOTH INPUTS AND OUTPUTS?

A. Yes. My testimony includes exhibits of productivity calculations in which inputs are measured as the dollar value of costs and outputs are measured by the dollar value of sales adjusted for price changes. Operating expense inputs are adjusted for general price inflation.

Q. DO YOU AGREE WITH DR. JOHNSON THAT THE REVISED PRICE PLAN'S ELIMINATION OF THE INFLATION-MINUS-4.2-PERCENT-PRODUCTIVITY ADJUSTMENT IS A PROBLEM?

A. No, I believe it is appropriate for two reasons. First, the Agreement does not eliminate the 4.2 percent Productivity Offset alone. It also eliminates the adjustment for inflation. Thus, the Agreement effectively establishes a Productivity Offset equal to the rate of inflation.

The second reason is that the 4.2 percent Productivity Offset was established in reliance on circumstances that no longer exist. The following testimony explains how circumstances have changed.

[20] *How U.S. Firms Measure Productivity*, A study carried out on behalf of the National Association of Accountants, New York, New York. Jerome Kraus, York College, City University of New York (1984).

Productivity Achieved

Q. DID QWEST ACHIEVE THE ANTICIPATED 3.7 PERCENT ANNUAL PRODUCTIVITY GROWTH IN ARIZONA AFTER 1998?

A. No. In the six calendar years following 1998, Qwest achieved average annual productivity growth of negative 3.0 percent. Qwest Corporation—Exhibit PEG-SR02 provides the calculation. This calculation uses the same algorithms that were used to derive a 3.7 percent productivity value for the four years ending December 1998 and the 0.8 percent productivity value for the ten years ending December 1998 that is discussed below.

Q. WHY HASN'T QWEST ACHIEVED 3.7 PERCENT PRODUCTIVITY GROWTH IN ARIZONA SINCE 1998?

A. There are two principal reasons. The first is that the 3.7 percent target was overly optimistic. In the ten years ending with 1998 Qwest's outputs grew an average of 4.1 percent while its inputs grew an average of 3.3 percent.[21] Hence, on average, Qwest achieved 0.8 percent (4.1 percent less 3.3 percent) annual productivity growth in Arizona during those ten years. Qwest Corporation—Exhibit PEG-SR03 sets forth this calculation. In the proceeding under which the current Price Plan was established in Docket No. T-01051B-99-0105, Qwest provided this calculation in response to Staff data request SPR 3-001.

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[21] *See* Qwest Corporation—Exhibit PEG-SR03.

The 0.8 percent average annual productivity growth rate during those ten years was 2.9 percentage points less than the 3.7 percent growth rate used in the Agreement. In fact, the 3.7 percent average annual Arizona productivity growth rate that Qwest achieved in the four years ending 1998 was the highest the Company had achieved in Arizona in any four year period during the ten years from 1989 through 1998.

Apparently, the productivity achieved in the last four years of the ten-year period was presumed to be a better predictor of future ongoing conditions than the whole of the ten-year period.

Q. WHAT IS THE SECOND REASON WHY QWEST ACHIEVED LESS THAN THE 3.7 PERCENT PRODUCTIVITY ANTICIPATED IN THE AGREEMENT?

A. An unprecedented change in Qwest's business substantially eroded Qwest's productivity in Arizona. In his pre-filed direct testimony, Dr. Johnson testified that the long term historical downward trend in real telephone prices is largely the result of increasing economies of scale and the underlying declining cost nature of the telephone industry.[22] In the six years following 1998—particularly the years of 2002, 2003 and 2004—Qwest's results ran counter to the historical trend Dr. Johnson described; Qwest suffered <u>decreasing</u> economies of scale and <u>increasing</u> cost per unit of output.

[22] Docket No. T-01051B-03-0454 and T-0000D-00-0672, Direct Testimony of Ben Johnson, page 88, lines 4 and 5.

In the ten years ending with 1998, Qwest's inputs grew at an average annual rate of 3.3 percent. In the six years following 1998, the average annual rate of growth of Qwest's inputs was 1.2 percent, a decrease of 2.1 percentage points from the average of the prior ten years.

However, during that same period the average annual growth of Qwest's outputs declined to a rate of <u>negative</u> 1.8 percent, a decrease of 5.9 percentage points compared to the prior ten years. Hence, the decline in outputs exceeded the decline in inputs by 3.8 percentage points and dropped Qwest's average annual productivity growth from positive 0.8 percent to <u>negative</u> 3.0 percent. The following schedule compares the average rate of input and output growth that Qwest achieved in Arizona during the two periods.

	1989-1998	1999-2004	Change
Ave. Annual Output Growth Rate	4.1%	-1.8%	-5.9%
Ave. Annual Input Growth Rate	3.3%	1.2%	-2.1%
Ave. Annual Productivity Growth Rate	0.8%	-3.0%	-3.8%

The schedule shows that the input growth rate slowed substantially after 1998. The slowing of input growth improves productivity growth. However, the output growth rate slowed much more than input growth. In fact, it slowed so much that, instead of growing, output has been shrinking at an average rate of 1.8 percent annually over the past six years. Although the growth rate of inputs and outputs declined, output declined substantially faster, thereby driving the decrease in annual productivity.

Q. IF THE SAME ASSUMPTION USED TO DETERMINE QWEST'S PRODUCTIVITY GROWTH RATE FOR PURPOSES OF THE CURRENT PRICE PLAN WERE USED, WHAT WOULD THE PRODUCTIVITY GROWTH RATE BE NOW?

A. The data used to establish a 3.7 percent historical productivity growth rate was based on the then most recent four years of historical data, 1995 through 1998. Qwest's Arizona intrastate productivity over the most recent four years—2001 through 2004—is negative 4.0 percent. Qwest Corporation—Exhibit PEG-SR04 provides the calculation.

The following schedule compares the average rate of input and output growth that Qwest achieved in Arizona during the period 1995 through 1998 with the input and output growth rate for the period 2001 through 2004.

	1995-1998	2001-2004	Change
Ave. Annual Output Growth Rate	6.1%	-5.9%	-12.0%
Ave. Annual Input Growth Rate	2.4%	-1.9%	-4.3%
Ave. Annual Productivity Growth Rate	3.7%	-4.0%	-7.7%

The schedule shows that between the two four-year periods the annual productivity growth rate slowed from positive 3.7 percent to negative 4.0 percent, a 7.7 percentage point drop. Although input growth slowed 4.3 percentage points between the two periods, it was overcome by a severe drop in output growth of 12.0 percentage points.

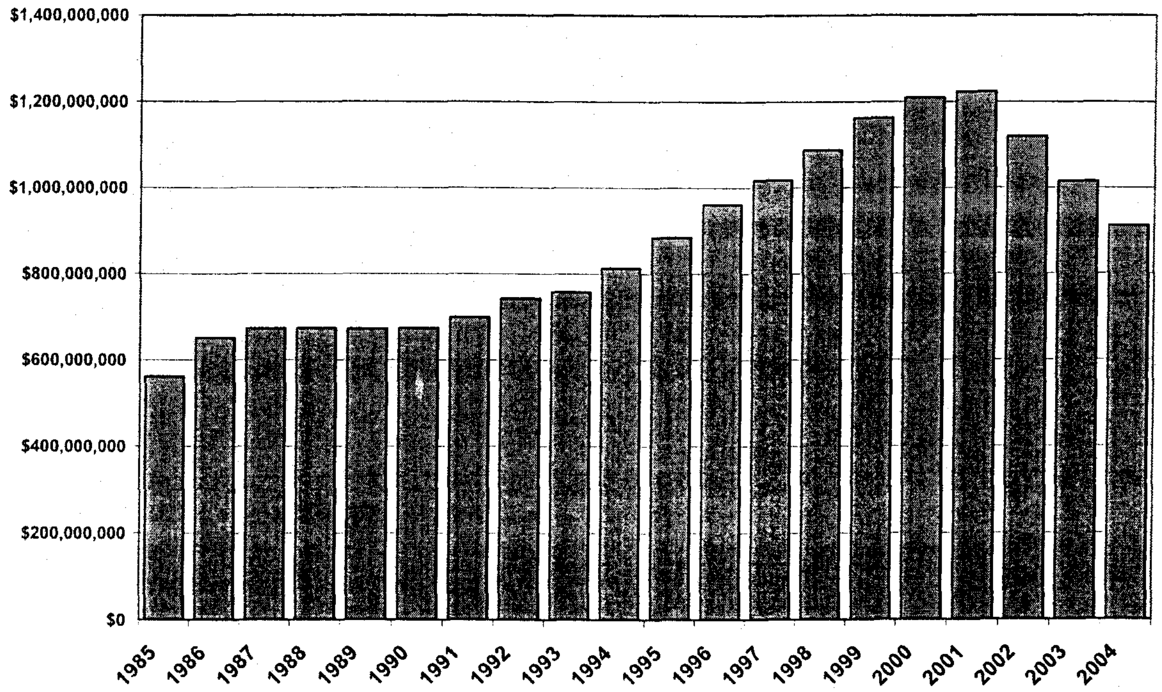
Q. DID THE RETAIL AND WHOLESALE RATE CHANGES UNDER QWEST'S ARIZONA PRICE PLAN CONTRIBUTE TO QWEST'S OUTPUT DECLINE?

A. No. The calculation of output in my exhibits removes the effect of price changes, including the price changes in April of 2001, 2002, 2003 and 2004.

Q. WHEN THE COMMISSION APPROVED THE CURRENT PRICE PLAN IN EARLY 2001, WOULD A REVIEW OF THE HISTORICAL FINANCIAL DATA AVAILABLE AT THAT TIME HAVE SUGGESTED SIGNIFICANT OUTPUT DECLINES WERE ABOUT TO BEGIN?

No. Simply reviewing the historical revenue data available in early 2001 without market analysis of the impending explosion of competition in Arizona would not have indicated a severe revenue decline was about to commence. At that point, competition was growing but its effects were still limited and financially manifest themselves principally as declines in intrastate toll revenues. The following graph charts Qwest's Arizona intrastate revenues over the past 20 years.

ARIZONA JR INTRASTATE REVENUES



The graph shows that Qwest's total intrastate revenues remained flat or grew from 1985 through 2001. So, by itself, a review of available revenue data would not have suggested a precipitous decline was about to occur. From 1995 through 1998—the years from which the 3.7 percent productivity growth rate used in the current Price Plan was derived—the Company achieved some of the strongest revenue growth of the 20 year period. Conversely, during the years 2001 through 2004—the years in which annual productivity was <u>negative</u> 4.0 percent—revenues declined severely in all but the first year.

Q. HAVE YOU PREPARED AN ANALYSIS OF QWEST'S ARIZONA INTRASTATE REVENUES OVER THE PAST DECADE?

A. Yes. An analysis of the four major categories of intrastate revenue can be found in Qwest Corporation—Exhibit PEG-SR05.

Summary of changes

Q. PLEASE SUMMARIZE AND COMPARE CHANGES IN THE FOUR REVENUE CATEGORIES DURING THE FOUR-YEAR PERIOD ENDING WITH 1998 AND THE FOUR-YEAR PERIOD ENDING WITH 2004.

A. The following schedule summarizes and compares the changes over the two four-year periods.

Arizona Intrastate Revenues ($M)

Growth in Annual Revenues

	1995 through 1998	2001 through 2004	Swing Between Four-year Periods
Local Service	276	(267)	(544)
Access Service	32	(50)	(82)
Long Distance Service	(59)	(16)	43
Misc. Excluding Inter-Area Rent Comp	24	9	(15)
Total	273	(325)	(598)

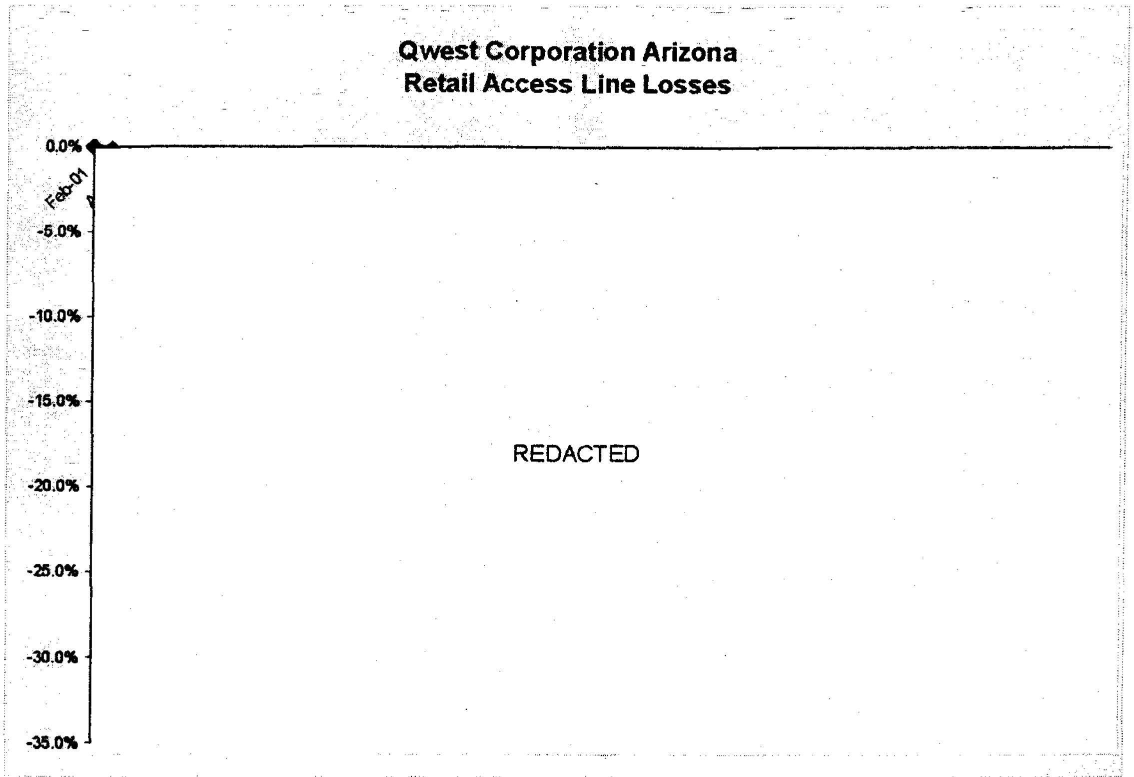
The schedule shows that in the four years ending with 1998, Qwest's annual revenues increased $273 million. In the four years ending with 2004, Qwest's annual revenues decreased $325 million. The swing in revenue growth between the two periods is negative $598 million. By far, the most significant cause of that swing was a negative $544 million swing in local service revenue growth. The change in local service revenue growth is explained by a change in access line growth. In the four years between 1994 and 1998 Qwest's Arizona retail access line count grew 28 percent while in the four years between January 2001 and January 2005, Qwest's Arizona retail access line count fell 26 percent. Dr. Johnson's criticism of the Agreement for eliminating the 4.2 percent Productivity Offset ignores these fundamental changes in Qwest's business in Arizona.

Output Growth Since 2004

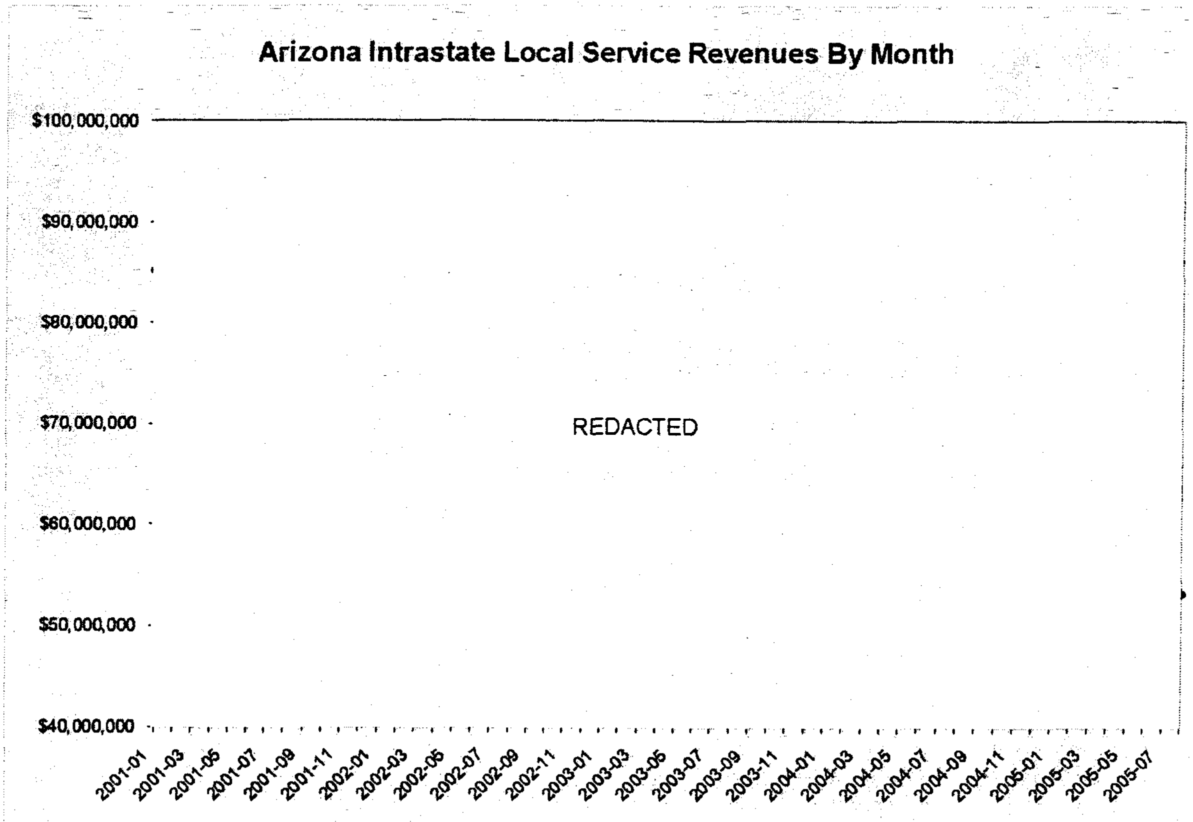
Q. YOUR OUTPUT AND REVENUE ANALYSES END WITH DECEMBER 2004. DID QWEST RETURN TO PRE-1999 LEVELS OF OUTPUT GROWTH IN 2005?

A. No. Qwest's Arizona output continues to decline in 2005. In the first three quarters of 2005, Qwest's retail access line count REDACTED access lines. In the four years and seven months between February 2001 and September 2005 Qwest's retail access line count REDACTED Despite operating in a market with a growing demand for telephone service REDACTED REDACTED The following graph charts the continuing decline.[23]

[23] In March 2002 roughly 58,000 access lines attributable to services to Internet Service Providers (ISPs) migrated from a retail business unit to the Inter-Exchange Carrier (IEC) business unit (which sells under the wholesale category) in order to give these customers a more specialized service.



Given continuing access line losses, it is not surprising that Qwest's Arizona local service revenues continue their decline. The following graph charts Qwest's Arizona monthly local service revenues since the beginning of 2001.



The graph shows that the monthly local service revenues decline that began in 2001 continues unabated in 2005. As explained in the discussion of local service revenues in Qwest Corporation—Exhibit PEG-SR05, local service revenues declined at an average annual rate of 8.9 percent over the three years of 2002, 2003 and 2004. Rate decreases under the current Price Plan contributed to this decline. During 2005 Qwest's local service revenues continued to decline REDACTED REDACTED annual rate. Because there were no rate decreases in 2005, the REDACTED annual decline rate in 2005 is attributable exclusively to output decreases.

In the four and a half years since February 2001 when Qwest's retail access lines peaked, **Qwest's local service monthly revenues in Arizona have declined** REDACTED **percent**. The decline is driven principally by the loss of REDACTED of Qwest's retail access lines. During the same four and a half year period, total Arizona intrastate monthly revenues have declined REDACTED .

Prospects for Future Productivity Improvement

Q. WHEN WILL QWEST'S PRODUCTIVITY RETURN TO ITS PRE-1999 LEVELS OF GROWTH?

A. Nobody knows if Qwest's productivity will recover to pre-1999 levels, let alone when. The available data regarding long-term telephone industry productivity is almost entirely from the monopoly era of telephony. It does not reflect robust competition's withering effect on output, such as the effect seen in Arizona since 2001. Hence, it is an unreliable predictor of future ILEC productivity improvement generally or of Qwest's Arizona future productivity improvement in particular.

Practical Application of Productivity Offset in RUCO's Proposal

Q. WHAT REGULATORY REGIME DOES RUCO PROPOSE FOR QWEST?

A. RUCO proposes a regulatory regime that establishes three baskets: Moderate Pricing Flexibility Services; High Pricing Flexibility Services; and Total Pricing Flexibility Services.[24]

RUCO would subject services and serving geographies in its proposed Moderate Pricing Flexibility Services basket to both a basket-wide revenue cap and a 25 percent rate element cap. The basket-wide cap would be essentially identical to the cap applied to the Basket 1 Basic Services in the current Plan including the annual

[24] Docket No's. T-01051B-03-0454 and T-00000D-00-0672, Direct Testimony of Ben Johnson, Ph.D. on behalf of the RUCO, page 168, line 4

adjustment for inflation (GDP-PI) minus the 4.2 percent Productivity Offset that Dr. Johnson discusses in the quote on pages 12 and 13 of this testimony.[25]

RUCO would subject services and serving geographies under its proposed High Pricing Flexibility Services basket to a basket-wide revenue cap of two times the yearly change in the GDP-PI, as well as a rate element cap of 25% per year.[26]

RUCO would cap rates for services and serving territories in its proposed Total Pricing Flexibility Services basket in accordance with the maximum rate provisions of existing Commission rules A.A.C. R14-2-1109 and A.A.C. R14-2-1110.[27]

Q. HOW WOULD RUCO EMPLOY THIS REGULATORY REGIME?

A. Under RUCO's proposed regime, each service, and each geographic area of Arizona is analyzed based on available evidence concerning their competitive characteristics to determine the basket into which it should go.[28] RUCO concludes that it would be reasonable for the Commission to put 1FR service provided in the Phoenix-Main and Tucson-Main wire centers into the High Pricing Flexibility basket, while keeping 1FR service in all other wire centers in the Moderate Pricing Flexibility basket.[29] RUCO concludes that it would be reasonable for the Commission to keep 1FB service in its proposed Moderate Pricing Flexibility basket except for four wire

[25] *Id.* page 183, line 21
[26] *Id.* page 188, line 17
[27] *Id.* page 190, line 3
[28] *Id.* page 169, line 15
[29] *Id.* page 175, line 9

centers. RUCO would place 1FB service in the Phoenix-Pecos, Tucson- Southwest, and Phoenix-Foothills wire centers in its proposed High Pricing Flexibility basket and the Phoenix-Main wire center in its proposed Total Pricing Flexibility basket.[30]

Q. DOES RUCO BELIEVE ITS PROPOSED REGULATORY REGIME WILL WORK?

A. Yes. Marylee Diaz Cortez testifies that RUCO's proposal affords Qwest the opportunity to recover a $159.5 million revenue requirement (deficiency). She claims that by providing "additional pricing flexibility for Qwest in its truly competitive markets... Qwest will have additional pricing freedom to compete in the telecommunication markets and the opportunity to increase its revenue streams so as to realize its recommended rate of return."[31]

Q. IS MS. DIAZ CORTEZ CORRECT?

A. No. RUCO's proposed regulatory regime does not afford Qwest a reasonable opportunity to recover its $31.8 million stipulated revenue deficiency, let alone a $159.5 million revenue deficiency.

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[30] *Id.* page 175, line 22
[31] Docket No's. T-01051B-03-0454 and T-00000D-00-0672, Direct Testimony of Marylee Diaz Cortez, page 3, lines 11 to 18.

Q. WHAT PORTION OF QWEST'S REVENUE DEFICIENCY WOULD QWEST BE ABLE TO RECOVER FROM SERVICES CATEGORIZED INTO RUCO'S PROPOSED MODERATE PRICING FLEXIBILITY SERVICES BASKET?

A. In all probability, none. In fact, it is likely that RUCO's proposed Moderate Pricing Flexibility Services basket would exacerbate Qwest's revenue deficiency. Under RUCO's proposal, Qwest's revenue deficiency would be recoverable from the Moderate Pricing Flexibility Services basket only if the GDP-PI exceeds 4.2 percent. To the extent the GDP-PI is less than 4.2 percent, the Moderate Pricing Flexibility Services basket would actually increase Qwest's revenue deficiency by forcing rate reductions equal to the difference between the GDP-PI and 4.2 percent.

Over the past 10 years the annual increase in the GDP-PI has been 1.9 percent. So it is not unlikely that under RUCO's proposed regulatory regime, Qwest would be required to reduce prices by an amount in the vicinity of 2.3 percent (4.2 percent minus 1.9 percent) per year for all services and geographic areas categorized in RUCO's proposed Moderate Pricing Flexibility Services basket. Under its analysis of competition, RUCO proposes to place almost all of Qwest's services and geographic areas in this basket. That leaves Qwest to recover its growing revenue deficiency from services RUCO would assign to its proposed High Pricing Flexibility Services and Total Pricing Flexibility baskets.

Q. WHAT PORTION OF QWEST'S REVENUE DEFICIENCY WOULD QWEST BE ABLE TO RECOVER FROM SERVICES CATEGORIZED INTO RUCO'S PROPOSED HIGH PRICING FLEXIBILITY SERVICES BASKET?

A. Very little. RUCO would subject services in the High Pricing Flexibility Services basket to a basket-wide revenue cap subject to adjustment by two times the yearly change in the GDP-PI, as well as a rate element cap of 25% per year.[32] Assuming the GDP-PI continues to increase an average of 1.9 percent annually, Qwest could raise rates on services and geographic areas in this basket by roughly 3.8 percent annually.

Under RUCO's proposal, the High Pricing Flexibility Services basket would include residential service provided in the Phoenix-Main and Tucson-Main wire centers and business services in the Phoenix-Pecos, Tucson-Southwest, and Phoenix-Foothills wire centers. As of September 2005, these wire centers had a total of REDACTED business access lines and xxxxx residential access lines. Conservatively assuming that each business access line generates $250 of revenues monthly and each residential access line generates $50 monthly, the total annual revenue from this basket would be approximately $26.9 million. A 3.8 percent increase on that revenue stream would be just over $1 million. By the third year of the three years term of the Revised Price Plan, the revenue increase would cumulate to $3.2 million,

[32] *Id.* page 188, line 17

assuming Qwest lost no more access lines from these highly competitive wire centers during those three years.

Q. WHAT PORTION OF QWEST'S REVENUE DEFICIENCY WOULD QWEST NEED TO RECOVER FROM RUCO'S PROPOSED TOTAL PRICING FLEXIBILITY SERVICES BASKET?

A. Marylee Diaz Cortez testifies that Qwest's revenue deficiency is $159.5 million. Under RUCO's proposal, Qwest would be unlikely to recover any revenue deficiency from RUCO's proposed Moderate Pricing Flexibility Basket. Assuming Qwest can recover a highly optimistic $3.2 million from RUCO's proposed High Pricing Flexibility Services basket, Qwest would need to recover the remaining $156.3 million from its Total Pricing Flexibility Services basket.

Q. IS IT POSSIBLE THAT QWEST COULD INCREASE RATES $156.5 MILLION IN RUCO'S PROPOSED TOTAL PRICING FLEXIBILITY SERVICES BASKET?

A. Under RUCO's proposal, the Total Pricing Flexibility Services basket would include business service in the Phoenix-Main wire center. This wire center has REDACTED business access lines. In order to recover $156.3 million from XXXXX access lines, Qwest would need to increase revenues generated from each access line an average of $4,520 per year or $377 per month.

RUCO's proposed regulatory regime assigns these access lines to its proposed Total Pricing Flexibility Services basket because these access lines are subject to what Dr. Johnson considers to be effective competition.[33] Consequently, it is difficult to understand how RUCO expects that Qwest could increase the business service rates in this basket at all, let alone $377 per month per access line.

Q. WHAT DO YOU CONCLUDE FROM YOUR ANALYISIS OF THE PRACTICAL APPLICATION OF RUCO'S PROPOSAL?

A. Under RUCO's proposal Qwest is virtually assured of being unable to recover any significant portion of its revenue deficiency. RUCO proposes a regulatory regime that ignores reality. It will not work.

RUCO's Recommendation

Q. WHAT DOES RUCO RECOMMEND THE COMMISSION DO?

A. RUCO recommends the Commission reject the proposed settlement, and move forward with a full hearing on all of the issues that were raised during the earlier stages of this proceeding.[34]

Q. WHY DOES RUCO MAKE THIS RECOMMENDATION?

A. Asserting that "Qwest continues to enjoy a dominant share of most Arizona telecommunications market[s], and its competitors are far too small to provide an adequate substitute for continued pricing constraints, such as those contained in the

[33] Docket No's. T-01051B-03-0454 and T-00000D-00-0672, Direct Testimony of Ben Johnson, Ph.D. on behalf of the RUCO, page 189, line 19
[34] Docket No's. T-01051B-03-0454 and T-00000D-00-0672, Responsive Testimony of Ben Johnson, Ph.D. on behalf of the RUCO, page 23, line 21

current plan" RUCO believes: "It is not yet time to begin thinking about providing the Company with the type of extreme pricing flexibility that it seeks through this proposal."

Q. DO YOU AGREE?

A. No. My evaluation of Qwest's financial performance over the past four and a half years fully corroborates Mr. Teitzel's conclusion that Qwest faces robust competition in Arizona. Qwest's rapidly declining revenue streams indicate that Qwest needs at least the flexibility provided in the Agreement in order to have a reasonable opportunity to recover its revenue deficiency, as established by the Agreement. RUCO's testimony in opposition to the Agreement fails to address both the level of Qwest's competitive loses and the Company's revenue deficiency.

Q. HAS ANY OTHER STATE JURSIDICTION RECENTLY EVALUATED THE EFFECT OF ROBUST COMPETITION ON ITS ILECS?

A. Yes. Many commissions are investigating issues of competition in the telephone industry. A very recent example is New York. In July 2005 the New York Public Service Commission (NYPSC) ordered the Department of Public Service Staff (NYPSC Staff) to prepare a white paper on competition in New York. The NYPSC Staff's September 21, 2005 White Paper provides a general overview of the changing telecommunications market and a proposal for a regulatory regime they believe to be appropriate to today's competitive telecommunications market. It is located on the Internet at:

http://www3.dps.state.ny.us/pscweb/WebFileRoom.nsf/Web/C76443168615205885257083006ADF64/$File/05c0616.coverltr.09.21.05.pdf?OpenElement

Q. DID THE WHITE PAPER CONCLUDE THAT IT IS NOT YET TIME TO BEGIN THINKING ABOUT THE KIND OF THE PRICING FELXIBILITY SPECIFIED IN THE AGEEMENT?

A. No. On the *contrary* the NYPSC Staff's White Paper proposed far greater pricing flexibility than the Agreement proposes. Specifically, the White Paper proposes the following for residential services:[35]

1. All local exchange companies would be required to make a basic service offering—defined as a single, residential line with no features, offered as a stand-alone service universally throughout all exchanges of all local exchange companies in the state—at a rate of $24.95.[36] The NYPSC Staff recognized that some current basic offerings in New York are considerably lower than $24.95 but concluded they stem from a legacy regulatory regime that borrowed higher revenue margins from more lucrative markets to keep rates lower than they would be in a competitive market, where such pricing strategies are no longer workable.[37]

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[35] The NYPSC Staff noted: "The framework we propose is applicable to the residential market only. Analogous flexibility already exists in the Enterprise market and Special Services market." NYPSC Staff White Paper, page 41, footnote 91

[36] *Id.* pp. 41 and 42

[37] *Id.* p. 43

2. For New York State's two largest Incumbent Local Exchange Providers—Verizon New York and Frontier of Rochester—the NYSPC Staff proposed full pricing flexibility for all residential services other than the basic service offering. Under this proposal, prices for these services would be offered on a statewide basis throughout each company's serving territory. Thus, the NYPSC Staff concluded, customers in noncompetitive areas of each company would be protected by the market constraints of the competitive areas of each company.[38]

Q. ON WHAT RATIONALE DID THE NYPSC STAFF RELY TO CONCLUDE THAT EVERY RESIDENTIAL SERVICE EXCEPT FOR THE BASIC SERVICE OFFERING SHOULD HAVE FULL PRICING FLEXIBILITY?

A. The NYPSC Staff conducted an analysis of access line and minutes-of-use loss of incumbent local exchange companies in New York. From this analysis they concluded, "It is clear based upon the continued loss of access lines and minutes of use described above that the current system is imposing unreasonable burdens on incumbent telephone companies."[39]

Q. ARE QWEST'S LOSS OF ACCESS LINES AND MINUTES OF USE IN ARIZONA SIMILAR TO VERIZON NEW YORK'S?

A. Yes. The following chart shows the change in switched access minutes of use of the two companies.

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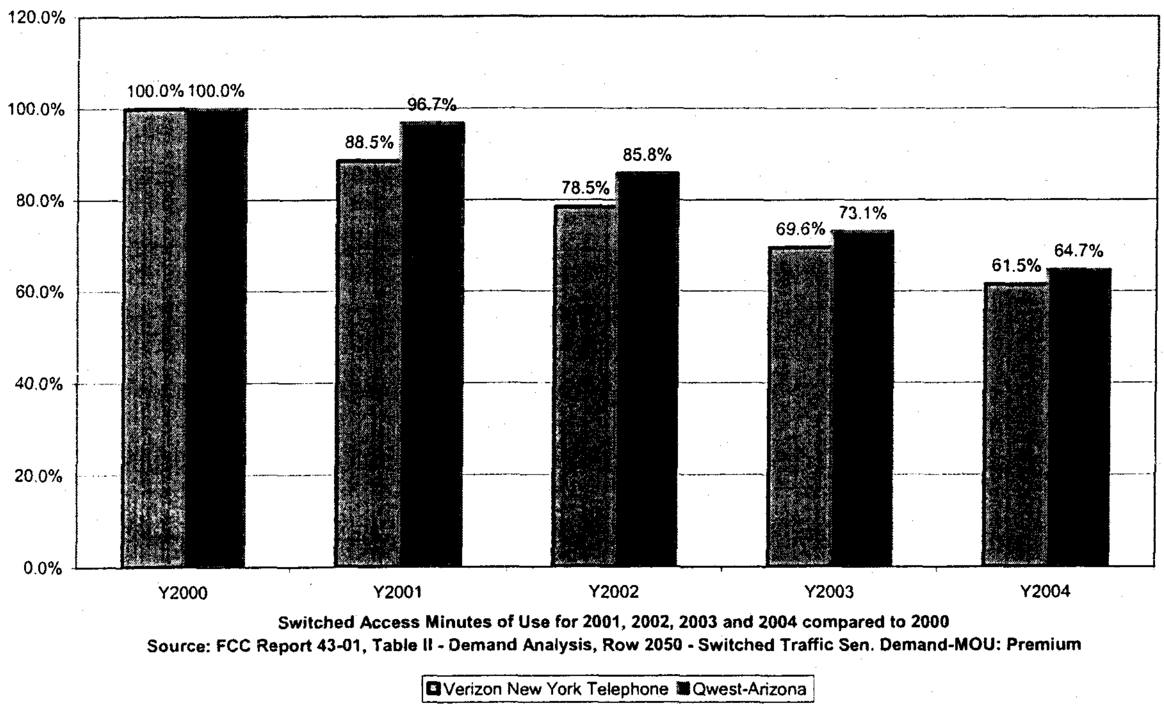
[38] *Id.* p. 47
[39] *Id.* p. 40

Switched Access Minutes of Use Since End of Year 2000

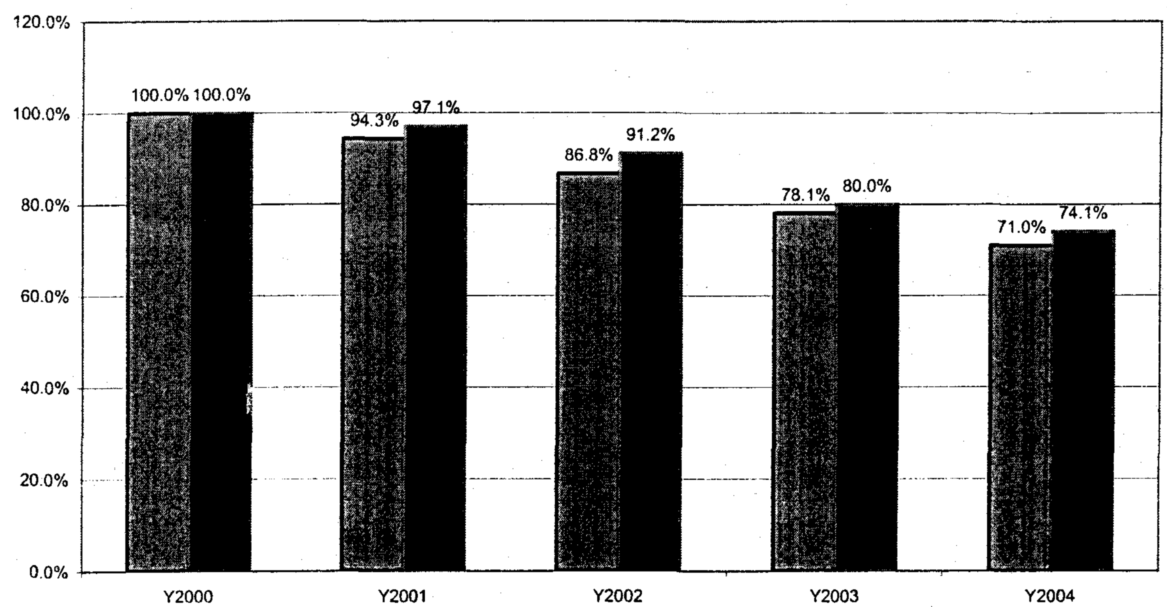


The chart shows that between 2000 and 2004, Qwest Arizona's and Verizon New York's minutes of use as reported on FCC Report 43-01 declined to 65 percent and 62 percent respectively from their 2000 levels.[40] Hence, during the four year period, Qwest Arizona and Verizon New York lost almost the same portion of their minutes of use—35 percent and 38 percent respectively.

The following chart compares the access line loss of the two companies.

[40] The minutes of use data for Verizon New York that the graph presents are the same minutes of use data that the NYPSC Staff analyzed and presented in its White Paper, page 36, Table 2.

Access Line Loss Since End of Year 2000



Access Lines at EoY 2001, 2002, 2003 and 2004 as a percent of EoY 2000
Source: FCC Report 43-01, Table II - Demand Analysis, Row 2150 - Total Billable Access Lines

This chart shows that, as reported on FCC Report 43-01 for the years 2000 through 2004, Qwest Arizona's access line count declined to 74 percent of the year end 2000 level while Verizon New York's access line count declined slightly more, to 71 percent. Hence, during the four year period, Qwest Arizona and Verizon New York lost very nearly the same portion of their access lines—26 percent and 29 percent respectively.

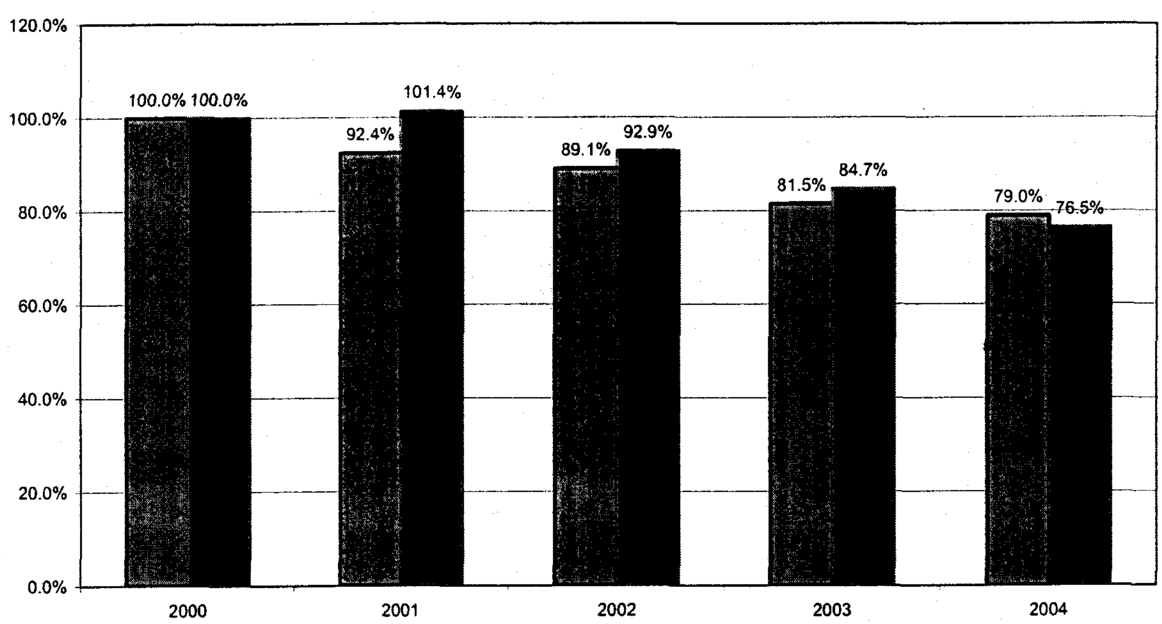
Q. WHAT DID THE STAFF OF THE NYPSC DEDUCE FROM VERIZON NEW YORK'S LOSS OF MINUTES OF USE AND ACCESS LINES?

A. The NYPSC Staff concluded: "With these declines in access lines and usage, it is not surprising that Verizon's revenue streams have also declined."

Q. HOW DOES THE REVENUE LOSS OF VERIZON NEW YORK COMPARE WITH THE REVENUE LOSS OF QWEST ARIZONA?

A. Both Qwest Arizona and Verizon New York have experienced similar levels of intrastate revenue losses as shown by the following chart.

Intrastate Revenues



Annual Intrastate Revenue in 2001, 2002, 2003 and 2004 Compared to 2000
Source: FCC Report 43-01, Table I - Cost and Revenue, Row 1090 - Total Operating Revenue

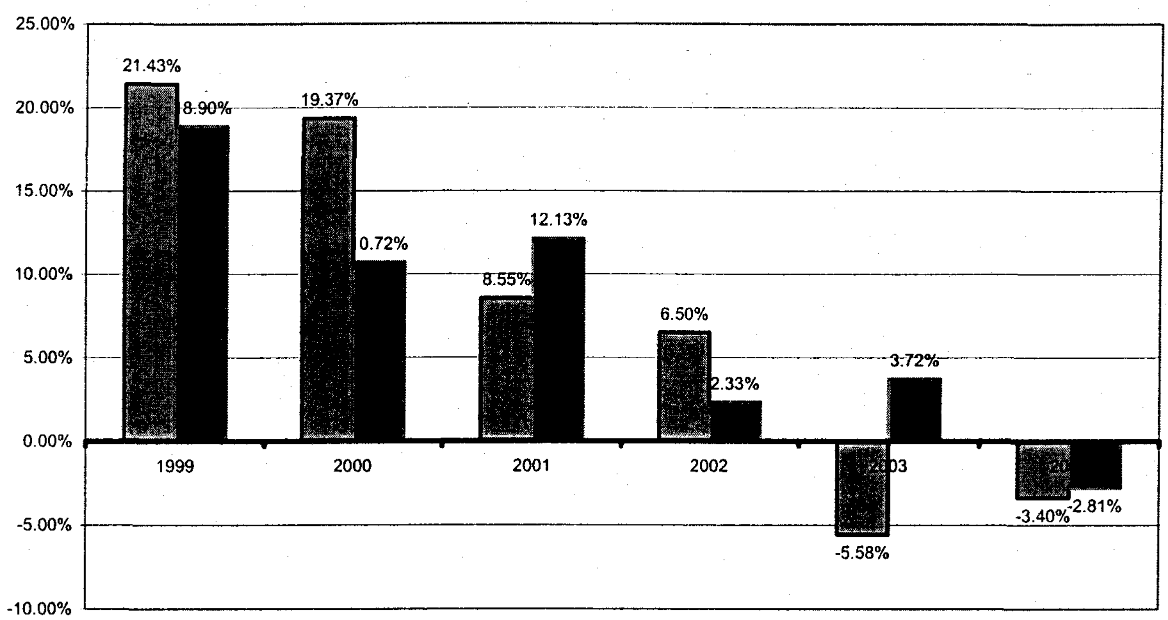
Verizon New York Telephone ■ Qwest - Arizona

The graph shows that during the four year period from 2000 to 2004, Qwest's intrastate revenues as reported on FCC Report 43-01 declined to 77 percent of the 2000 level while Verizon New York's declined to 79 percent. Hence, during the four year period, Qwest Arizona and Verizon New York lost almost the same portion of their intrastate revenues—23 percent and 21 percent respectively. The rate decreases that went into effect in April of 2002, 2003 and 2004 under the inflation-minus-productivity rate adjustments of Qwest's Arizona Price Plan exacerbated Qwest Arizona's revenue losses and help to explain why Qwest Arizona lost more intrastate revenues than did Verizon New York.

Q. HOW DOES THE FINANCIAL PERFORMANCE OF VERIZON NEW YORK COMPARE WITH THE FINANCIAL PERFORMANCE OF QWEST ARIZONA?

A. The following chart shows the return on average net investment derived from intrastate pretax operating income for Qwest Arizona and Verizon New York. In order to make the rates of return more directly comparable, the data used to compute them was taken from FCC Report 43-01, which is on the FCC (MR) basis of accounting. I selected intrastate pretax operating income as the measure of return because it presents the clearest picture of the results of operations of the two jurisdictions and avoids introducing differences attributable to different tax rates and non-operating items.

Pre-tax Operating Return on Investment



Annual Pre-Tax Operating Income Divided by Average Net Investment
Source: FCC Report 43-01, Table 1 - Cost and Revenue

Verizon New York Telephone ■Qwest-Arizona

The data show that measured on a directly comparable basis (the MR basis of accounting), both companies' returns have suffered a precipitous decline over the past six years. Verizon's return declined 24.8 percentage points over the six year period while Qwest's declined 21.7 percentage points. The six-year decline and the negative returns that both companies now achieve both indicate that Verizon New York and Qwest Arizona are suffering similar degrees of financial pressure.

Q. WHAT DO YOU CONCLUDE FROM A COMPARISON OF QWEST ARIZONA AND VERIZON NEW YORK?

A. Comparative financial data indicate that the level of competition Qwest Arizona and Verizon New York face is substantially the same. Over the past four calendar years, Qwest's minutes of use and access lines loss rates in Arizona are only slightly less than Verizon New York's. Qwest Arizona's rate of revenue loss slightly exceeds Verizon New York's.

Q. PLEASE COMPARE THE CONCLUSIONS THAT RUCO REACHED WITH REGARD TO QWEST ARIZONA AND THE NYPSC STAFF REACHED WITH REGARD TO VERIZON NEW YORK.

A. RUCO claims:

> Clearly, the existing level of <u>competition in many parts of Qwest's Arizona service territory is not strong enough</u> to prevent Qwest from imposing substantial price increases on residential customers if the settlement is approved. Under the proposed settlement, Qwest would be granted far too much pricing flexibility in markets where it faces very little competitive pressure, and thus it will be able to exploit its residual market power to the detriment of its residential customers and the public generally.[41] (emphasis added)

In contrast, the NPYSC Staff concluded: "Even if one accepts the arguments that cellular, cable and other broadband alternatives are not perfect substitutes for ILEC services, it is clear that those services are having a profound effect on the financial health of the incumbents."[42] "The provision of telecommunications services is no

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[41] Docket No's. T-01051B-03-0454 and T-00000D-00-0672, Responsive Testimony of Ben Johnson, Ph.D. on behalf of the RUCO, page 21, line 4
[42] *Id.* p. 38

longer a natural monopoly. A regulatory regime that ignores that reality will not work."[43]

RUCO complains:

> The balance struck in the proposed settlement is clearly oriented toward changes in the current plan that will enable Qwest to extract additional revenues and profits from markets where the Company continues to enjoy a substantial degree of monopoly power, rather than changes that would better enable the Company to cut prices in markets where this is necessitated by increased competitive pressures.[44]

In contrast, an analysis of Verizon New York's access line and minute of use losses and their effect on its financial performance led the NYPSC Staff to propose that virtually all of Verizon New York's intrastate residential services except for a basic service offering have full pricing flexibility.

Q. TO WHAT DO YOU ASCRIBE THESE MARKEDLY DIFFERENT CONCLUSIONS?

A. The NYPSC Staff took account of Verizon New York's rapid declines in access lines, minutes of use and financial performance. RUCO's testimony does not acknowledge these factors. Instead, RUCO claims that Qwest maintains "residual monopoly power," and "residual market power."

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[43] *Id.* p. 40

[44] Docket No's. T-01051B-03-0454 and T-00000D-00-0672, Responsive Testimony of Ben Johnson, Ph.D. on behalf of the RUCO, page 22, line 9

Q. DOES THE COMMISSION'S 2003 DECISION TO SUPPORT THE ENTRY OF QWEST'S PARENT INTO THE INTERSTATE LONG DISTANCE BUSINESS CORROBORATE RUCO'S RESIDUAL MARKET POWER HYPOTHESIS?

A. No. By enacting the Telecommunications Act of 1996 Congress created Section 271 of Title 47. It provides that Qwest's Section 272 affiliate can enter the interLATA long distance telephone business under certain conditions. One of those conditions is that Qwest satisfy a "competitive checklist" that contains requirements designed to open local telephone service markets to competition. In September 2003 the Commission concluded as a matter of law that Qwest had satisfied all the criteria for a determination that provision of interLATA service by Qwest's Section 272 affilate was in the public interest. Among those criteria was a determination that the local markets for telephone service are open to competition in Arizona.[45]

Q. DOES QWEST'S LOSS OF ACCESS LINES SUPPORT RUCO'S MONOPOLY HYPOTHESIS?

[45] In the Matter of U.S. West Communications, Inc.'s Compliance with Section 271 of the Telecommunications Act of 1996, Docket No. T-00000A-97-0238, ACC Decision No. 66319, p. 34, ll. 6-15.

A. No. Since February 2001 Qwest has lost xx percent of its Arizona retail access lines. Qwest's unprecedented and rapid access line loss over the past four and a half years contradicts the RUCO's assertion that Qwest retains market power in Arizona.

Q. DO QWEST'S RAPIDLY DECLINING LOCAL SERVICE REVENUES SUPPORT RUCO'S HYPOTHESIS?

A. No. In the four and a half years since February 2001 when Qwest's retail access lines peaked, Qwest's monthly local service revenues in Arizona have declined REDACTED percent. Arizona's population is growing. If Qwest retained monopoly power over telephony in Arizona, it would not be suffering these declines.

Q. THEN ON WHAT BASIS DOES RUCO ASSERT THAT QWEST MAINTAINS "RESIDUAL MONOPOLY POWER," AND "RESIDUAL MARKET POWER" OVER RETAIL SERVICES?

A. RUCO claims that significant barriers to entry remain in many portions of the Arizona telecommunications market, particularly in residential areas and rural parts of the state.[46]

Q. DO YOU AGREE?

No. The facts prove otherwise. With regard to residential service, Qwest's count of consumer access lines[47] has declined over xx percent since it peaked in February

[46] Docket No's. T-01051B-03-0454 and T-00000D-00-0672, Responsive Testimony of Ben Johnson, Ph.D. on behalf of the RUCO, page 21, line 10.

2001. Qwest is losing residential customers at a rapid rate even as Arizona's population has grown. If significant barriers to entry in the residential market existed, Qwest would not be experiencing a rapid and unprecedented loss of consumer access lines.

Regarding rural markets, telephone service is open to competition statewide in Arizona, not just in the urban portions of the state. Qwest's is obligated to rent the elements of its network to CLECs on an unbundled basis and at wholesale prices wherever it has facilities, not just in the urban portions of the state and not just for serving business customers. As Mr. Teitzel's testimony explains, most carriers in Arizona utilize statewide average pricing. This is true not only for Arizona but for all 14 states where Qwest Communications operates. As Mr. Thompson explains, it is hardly surprising that telecommunications carriers rely on statewide average pricing because it is very difficult and very expensive to manage geographically de-averaged telecommunications prices.

To be sure, there are differences in the cost of providing service to different geographic areas and different market segments within Qwest's service territory in Arizona. And certainly rational competitors prefer high margin customers over low margin customers. Consequently, as Qwest losses more high margin customers to competition, statewide average pricing will put Qwest's financial viability under growing pressure. However, contrary to what Dr. Johnson would lead the

[47] The count of consumer access lines excludes public access lines.

Commission to believe, the Price Plan specifically contemplates the possibility that the Commission will decide to allow changes to Qwest's statewide average pricing.

Regardless, Qwest cannot raise its rates above competitive market prices in any market or any locale in Arizona without harming its sales volumes and profits. Qwest's access line and revenue losses in a growing market for telephony demonstrate the success Qwest's competitors have enjoyed and show that competition in Arizona is highly effective.

Q. WHAT DO YOU CONCLUDE ABOUT RUCO'S OPPOSTITION TO THE AGREEMENT?

A. Qwest's precipitous decline in retail access lines and in intrastate revenues—particularly local service revenues—disprove the hypothesis that Qwest retains a monopoly over telecommunications markets in Arizona. As Mr. Teitzel's testimony explains, TNS Telecoms, an independent research entity, found that for 2nd Quarter 2005, Qwest had a 33% share of communications connections in its Arizona service territory, as compared to a 65% connections share in 2nd Quarter 2000. The financial data I have observed indicate competition in Arizona is meeting with great success and squarely refutes RUCO's contention that it is not time to begin thinking about the pricing flexibility afforded by the terms of the Agreement.

If Qwest is to remain financially viable then it must have the flexibility to price services to respond to competition. The Agreement provides necessary additional pricing flexibility. It also protects ratepayers from paying monopoly prices by capping the amount Qwest can raise prices to a revenue deficiency amount that is far less than the revenue deficiency RUCO calculated for Qwest. RUCO's opposition to the Agreement ignores both the extent of competition in Arizona and Qwest's financial condition. The Agreement should be adopted.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY IN SUPPORT OF THE SETTLEMENT?

A. Yes.

BEFORE THE ARIZONA CORPORATION COMMISSION

COMMISSIONERS
JEFF HATCH-MILLER, Chairman
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN MAYES

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 TELECOMMUNICATIONS ACCESS	)	DOCKET NO. T-00000D-00-0672

REBUTTAL EXHIBITS

OF

PHILIP E. GRATE

ON BEHALF OF

QWEST CORPORATION

OCTOBER 28, 2005

INDEX OF EXHIBITS

DESCRIPTION	EXHIBIT
Calculation of Qwest productivity growth in Arizona from 1995 through 1998	PEG-SR01
Calculation of Qwest productivity growth in Arizona from 2000 through 2004	PEG-SR02
Calculation of Qwest productivity growth in Arizona from 1989 through 1998	PEG-SR03
Calculation of Qwest productivity growth in Arizona from 2001 through 2004	PEG-SR04
Analysis of Qwest's Arizona intrastate revenues between 1994 and 2005	PEG-SR05

Arizona Productivity Analysis - 1995 to 1998
MR Intrastate
($000's)

Line No.	Item	Source	1994	1995	1996	1997	1998*
INPUTS							
1	Intrastate Expenses						
2	Maintenance	1990's Report	179,310	187,774	205,041	200,848	206,061
3	Engineering/Network/Access/Other	1990's Report	68,910	71,773	65,179	48,964	52,927
4	Customer Operations	1990's Report	140,269	153,528	161,304	172,445	164,816
5	Corporate Operations	1990's Report	120,992	116,446	127,985	143,530	155,888
6	TOTAL EXPENSE		509,481	529,521	559,509	565,787	579,692
7	DEFLATED EXPENSE (1988 $)	L6/L28*100	418,431	423,614	438,271	433,366	439,729
8	YEAR OVER YEAR GROWTH	(L7 Curr. Yr./Prev. Yr.)-1		1.2%	3.5%	-1.1%	1.5%
	CAPITAL - Intrastate Investment						
9	Average Gross Plant In Service	1990's Report	2,748,270	2,896,085	3,075,298	3,249,626	3,351,980
10	Year over Year Additions	L9 Curr. Yr. - Prev. Yr.		147,815	179,213	174,328	102,354
11	Deflated Additions (1988 $)	L10/L28*100		118,251	140,380	133,527	77,641
12	Plant in Service Without Inflation	L11+Prev. Yr. L12	2,639,976	2,758,228	2,898,609	3,032,137	3,109,778
13	Auth Rate of Return	Input	9.75%	9.75%	9.75%	9.75%	9.75%
14	TOTAL CAPITAL EXPENSE	L12*L13	257,398	268,927	282,614	295,633	303,203
15	YEAR OVER YEAR GROWTH	(L14 Curr. Yr./Prev. Yr.)-1		4.5%	5.1%	4.6%	2.6%
16	TOTAL EXPENSE	L7+L14	675,828	692,541	720,885	728,999	742,932
17	YEAR OVER YEAR GROWTH	(L16 Curr. Yr./Prev. Yr.)-1		2.5%	4.1%	1.1%	1.9%
OUTPUTS							
18	REVENUES						
19	Operating Revenues	1990's Report	813,423	884,920	961,388	1,017,826	1,072,695
20A	Rate Adjustments	Notes	-15,153	-31,579	-34,308	-40,795	-61,575
20B	Intentionally Blank						
20C	Intentionally Blank						
21	TOTAL ADJUSTED REVENUES	L19+L20	798,270	853,341	927,080	977,031	1,011,120
22	YEAR OVER YEAR GROWTH			6.9%	8.6%	5.4%	3.5%
23	**Growth in Outputs (Revenues)**	**L22**		**6.9%**	**8.6%**	**5.4%**	**3.5%**
24	**Growth in Inputs (Expenses)**	**L17**		**2.5%**	**4.1%**	**1.1%**	**1.9%**
25	**Productivity**	**L23-L24**		**4.4%**	**4.5%**	**4.3%**	**1.6%**
					AVERAGE PRODUCTIVITY 1995-1998		**3.7%**
					CONSUMER DIVIDEND		**0.5%**
					TOTAL PRODUCTIVITY FACTOR		**4.2%**
26	Inflation Data (GDPPI)	Bureau of Economic Analysis	105.2	108	110.3	112.8	113.9
27	Growth	(L26 Curr. Yr./Prev. Yr.)-1		2.66%	2.13%	2.27%	0.98%
28	Indexed (1988=100)	L28 Prev. Yr.*(1+L27)	121.76	125.00	127.66	130.56	131.83

Notes: 1998 based on September 1998 YTD results annualized.
Rate Adjustments as provided in response to data request SPI 3-001 in Docket No. T-01051B-99-0105.

Arizona Corporation Commission
Docket No. T-01051B-03-0454
Docket No. T-00000D-00-0672
Qwest Corporation
Rebuttal Testimony of Phillip E. Grate
Exhibit PEG-SR02

ARIZONA PRODUCTIVITY ANALYSIS - 1999-2004
($000)
MR INTRASTATE

INPUTS

	Item	Source	1998	1999	2000	2001	2002	2003	2004
	Intrastate Expenses								
1	Maintenance	1990's Report	215,125	228,263	280,085	260,126	212,023	201,064	235,272
2	Engineering/Network/Access/Other	1990's Report	51,807	68,021	82,190	70,715	72,466	66,027	56,829
3	Customer Operations	1990's Report	167,342	175,807	171,174	169,831	180,334	165,222	155,231
4	Corporate Operations	1990's Report	158,192	134,887	173,799	147,192	116,450	159,617	132,684
5	TOTAL EXPENSE	L1..L4	592,466	606,978	707,248	647,864	581,273	591,930	580,016
6	DEFLATED EXPENSE (1999 $)	L5/L28*100	592,466	598,339	682,318	610,366	538,216	537,169	512,887
7	YEAR OVER YEAR GROWTH	(L6/Prev. Yr. L6)-1		1.0%	14.0%	-10.5%	-11.8%	-0.2%	-4.5%
8	CAPITAL - Intrastate Investment								
9	Average Gross Plant In Service	1990's Report	3,360,035	3,520,055	3,876,721	4,305,946	4,648,621	4,818,122	4,940,958
10	Year over Year Additions	L9 Curr. Yr. - Prev. Yr.		160,020	356,666	429,225	342,675	169,501	122,836
11	Deflated Additions (1999 $)	L10/L28*100		157,742	344,094	404,382	317,292	153,820	108,619
12	Plant in Service Without Inflation	L11+Prev. Yr. L12	3,360,035	3,517,777	3,861,871	4,266,252	4,583,544	4,737,364	4,845,984
13	*Auth Rate of Return*		9.75%	9.75%	9.75%	9.61%	9.61%	9.61%	9.61%
14	TOTAL CAPITAL EXPENSE	L12*L13	327,603	342,983	376,532	409,987	440,479	455,261	465,699
15	YEAR OVER YEAR GROWTH	(L14/Prev. Yr. L14)-1		4.7%	9.8%	8.9%	7.4%	3.4%	2.3%
16	TOTAL EXPENSE	L6+L14	920,069	941,322	1,058,850	1,020,353	978,694	992,430	978,586
17	YEAR OVER YEAR GROWTH	(L16/Prev. Yr. L16)-1		2.3%	12.5%	-3.6%	-4.1%	1.4%	-1.4%

OUTPUTS

	Item	Source	1998	1999	2000	2001	2002	2003	2004
	REVENUES								
18	Operating Revenues	1990's Report	1,088,033	1,163,288	1,210,058	1,223,921	1,119,538	1,014,846	911,843
19a	Surcharge		-18,402	-14,255					
19b	2001 Rate Increase*					-17,475	-21,419	-19,890	-18,307
19c	2002 Rate Decrease*						10,950	13,557	12,478
19d	2003 Rate Decrease*							21,342	27,337
19e	*2004 Rate Decrease**								14,550
20	TOTAL ADJUSTED REVENUES	L18 + Sum L19	1,069,631	1,149,033	1,210,058	1,206,446	1,109,069	1,029,855	947,901
21	YEAR OVER YEAR GROWTH	(L20/Prev. Yr. L20)-1		7.4%	5.3%	-0.3%	-8.1%	-7.1%	-8.0%
22	**Growth in Outputs (Revenues)**	L21		7.4%	5.3%	-0.3%	-8.1%	-7.1%	-8.0%
23	**Growth in Inputs (Expenses)**	L17		2.3%	12.5%	-3.6%	-4.1%	1.4%	-1.4%
24	**Productivity**	L22-L23		5.1%	-7.2%	3.3%	-4.0%	-8.5%	-6.6%
25									

AVE. ANNUAL OUTPUT GROWTH 1999-2004	**-1.8%**
AVE. ANNUAL INPUT GROWTH 1999-2004	**1.2%**
AVE. ANNUAL PRODUCTIVITY GROWTH 1999-2004	**-3.0%**

	Item	Source	1998	1999	2000	2001	2002	2003	2004
26	Inflation Data (GDPPI)	Bureau of Economic Analysis	96.475	97.868	100.000	102.402	104.193	106.310	109.102
27	Growth	(L26 Curr. Yr./Prev. Yr.)-1		1.44%	2.18%	2.40%	1.75%	2.03%	2.63%
28	Indexed (1998=100)	L28 Prev. Yr. * (1+L27)	100.00	101.44	103.65	106.14	108.00	110.19	113.09

GDPPI is from U.S Dept of Commerce, Bureau of Economic Analysis; Table 1.1.4 Price Indexes for GDP (Indexed 2000=100) as of 08/31/2005.
2001 removes 9 months of the $23.3M Rate Increase from Order 63487 Docket No. T-01051B-00-0369
2002 removes 9 months of $14.6M Decrease from 2002 Price Cap Rate Filing plus 12 months of prior years price changes adjusted for negative growth.
2003 removes 9 mos of $28.3M decrease from 2003 Price Cap Filing plus 1 month of $1.4M Basket 3 decrease in Dec-03 plus 12 months of prior years price changes adjusted for negative growth.
2004 removes 9 mos of $18.8M decrease effective April 1st and $0.6M basket 3 decrease effective May 7th plus 12 months of prior years price changes adjusted for negative growth.

Arizona Productivity Analysis 1989 to 1998
($000's)
MR Intrastate

Arizona Corporation Commission
Docket No. T091951B-03-0454
Docket No. T-00000D-00-0672
Qwest Corporation
Rebuttal Testimony of Phillip E. Grate
Exhibit PEG-SR03

Line No.	Item	Source	1988	1989	1990	1991	1992	1993
INPUTS								
1	Intrastate Expenses							
2	Maintenance	1990's Report	138,385	140,901	143,255	141,875	156,370	165,577
3	Engineering/Network/Access/Other	1990's Report	39,510	53,348	57,164	56,224	60,702	64,212
4	Customer Operations	1990's Report	93,974	103,582	98,790	97,066	120,156	128,013
5	Corporate Operations	1990's Report	85,645	97,555	91,983	126,804	113,849	117,402
6	TOTAL EXPENSE		357,514	395,386	391,192	421,969	451,077	475,204
7	DEFLATED EXPENSE (1988 $)	L6/L28*100	357,514	379,571	360,330	374,313	389,731	399,782
8	YEAR OVER YEAR GROWTH	(L7 Curr. Yr./Prev. Yr.)-1		6.2%	-5.1%	3.9%	4.1%	2.6%
	CAPITAL - Intrastate Investment							
9	Average Gross Plant In Service	1990's Report	1,842,444	1,941,350	2,104,562	2,326,946	2,472,103	2,609,547
10	Year over Year Additions	L9 Curr. Yr. - Prev. Yr.		98,906	163,212	222,384	145,157	137,444
11	Deflated Additions (1988 $)	L10/L28*100		94,950	150,336	197,269	125,416	115,630
12	Plant in Service Without Inflation	L11+Prev. Yr. L12	1,842,444	1,937,394	2,087,730	2,284,999	2,410,414	2,526,044
13	Auth Rate of Return	Input	9.75%	9.75%	9.75%	9.75%	9.75%	9.75%
14	TOTAL CAPITAL EXPENSE	L12*L13	179,638	188,896	203,554	222,787	235,015	246,289
15	YEAR OVER YEAR GROWTH	(L14 Curr. Yr./Prev. Yr.)-1		5.2%	7.8%	9.4%	5.5%	4.8%
16	TOTAL EXPENSE	L7+L14	537,152	568,466	563,884	597,101	624,746	646,071
17	YEAR OVER YEAR GROWTH	(L16 Curr. Yr./Prev. Yr.)-1		5.8%	-0.8%	5.9%	4.6%	3.4%
OUTPUTS								
18	REVENUES							
19	Operating Revenues	1990's Report	673,757	670,789	669,591	698,835	742,749	758,234
20	Rate Adjustments	Input	4,260	30,108	37,300	4,666	-26,500	-14,125
21	TOTAL ADJUSTED REVENUES	L19+L20	678,017	700,897	706,891	703,501	716,249	744,109
22	YEAR OVER YEAR GROWTH			3.4%	0.9%	-0.5%	1.8%	3.9%
23	**Growth in Outputs (Revenues)**	**L22**		**3.4%**	**0.9%**	**-0.5%**	**1.8%**	**3.9%**
24	**Growth in Inputs (Expenses)**	**L17**		**5.8%**	**-0.8%**	**5.9%**	**4.6%**	**3.4%**
25	**Productivity**	**L23-L24**		**-2.5%**	**1.7%**	**-6.4%**	**-2.8%**	**0.5%**

*1998 based on September 1998 YTD results annualized

	Source	1988	1989	1990	1991	1992	1993
Inflation Data (GDPPI)	Bureau of Economic Analysis	86.4	90	93.8	97.4	100	102.7
Growth	(L26 Curr. Yr./Prev. Yr.)-1		4.17%	4.22%	3.84%	2.67%	2.70%
Indexed (1988=100)	L28 Prev. Yr.*(1+L27)	100	104.17	108.56	112.73	115.74	118.87

Arizona Productivity Analysis 1989 to 1998
($000's)
MR Intrastate

Line No.	Item	Source	1994	1995	1996	1997	1998*
INPUTS							
1	Intrastate Expenses						
2	Maintenance	1990's Report	179,310	187,774	205,041	200,848	206,061
3	Engineering/Network/Access/Other	1990's Report	68,910	71,773	65,179	48,964	52,927
4	Customer Operations	1990's Report	140,269	153,528	161,304	172,445	164,816
5	Corporate Operations	1990's Report	120,992	116,446	127,985	143,530	155,888
6	TOTAL EXPENSE		509,481	529,521	559,509	565,787	579,692
7	DEFLATED EXPENSE (1988 $)	L6/L28*100	418,433	423,617	438,274	433,369	439,731
8	YEAR OVER YEAR GROWTH	(L7 Curr. Yr./Prev. Yr.)-1	4.7%	1.2%	3.5%	-1.1%	1.5%
	CAPITAL - Intrastate Investment						
9	Average Gross Plant In Service	1990's Report	2,748,270	2,896,085	3,075,298	3,249,626	3,351,980
10	Year over Year Additions	L9 Curr. Yr. - Prev. Yr.	138,723	147,815	179,213	174,328	102,354
11	Deflated Additions (1988 $)	L10/L28*100	113,932	118,252	140,381	133,528	77,642
12	Plant in Service Without Inflation	L11+Prev. Yr. L12	2,639,976	2,758,228	2,898,609	3,032,137	3,109,778
13	Auth Rate of Return	Input	9.75%	9.75%	9.75%	9.75%	9.75%
14	TOTAL CAPITAL EXPENSE	L12*L13	257,398	268,927	282,614	295,633	303,203
15	YEAR OVER YEAR GROWTH	(L14 Curr. Yr./Prev. Yr.)-1	4.5%	4.5%	5.1%	4.6%	2.6%
16	TOTAL EXPENSE	L7+L14	675,831	692,544	720,888	729,002	742,935
17	YEAR OVER YEAR GROWTH	(L16 Curr. Yr./Prev. Yr.)-1	4.6%	2.5%	4.1%	1.1%	1.9%
OUTPUTS							
18	REVENUES						
19	Operating Revenues	1990's Report	813,423	884,920	961,388	1,017,826	1,072,695
20	Rate Adjustments	Input	-15,153	-31,579	-34,308	-40,795	-61,575
21	TOTAL ADJUSTED REVENUES	L19+L20	798,270	853,341	927,080	977,031	1,011,120
22	YEAR OVER YEAR GROWTH		7.3%	6.9%	8.6%	5.4%	3.5%
23	**Growth in Outputs (Revenues)**	**L22**	**7.3%**	**6.9%**	**8.6%**	**5.4%**	**3.5%**
24	**Growth in Inputs (Expenses)**	**L17**	**4.6%**	**2.5%**	**4.1%**	**1.1%**	**1.9%**
25	**Productivity**	**L23-L24**	**2.7%**	**4.4%**	**4.5%**	**4.3%**	**1.6%**
					AVERAGE PRODUCTIVITY 1989-1998		**0.8%**

*1998 based on September 1998 YTD results annualized

	Source	1994	1995	1996	1997	1998*
Inflation Data (GDPPI)	Bureau of Economic Analysis	105.2	108	110.3	112.8	113.9
Growth	(L26 Curr. Yr./Prev. Yr.)-1	2.43%	2.66%	2.13%	2.27%	0.98%
Indexed (1988=100)	L28 Prev. Yr.*(1+L27)	121.76	125.00	127.66	130.56	131.83

Arizona Corporation Commission
Docket No. T-01051B-03-0454
Docket No. T-00000D-00-0672
Qwest Corporation
Rebuttal Testimony of Phillip E. Grate
Exhibit PEG-SR04

ARIZONA PRODUCTIVITY ANALYSIS - 2001-2004
($000)
MR INTRASTATE

INPUTS

	Item	Source	2000	2001	2002	2003	2004
	Intrastate Expenses						
1	Maintenance	1990's Report	280,085	260,126	212,023	201,064	235,272
2	Engineering/Network/Access/Other	1990's Report	82,190	70,715	72,466	66,027	56,829
3	Customer Operations	1990's Report	171,174	169,831	180,334	165,222	155,231
4	Corporate Operations	1990's Report	173,799	147,192	116,450	159,617	132,684
5	TOTAL EXPENSE	L1..L4	707,248	647,864	581,273	591,930	580,016
6	DEFLATED EXPENSE (1999 $)	L5/L28*100	682,318	610,366	538,216	537,169	512,887
7	YEAR OVER YEAR GROWTH	(L6/Prev. Yr. L6)-1		-10.5%	-11.8%	-0.2%	-4.5%
8	CAPITAL - Intrastate Investment						
9	Average Gross Plant In Service	1990's Report	3,876,721	4,305,946	4,648,621	4,818,122	4,940,958
10	Year over Year Additions	L9 Curr. Yr. - Prev. Yr.		429,225	342,675	169,501	122,836
11	Deflated Additions (1999 $)	L10/L28*100		404,382	317,292	153,820	108,619
12	Plant in Service Without Inflation	L11+Prev. Yr. L12	3,876,721	4,281,103	4,598,394	4,752,214	4,860,834
13	Auth Rate of Return		9.75%	9.61%	9.61%	9.61%	9.61%
14	TOTAL CAPITAL EXPENSE	L12*L13	377,980	411,414	441,906	456,688	467,126
15	YEAR OVER YEAR GROWTH	(L14/Prev. Yr. L14)-1		8.8%	7.4%	3.3%	2.3%
16	TOTAL EXPENSE	L6+L14	1,060,298	1,021,780	980,121	993,857	980,014
17	YEAR OVER YEAR GROWTH	(L16/Prev. Yr. L16)-1		-3.6%	-4.1%	1.4%	-1.4%

OUTPUTS

	Item	Source	2000	2001	2002	2003	2004
	REVENUES						
18	Operating Revenues	1990's Report	1,210,058	1,223,921	1,119,538	1,014,846	911,843
19a	[blank]						
19b	2001 Rate Increase*			-17,475	-21,419	-19,890	-18,307
19c	2002 Rate Decrease*				10,950	13,557	12,478
19d	2003 Rate Decrease*					21,342	27,337
19e	2004 Rate Decrease*						14,550
20	TOTAL ADJUSTED REVENUES	L18 + Sum L19	1,210,058	1,206,446	1,109,069	1,029,855	947,901
21	YEAR OVER YEAR GROWTH	(L20/Prev. Yr. L20)-1		-0.3%	-8.1%	-7.1%	-8.0%
22	**Growth in Outputs (Revenues)**	**L21**		**-0.3%**	**-8.1%**	**-7.1%**	**-8.0%**
23	**Growth in Inputs (Expenses)**	**L17**		**-3.6%**	**-4.1%**	**1.4%**	**-1.4%**
24	**Productivity**	**L22-L23**		**3.3%**	**-4.0%**	**-8.5%**	**-6.6%**
25			**AVE. ANNUAL OUTPUT GROWTH 2001-2004**				**-5.9%**
			AVE. ANNUAL INPUT GROWTH 2001-2004				**-1.9%**
			AVE. ANNUAL PRODUCTIVITY GROWTH 2001-2004				**-4.0%**
26	Inflation Data (GDPPI)	Bureau of Economic Analysis	100.000	102.402	104.193	106.310	109.102
27	Growth	(L26 Curr. Yr./Prev. Yr.)-1		2.40%	1.75%	2.03%	2.63%
28	Indexed (1998=100)	L28 Prev. Yr. * (1+L27)	103.65	106.14	108.00	110.19	113.09

*Note:

GDPPI is from U.S Dept of Commerce, Bureau of Economic Analysis; Table 1.1.4 Price Indexes for GDP (Indexed 2000=100) as of 08/31/2005.
2001 removes 9 months of the $23.3M Rate Increase from Order 63487 Docket No. T-01051B-00-0369
2002 removes 9 months of $14.6M Decrease from 2002 Price Cap Rate Filing plus 12 months of prior years price changes adjusted for negative growth.
2003 removes 9 mos of $28.3M decrease from 2003 Price Cap Filing plus 1 month of $1.4M Basket 3 decrease in Dec-03 plus 12 months of prior years price changes adjusted for negative growth.
2004 removes 9 mos of $18.8M decrease effective April 1st and $0.6M basket 3 decrease effective May 7th plus 12 months of prior years price changes adjusted for negative growth.

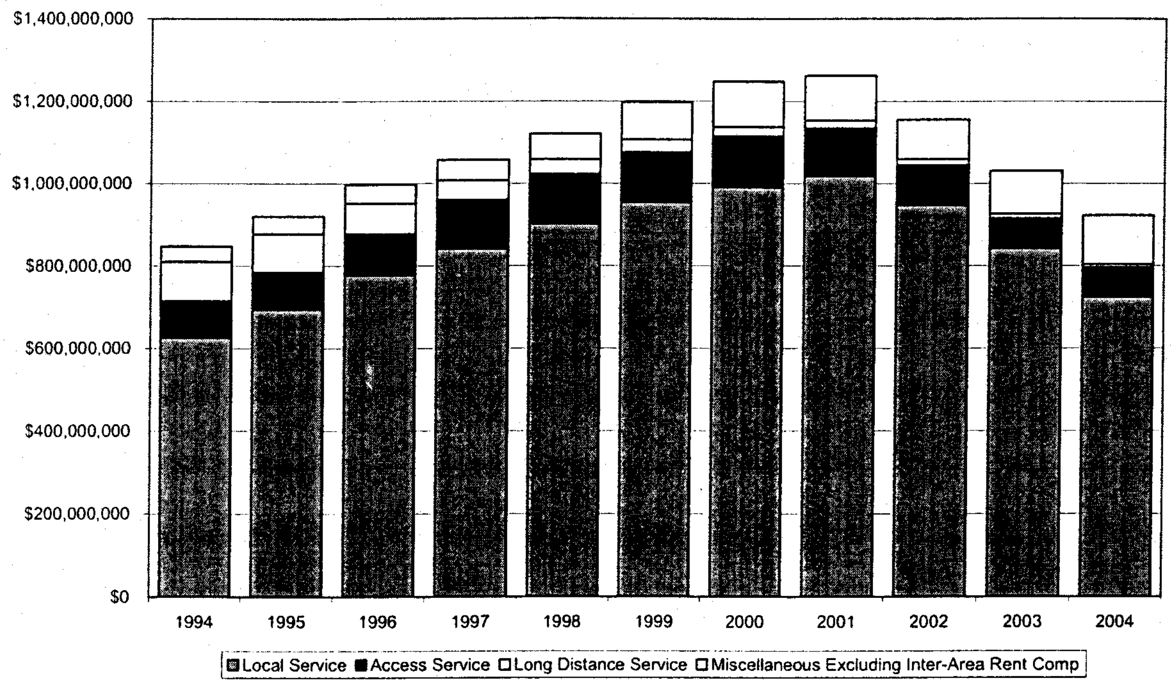
Analysis of Arizona Intrastate Revenues

Q. PLEASE DESCRIBE THE COMPONENTS OF ARIZONA INTRASTATE REVENUES.

A. There are four categories of revenues shown on Qwest's year-to-date December 1990s report for Arizona, examples of which are provided as Qwest Corporation—Confidential Exhibit PEG-S02 to my Direct Testimony in Support of Settlement. The categories are local service, access service, long distance service, and miscellaneous revenues. The following graph charts the intrastate revenues from the four categories over the past eleven calendar years. In order to portray a more accurate picture of Arizona intrastate revenues during the eleven-year period the graph excludes intrastate inter-area rent compensation from miscellaneous revenue.[48]

[48] A more detailed explanation of the reason for excluding inter-area rent compensation can be found in the discussion of miscellaneous revenue below.

Arizona Intrastate
Annual Revenues Excluding Inter-area Rent Compensation



As depicted by the graph, total intrastate revenues excluding inter-area rent compensation peaked at $1,262 million in 2001. Three years later they had fallen to $923 million, a decline of $339 million or 27 percent. Over the three years of 2002, 2003 and 2004, Arizona intrastate revenues excluding inter-area rent compensation declined at an average annual rate of 8.3 percent. Over the four years from 2001 through 2004, the average annual rate of revenue decline was 7.3 percent. Not surprisingly, Qwest achieved an average annual output growth rate of <u>negative</u> 5.9 percent during these four years.

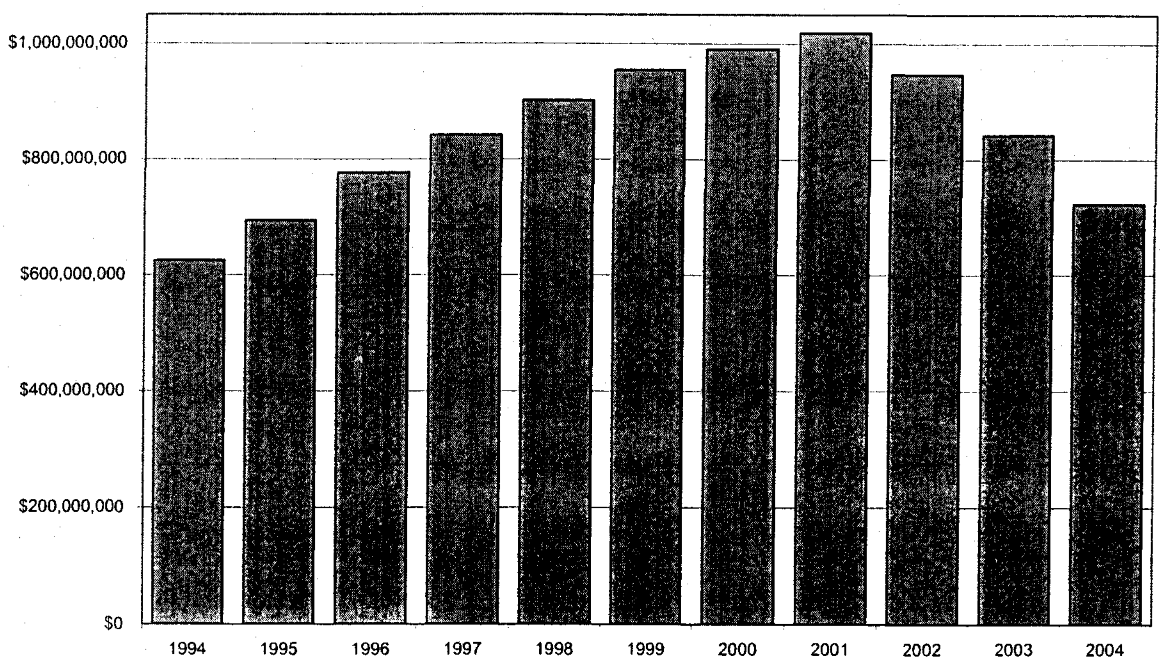
Conversely (and also not surprisingly) in the four years—1995 through 1998—that Qwest achieved a positive 6.1 percent annual output growth rate, revenues grew $273 million or 32 percent, which is an average annual growth rate of 7.2 percent. Following is a discussion of each of the four categories of revenues depicted in the graphs above.

Local service revenues

Q. PLEASE DESCRIBE THE CHANGE IN INTRASTATE LOCAL SERVICE REVENUES.

A. The following graph charts the first category, local service revenues, over the past eleven calendar years.

**ARIZONA INTRASTATE
LOCAL SERVICE REVENUES**



As depicted by the graph, Qwest's annual local service revenues grew steadily until they peaked at $1,019 million in 2001. Then they began a precipitous fall.

Q. HOW DOES LOCAL SERVICE REVENUE GROWTH DURING THE FOUR-YEAR PERIOD ENDING WITH 1998 COMPARE WITH THAT OF THE FOUR-YEAR PERIOD ENDING WITH 2004?

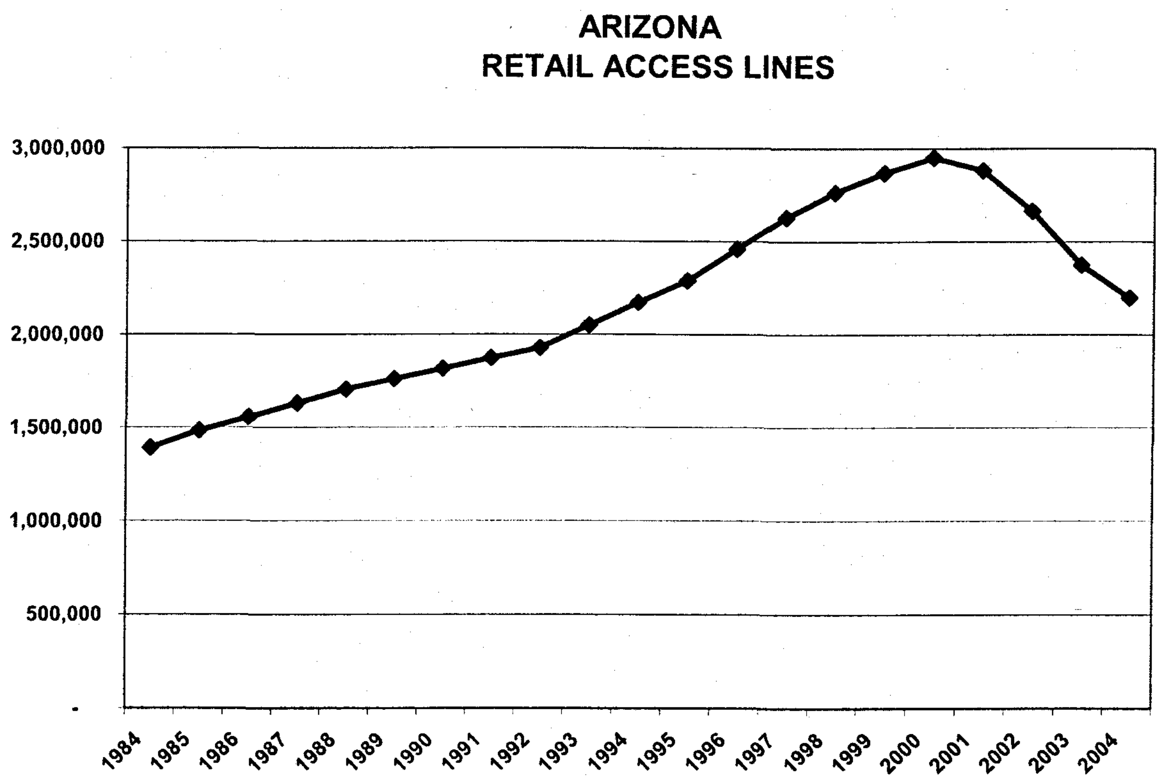
A. In the four year period ending with 1998, Qwest's Arizona local service revenues grew 44 percent. In the four year period ending with 2004, they declined 27 percent. The entire decline has occurred in the last three years. Since 2001 local service revenues have fallen over $295 million or 29 percent of the 2001 level. Over the three years of 2002, 2003 and 2004, local service revenue has declined at an average annual rate of 8.9 percent.

Q. WHAT CAUSED SUCH A SEVERE DECLINE IN JUST THREE YEARS?

A. Two major factors contributed to local service revenue losses: rate decreases required under the existing Price Plan and access line losses. The effect of the rate decreases was comparatively small; roughly $65 million of the $295 million decrease is attributable to Basket 1 and 2 price decreases under the current Price Plan. The other $230 million of the decrease is attributable to output decreases. In the four years between January 2001 and January 2005, Qwest's Arizona retail access line count fell 26 percent. In contrast, the four years between 1994 and 1998 saw Qwest's Arizona retail access line count climb 28 percent.

Q. IS IT UNUSUAL FOR QWEST'S ARIZONA RETAIL ACCESS LINE COUNT TO FALL 26 PERCENT IN FOUR YEARS?

A. Extraordinarily. It is my understanding that for well over a century, interrupted only by the Great Depression of the 1930's, the Company's access line count enjoyed relatively steady growth. Following is a graph of the Company's Arizona retail access line count over the most recent 20 years.



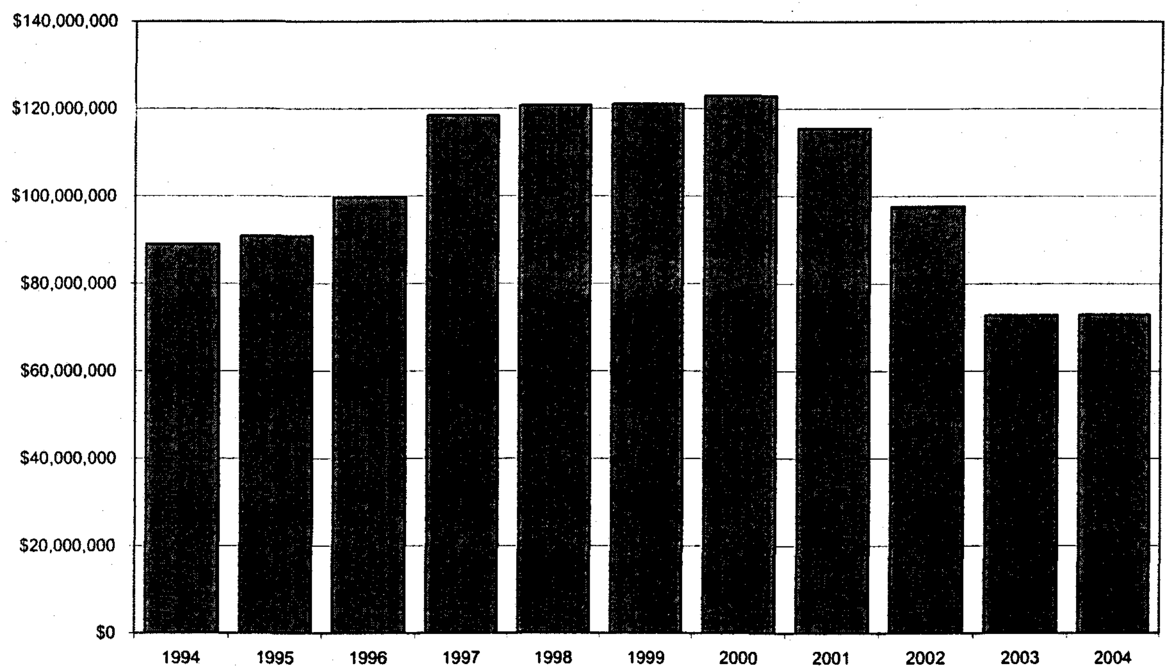
The graph shows continuous access line growth totaling 112 percent in the sixteen years between 1984 and 2000. Given the Company's century-long history of relatively steady access line growth, the loss of 26 percent of Qwest's retail access lines in the last four calendar years constitutes an unprecedented and fundamental change in the course of telephony in Arizona and the Company's financial performance.

Access service revenues

Q. PLEASE DESCRIBE THE CHANGE IN ACCESS SERVICE REVENUES.

A. The following graph charts access service revenues over the past eleven years.

ARIZONA INTRASTATE ACCESS SERVICE REVENUES



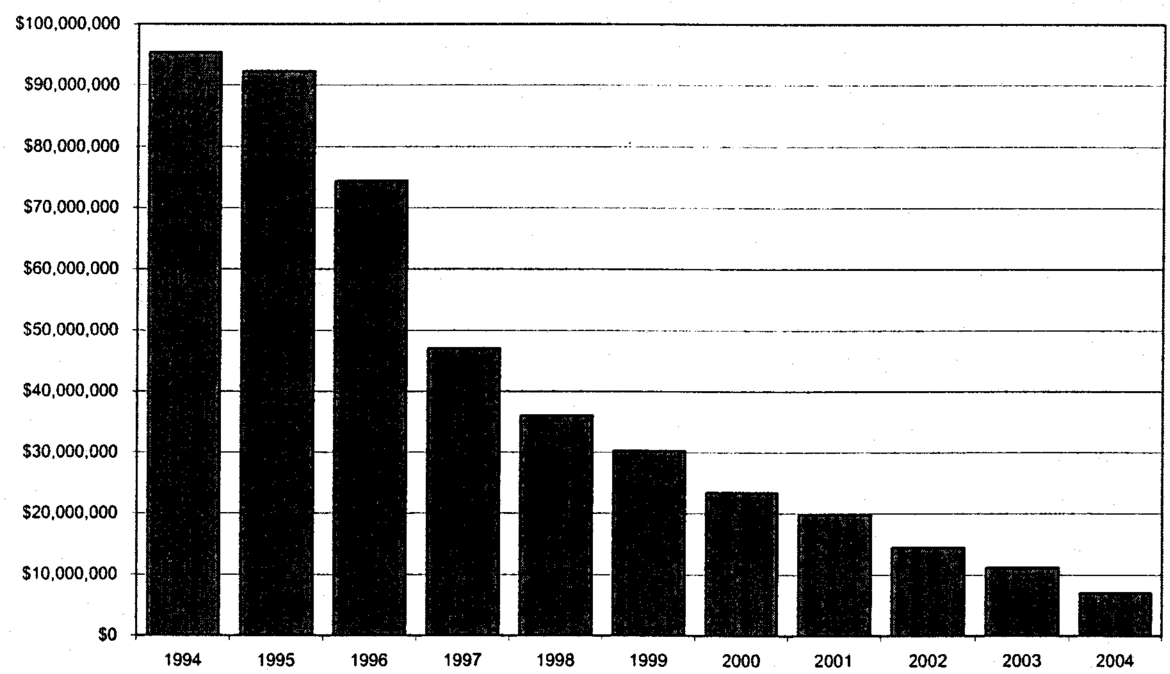
As depicted by the graph, Qwest's annual intrastate access service revenues peaked at $123 million in 2000 and fell to $73 million in 2004. Between 1994 and 1998, access revenues grew $32 million or 36 percent. Between 2000 and 2004 they declined $50 million or 41 percent. Roughly $15 million of that decline can be attributed to intrastate access rate reductions of $5 million each on April 1, of 2001, 2002 and 2003.

Intrastate long distance revenue

Q. PLEASE DESCRIBE THE CHANGE IN INTRASTATE LONG DISTANCE SERVICE REVENUES.

A. The following graph charts intrastate long distance service revenues over the past eleven calendar years.

**ARIZONA INTRASTATE
LONG DISTANCE SERVICE REVENUES**



As depicted by the graph, Qwest's annual intrastate long distance service revenues declined 93% in ten years from $95 million in 1994 to $7 million in 2004. Rate decreases under the existing Price Plan had no effect on the decline.

Q. WHY DID LONG DISTANCE REVENUES FALL 93 PERCENT?

A. Federal law prohibits Qwest from offering interstate long distance service. Standalone intrastate long distance service is not fully competitive with the offerings other carriers can make in the highly competitive marketplace for long distance services. Consequently, as customers migrate to other providers, Qwest's sales of intrastate long distance have declined.

Q. HOW DOES QWEST'S ARIZONA LONG DISTANCE REVENUE GROWTH DURING THE FOUR-YEAR PERIOD ENDING WITH 1998 COMPARE WITH THAT OF THE FOUR-YEAR PERIOD ENDING WITH 2004?

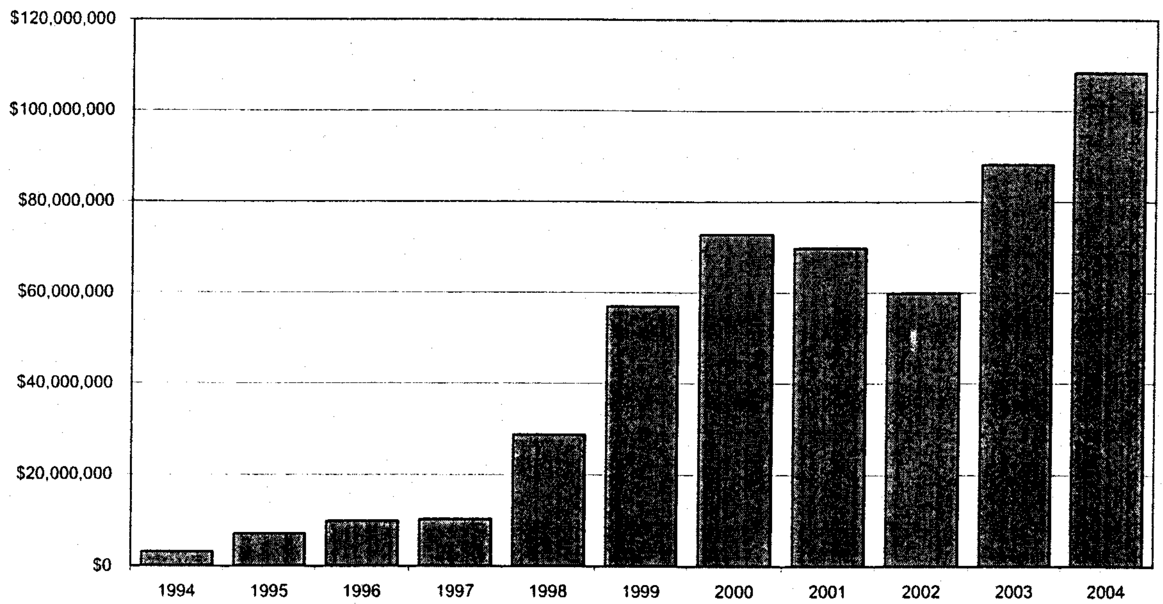
A. In the four-year period ending with 1998, Qwest's Arizona long distance service revenues declined $59 million or 62 percent of the amount generated in 1994. In the four-year period ending with 2004, they declined $16 million or 70 percent of the amount generated in 2000.

Miscellaneous revenues

Q. PLEASE DESCRIBE THE CHANGE IN MISCELLANEOUS REVENUES.

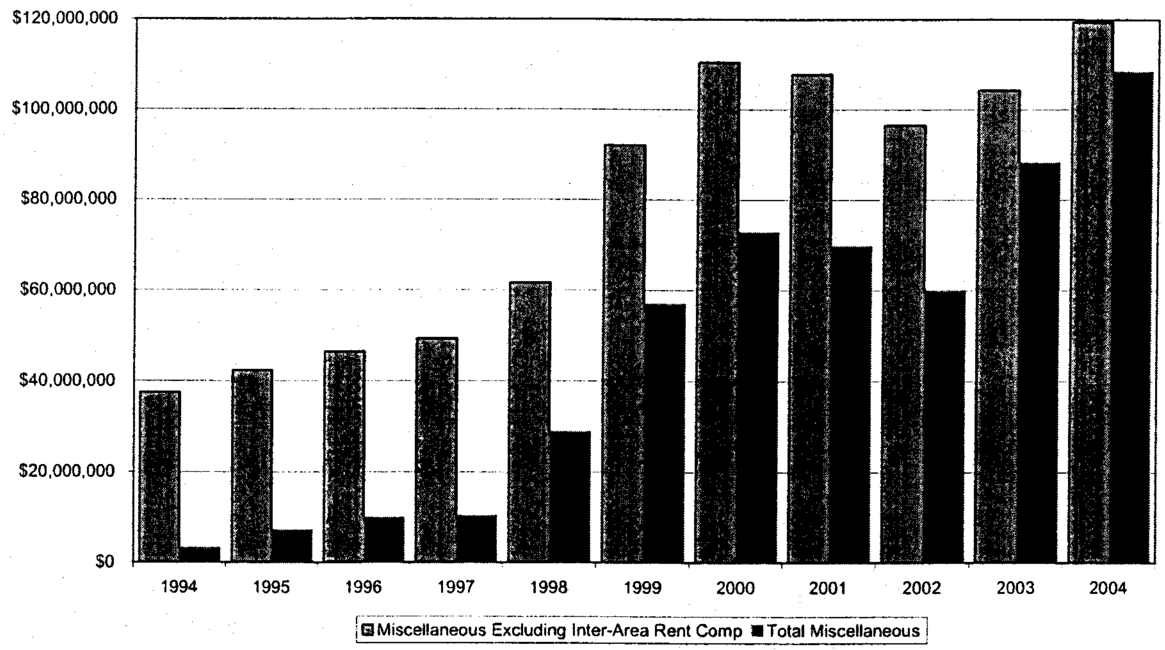
A. The following graph charts miscellaneous revenues over the past eleven years.

**ARIZONA INTRASTATE
MISCELLANEOUS REVENUES**



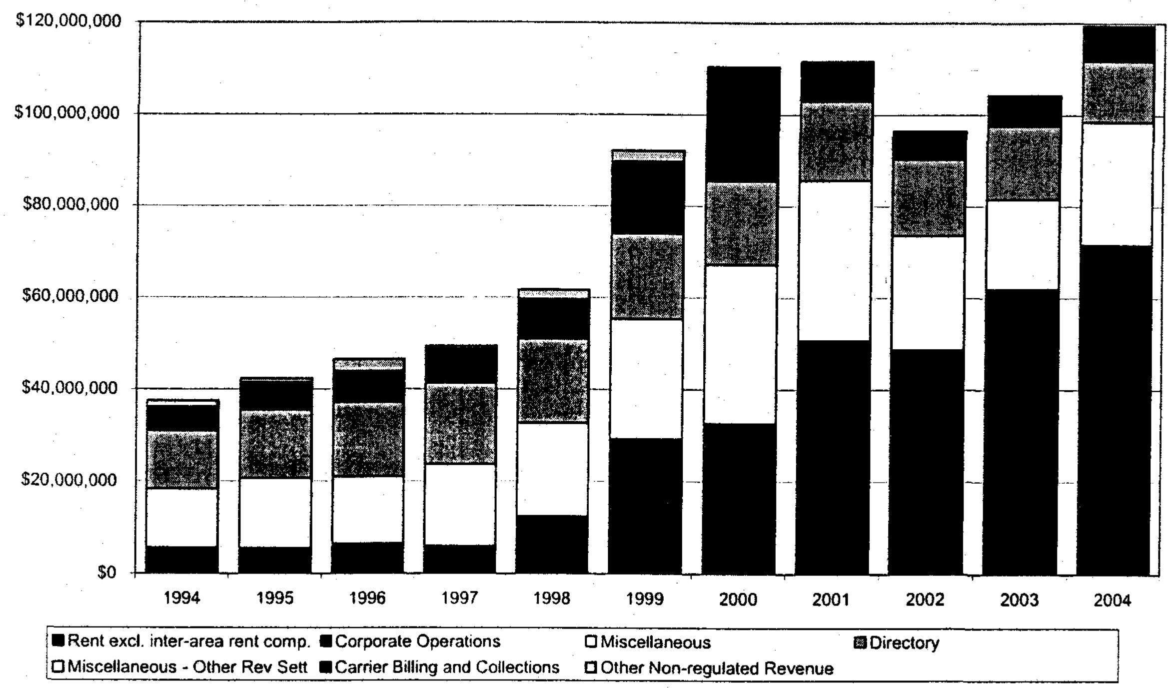
As depicted by the graph, Qwest's annual miscellaneous revenues increased from $3 million in 1994 to $108 million in 2004, an increase of $105 million. However, this graph misstates actual growth in miscellaneous revenues because it includes inter-area rent compensation. Inter-area rent compensation involves the assignment of costs among the states that Qwest serves. These costs are principally for buildings and computers located in one state that are used to provide service in other states. Hence, inter-area rent compensation is not an output of the business. It is the assignment of business inputs to the correct jurisdiction. Consequently, the data points on the following graph that exclude inter-area rent compensation from miscellaneous revenues more accurately reflect miscellaneous revenues growth attributable to output growth.

Arizona Intrastate
Miscellaneous Revenues
With and Without Inter-Area Rent Compensation



As depicted by the graph, miscellaneous revenues excluding inter-area rent compensation peaked in 2004 at $119 million. During the four years ending in 1998 they grew $24 million or 64% percent. During the four years ending 2004 they grew $9 million or 8%. The following graph provides a breakdown of the components of miscellaneous revenues excluding inter-area rent compensation.

Arizon Intrastate
Miscellaneous Revenue Excluding Inter-area Rent Compensation



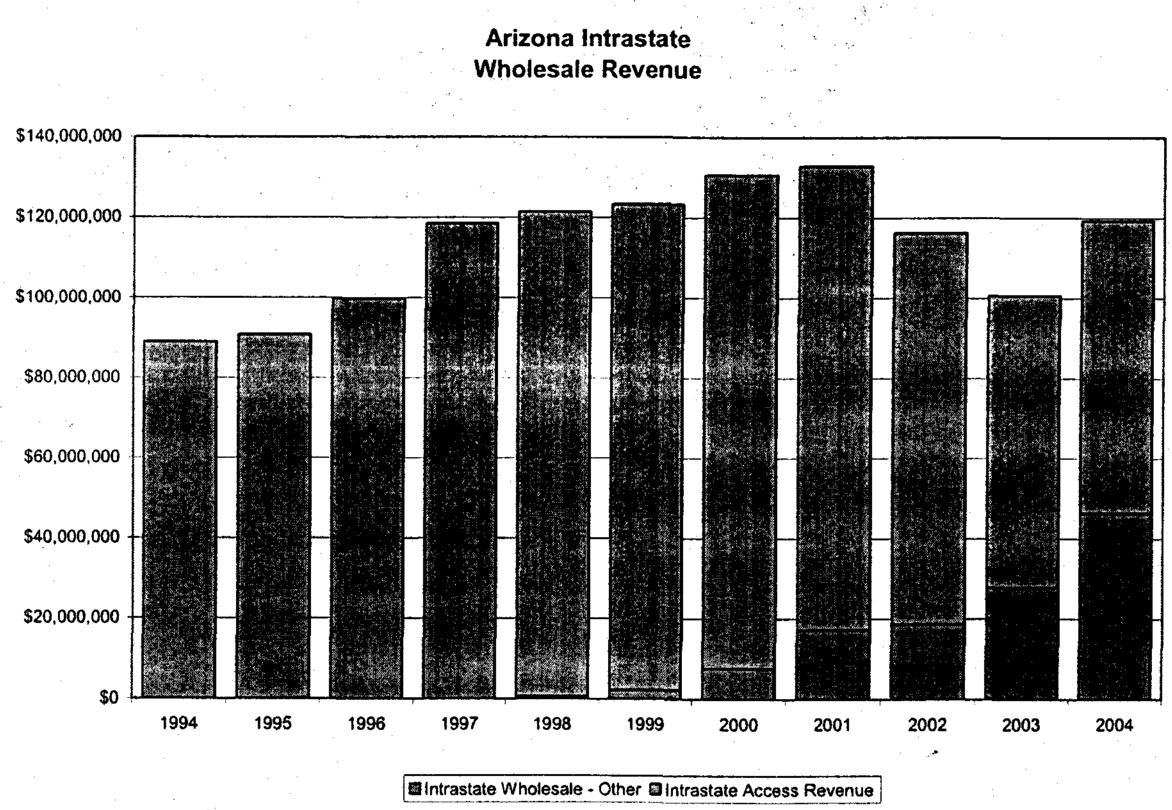
The graph shows that the most significant change has been an increase in rent excluding inter-area rent compensation. This category reflects the growth in wholesale revenues from sales of unbundled loops, unbundled switching, unbundled transport, re-bundled services, and local interconnection.

Wholesale service revenues

Q. HAVE INCREASES IN WHOLESALE SERVICE REVENUES COMPENSATED FOR QWEST'S LOSS OF RETAIL BUSINESS REVENUES?

A. No. In 2004, wholesale services generated roughly 13 percent of Qwest's Arizona intrastate revenues. The graph of total Arizona intrastate revenues above includes both wholesale and retail revenues. Despite including wholesale revenues, total intrastate Arizona revenues have declined $339 million or 27 percent since 2001.

Wholesale revenues include intrastate access revenues (which were graphed and explained under the heading "access revenues") and other intrastate wholesale revenues recorded to the rent account (which was graphed and explained under the heading "miscellaneous revenue"). The following graph combines these two sources of wholesale revenue.



As the graph shows, total wholesale revenues have not increased substantially over the eleven years depicted. In 1994, they totaled $89 million. In 2004 they totaled

$119 million, an increase of $30 million or 34 percent in ten years. Between 1994 and 1998, wholesale revenues grew 37 percent. Between 2000 and 2004 they declined 9 percent. Since 2001 they have declined 12 percent. Thus, wholesale revenue growth has provided no offset to the decline in retail revenues since 2001.

BEFORE THE ARIZONA CORPORATION COMMISSION

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 TELECOMMUNICATIONS ACCESS.	))))	DOCKET NO. T-00000D-00-0672
STATE OF WASHINGTON COUNTY OF KING	)))) :	AFFIDAVIT OF PHILIP E. GRATE SS

Philip E. Grate, of lawful age being first duly sworn, deposes and states:

1. My name is Philip E. Grate. I am State Finance Director for Qwest Corporation in Seattle, Washington. I have caused to be filed written rebuttal testimony in support of the settlement agreement in Docket Nos. T-01051B-03-0454 and T-00000D-00-0672.

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.

Philip E. Grate

Philip E. Grate

SUBSCRIBED AND SWORN to before me this 25th day of October, 2005.

LORI L. WHITE
COMMISSION EXPIRES
NOTARY
PUBLIC
STATE OF WASHINGTON

Lori L White

Notary Public

My Commission Expires: 7/10/07