

ORIGINAL

BEFORE THE ARIZONA CORPORATION COMMISSION



2001 DEC 19 P 4:02

WILLIAM A. MUNDELL
Chairman
JIM IRVIN
Commissioner
MARC SPITZER
Commissioner

AZ CORP COMMISSION
DOCUMENT CONTROL

IN THE MATTER OF THE QWEST)
CORPORATION TARIFF FILING TO)
INTRODUCE A NEW RATE)
STRUCTURE FOR AN ACCESS)
SERVICE USED BY INTEREXCHANGE)
CARRIERS.)
_____)

DOCKET NO. T-01051B-01-0391
**ESCHELON TELECOM OF ARIZONA,
INC.'S NOTICE OF FILING**

Notice is hereby given that Eschelon Telecom of Arizona, Inc. ("Eschelon") is filing herewith the testimony of David Kunde, Executive Vice President of Operations and Engineering at Eschelon Telecom, Inc.

Respectfully submitted this 19th day of December, 2001.

Dennis D. Ahlers for

Dennis D. Ahlers
Senior Attorney
Eschelon Telecom, Inc.
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(612) 436-6249

Original and 10 copies of the foregoing filed on the 19th day of December, 2001, with:

Docket Control
Arizona Corporation Commission
1200 West Washington Avenue
Phoenix, AZ 85007

Arizona Corporation Commission
DOCKETED

DEC 19 2001

DOCKETED BY *me*

Copy of the foregoing hand delivered
this 19th day of December, 2001, to:

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COPY of the foregoing mailed
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INTRODUCTION

Q. PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND POSITION WITH ESCHELON TELECOM, INC.

A. My name is Dave Kunde. My title is Executive Vice President of Operations and Engineering, Eschelon Telecom, Inc. My business address is 730 2nd Ave. South, Suite 1200, Minneapolis, MN. 55402.

Q. DESCRIBE ESCHELON TELECOM.

A. Eschelon Telecom of Arizona, Inc. is a fully owned subsidiary of Eschelon Telecom, Inc. In addition to Arizona, Eschelon has subsidiaries in Washington, Oregon, Utah, Nevada, Colorado and Minnesota. We are a switched-based CLEC and presently have our own switch in each state except Nevada. Our switch in Arizona is located at 2020 Central Ave. in Phoenix.

Q. PLEASE DESCRIBE YOUR BACKGROUND AND WORK EXPERIENCE

A. I have 17 years of telecommunications engineering and technical expertise. I have been with Eschelon since 1999. Prior to joining Eschelon, I was Vice President and Director of Network Engineering/Operations with Citizens Communications in Dallas, Texas. Prior to that I was employed by Frontier Communications as Manager of Customer Equipment Services in Rochester, New York and as Director of Network Engineering for Frontier Communications in Minneapolis, Minnesota.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE A REGULATORY COMMISSION?

A. Yes, I have testified before the Washington Utilities and Transportation Commission.

1 **Q. PLEASE DESCRIBE THE PURPOSE OF YOUR TESTIMONY.**

2

3 A. The purpose of my testimony is to describe Eschelon's use of SS7 services and the
4 effects of Qwest's proposed tariff on Eschelon and its customers, and why the
5 Commission should reject that tariff.

6

7 **Q. HAVE YOU REVIEWED THE PROPOSED INTRASTATE ACCESS**
8 **TARIFF THAT QWEST HAS FILED IN THIS PROCEEDING?**

9 A. Yes. I have reviewed it and discussed it with Eschelon financial and regulatory
10 staff.

11

12 **Q. SHOULD THE PROPOSED TARIFF BE APPROVED?**

13 A. No. The tariff unfairly impacts CLECs like Eschelon and is unjustified. In
14 addition, it affects a significant change in access charges that should be decided as
15 part of the Commission's investigation of the cost of access in Docket No. T-
16 00000D-00-0672.

17

18 **Q. WHY ARE QWEST'S PROPOSED TARIFF CHANGES A CONCERN**
19 **FOR ESCHELON?**

20 A. Eschelon is trying to compete with Qwest in the State of Arizona, as well as
21 several other states. Qwest's proposed tariff would impose a direct and significant
22 increase to Eschelon's cost of providing local service, making it more difficult for
23 Eschelon to compete with Qwest. Eschelon estimates that these changes could
24 result in as much as a 200% increase in Eschelon's SS7- related costs in Arizona.
25 A major part of the increase is related to the use of SS7 in providing local service,
26 not access service. Although Eschelon exchanges SS7 messages with Qwest
27 through Illuminet, those charges will be passed on to Eschelon and others who use
28 a third party provider like Illuminet. Thus, if this tariff is approved it will allow

1 Qwest to directly and dramatically increase costs to its competitors, like Eschelon,
2 for local service.

3
4

5 **Q. HOW DOES ESCHELON PROVIDE ITS SS7 SIGNALLING SERVICES?**

6 A. Eschelon contracts with Illuminet to be its SS7 provider. In that capacity
7 Illuminet exchanges SS7 messages with Qwest.

8
9

10 **Q. WHY DOES ESCHELON PURCHASE ITS SS7 SIGNALLING SERVICES
11 THROUGH A THIRD PARTY LIKE ILLUMINET?**

12 A. It is the most efficient and cost effective way for Eschelon to obtain those
13 services. Because Illuminet is a very large provider of SS7 signaling services,
14 and provides them for hundreds of telecommunications companies, it has
15 economies of scale and scope that Eschelon could not achieve with our own SS7
16 network. Furthermore, it provides Eschelon and other competitors the ability to
17 enter new markets quickly with all SS7 features immediately available. Finally, it
18 allows Eschelon to not be totally dependent on its primary competitor, Qwest, for
19 these vital services,

20

21 **Q. SHOULD THE APPLICATION OF TARIFFED SS7 SERVICES DIFFER
22 BASED ON WHETHER ESCHELON PURCHASES THE SERVICE
23 DIRECTLY OR THROUGH ILLUMINET?**

24 A. I know of no reason why it should make any difference whether Eschelon
25 purchases the service directly or has its contractor, in this case Illuminet, do so.
26 Eschelon has informed Qwest that Illuminet is its SS7 provider. Eschelon has
27 executed letters of agency (LOAs) with Illuminet for that purpose. If anything, it
28 is more efficient for everyone involved for the various telecommunications

1 carriers to consolidate their SS7 services with one provider like Illuminet rather
2 than for each to deal separately with Qwest. It would certainly seem more
3 efficient for Qwest to deal with one set of aggregated SS7 connections, rather than
4 separate direct connections from a multitude of carriers.

5

6 **Q. FOR WHAT PURPOSES DOES ESCHELON USE THE SS7 NETWORK?**

7 A. SS7 signaling is a vital part of the interconnection between Eschelon and Qwest
8 and is essential to the set-up and completion of both local and long-distance
9 telephone calls. The SS7 network passes signaling information between all
10 switches involved in carrying every telephone call, allowing each call to be set up
11 and disconnected efficiently. Eschelon uses it for exchanging all local traffic,
12 including EAS traffic with Qwest, pursuant to our interconnection agreement.
13 Eschelon also uses it in the delivery and exchange of intrastate and interstate toll
14 calls. It also uses the network, as does Qwest, to provide a number of CLASS
15 services to its end-users, such as Caller ID, last call return, custom ringing, etc.

16

17 **Q. WHAT IS ESCHELON'S MAJOR CONCERN WITH QWEST'S**
18 **PROPOSAL?**

19 A. The foremost concern is that the tariff increases Eschelon's cost of providing local
20 service without providing us any new services or other benefits that we are not
21 already getting under our interconnection agreement. Under Qwest's proposal, all
22 SS7 messages, other than those associated with interstate traffic, would be
23 assessed intrastate access charges, including those associated with purely local
24 and EAS end-user traffic. Indeed, Qwest's claim that this tariff is revenue neutral
25 is based upon the assumption that all SS7 messages, whether for access or local,
26 will be billed as intrastate access calls under this tariff. (See, Eschelon Exhibit 1,
27 Qwest response to Cox Request No. 3, attached.)

1 Such local traffic is not access traffic and should not be billed as access traffic.
2 However, since Qwest cannot, or, more accurately, will not measure and bill
3 separately for such local traffic, it would charge Eschelon, through Illuminet,
4 access rates on purely local traffic if this tariff is approved. The effect is to impose
5 a new charge on local interconnection, outside of our interconnection agreement.
6 Thus, the cost of local interconnection with Qwest suddenly becomes more
7 expensive under this tariff. This added expense happens not as a result of the
8 provision of any additional services by Qwest, nor as a result of unbundling of
9 access services, but simply because Qwest will not separate out and bill separately
10 for intrastate access and local services.

11 In effect, Qwest has proposed a tariff for which it cannot or will not accurately
12 bill and is imposing that problem on everyone else. This would be like Eschelon
13 billing all of its customers' calls as long-distance calls because its billing system
14 cannot differentiate between local and long-distance. No customer would stand
15 for that because they have competitive options. The difference in this case is that
16 there is no option--Eschelon must interconnect with Qwest and exchange SS7
17 messages in order to exchange local and interexchange traffic with Qwest.

18

19 **Q. SINCE, AS MR. MCINTYRE STATES IN HIS TESTIMONY, THESE**
20 **SAME RATES ARE EFFECTIVE AT THE FCC FOR INTERSTATE**
21 **ACCESS, WHY IS THIS A PROBLEM IN ARIZONA?**

22 **A.**

23 The interstate tariff, unlike Qwest's tariff in Arizona, does not affect the cost of
24 interconnecting for local service. The FCC requires Qwest to separate interstate
25 and intrastate usage and to only apply the interstate access rates to interstate
26 access messages. For this tariff to be comparable Qwest would have to separate
27 out and charge only for intrastate access messages, not local messages.

1 Furthermore, the FCC made it clear that unless the measuring and billing was in
2 place to make the proper allocations, SS7 unbundling should not take place. In
3 the Access Reform Docket, when the FCC approved unbundling of SS7 charges
4 by Ameritech, the FCC stated that it was doing so because Ameritech had already
5 installed the equipment to measure and bill third party providers. The FCC did
6 not making unbundling mandatory because it did not want to impose on the
7 ILECs the metering and other costs necessary to accurately bill the correct parties.
8 The FCC has recognized that in some cases it would be economically inefficient
9 to mandate a separate call-setup charge because the costs of collecting the charge
10 might exceed the revenue collected from the charge itself. Qwest has apparently
11 decided that the additional costs that it would incur in separating local from
12 access traffic are not justified. However, contrary to the FCC approach, Qwest
13 has decided not to do the upgrades necessary to accurately measure and bill and
14 charge for intrastate access-related SS7 messages. It simply will bill them as if
15 they were all access related. This is totally unacceptable.

16
17 **Q.** WHAT ADDITIONAL CONCERNS DO YOU HAVE?

18 **A.** An additional concern is that while the tariff would allow Qwest to charge
19 Eschelon for SS7 charges for calls both originating and terminating in the Qwest
20 network, it does not provide for recognition that Qwest also uses the
21 Eschelon/Illuminet SS7. network in completing calls. This means that if the tariff
22 is approved, Qwest will recover its costs for exchanging SS7 messages with

1 Eschelon but Eschelon won't recover its reciprocal costs for doing likewise with
2 Qwest.

3 Another concern arises from the fact that the rates proposed are admittedly not
4 based on the cost of providing this service, but are simply mirroring those on file
5 at the FCC. Thus there is a chance that these rates will more than cover Qwest's
6 costs. This may happen because the rate structure may result in double collection
7 for some calls. For example, if a call is initiated by an Eschelon customer and it
8 travels through a Qwest access tandem to an IXC, the signaling passes from
9 Eschelon to Illuminet's STP, then to Qwest's STPS and finally to the appropriate
10 IXC's SS7 network. It is my understanding that Qwest will apparently charge
11 SS7 charges to both Eschelon (through Illuminet) and the IXC in that instance.
12 Meanwhile, Qwest will pay no SS7 charges to Eschelon.

13 Furthermore, the calling volume used by Qwest to calculate the revenue effects
14 appears erratic and arbitrary.--Qwest derived its estimate from seven months of
15 data from late 2000 and early 2001. The volume of calls fluctuates greatly from
16 month to month over that period but the trend appears to be upward. (See
17 Confidential Attachment B to Qwest's response to Eschelon Request No. 005,
18 attached as Exhibit 1.) Qwest's use of data that is over a year old and that
19 fluctuates so much from month to month gives Eschelon no confidence that it
20 accurately reflects current or future usage. Depending on which months one
21 would pick as representative the annual revenue could greatly exceed that

1 estimated by Qwest. (See Eschelon Exhibit 2) If that is the case, the rates should
2 be much lower than proposed.

3
4 **Q. DOES THIS APPROACH RAISE COMPETITIVE CONCERNS?**

5 A. Yes. It allows Qwest to impose substantial new costs on its local competitors
6 without increasing its own costs, giving it an obvious competitive advantage. It
7 also makes it more difficult for third party providers of SS7, like Illuminet, to
8 compete with Qwest for the provision of SS7 services. Finally, it should be noted
9 that Qwest now has an interest in reducing access charges since it is on the
10 threshold of entering the intrastate toll business. Thus this tariff makes life harder
11 for CLECs and third party competitors of Qwest while at the same time reducing
12 costs related to intrastate toll.

13
14 **Q. DO YOU AGREE WITH MR. MCINTYRE'S STATEMENT THAT THE**
15 **SS7 NETWORK HAS ONLY BECOME FULLY OPERATIONAL IN THE**
16 **LAST COUPLE OF YEARS?**

17 A. No. The SS7 signaling network has been operational and deployed on a wide
18 scale for almost a decade. It is an integral part of the local network and of
19 interconnection under the Telecommunications Act. It has been part of
20 Eschelon's service from its inception. SS7 service was deployed in the public
21 switched telephone network (PSTN) since early 90's. The FCC mandated 800

1 number portability in the mid-90's and call setup standards dictated wholesale use
2 of the SS7 network in all but the most rural areas of the nation, at that time.

3

4 **Q. DO YOU AGREE WITH MR. MCINTYRE THAT THE COSTS OF THE**
5 **SS7 NETWORK HAVE BEEN RECOVERED THROUGH SWITCHED**
6 **ACCESS RATE ELEMENTS UP UNTIL NOW?**

7 A. I agree that some of the costs of that network may be recovered through switched
8 access. However, I would assume that most of the costs of that network are
9 recovered through the myriad of retail CLASS and ANI services, like Caller ID
10 that Qwest has deployed. These services are made possible by the SS7 network.

11

12 **Q. DOES THE SS7 NETWORK BENEFIT QWEST?**

13 A. Yes. As Mr. McIntyre points out in his testimony, the SS7 network allows for
14 "much greater efficiency and lower cost than transmitting these signaling
15 functions over the call-carrying network." This means that it is important to
16 Qwest that interconnecting carrier also has such capabilities. Yet, under Qwest's
17 proposed tariff CLECs, through third party providers, would pay for Qwest's
18 network but Qwest would pay nothing for use of the CLEC/Illuminet network.
19 As stated previously, the use of third party aggregators like Illuminet is also
20 beneficial to Qwest as well as to the network in general because it allows

1 numerous carriers to consolidate their SS7 usage into one large supplier rather
2 than requiring Qwest to make SS7 arrangements with each CLEC individually
3

4 **Q. WHAT DO YOU RECOMMEND REGARDING QWEST'S PROPOSAL?**

5 A. I recommend that the Commission reject this tariff. Doing so should not harm
6 Qwest if its claims of revenue neutrality are correct. On the other hand,
7 approving it will create significant new costs for Qwest's local competitors in
8 Arizona and lower access charges, which will benefit Qwest as it seeks to become
9 an interexchange carrier.

BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
Chairman
JIM IRVIN
Commissioner
MARC SPITZER
Commissioner

IN THE MATTER OF THE QWEST)
CORPORATION TARIFF FILING TO)
INTRODUCE A NEW RATE)
STRUCTURE FOR AN ACCESS)
SERVICE USED BY INTEREXCHANGE)
CARRIERS.)
_____)

DOCKET NO. T-01051B-01-0391

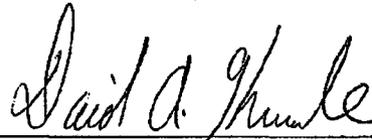
AFFIDAVIT OF DAVID KUNDE

STATE OF MINNESOTA)
)ss.
COUNTY OF HENNEPIN)

David Kunde, of lawful age being first duly sworn, deposes and states:

1. My name is David Kunde. I am Executive Vice President of Operations and Engineering at Eschelon Telecom, Inc. I have caused to be filed written testimony in support of Eschelon Telecom of Arizona, Inc. in Docket No. T-01051B-01-0391.
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.

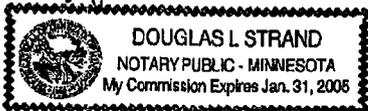
Further affiant sayeth not.



David Kunde

Subscribed and sworn to before me
this 18th day of December, 2001.


Notary Public



Arizona
T-01051B-01-0391
COX 02-003

INTERVENOR: Cox Arizona Telecom
REQUEST NO: 003

Arizona Corporation Commission
Direct Testimony of David Kunde
Eschelon Telecom of Arizona, Inc.
Docket No. T-01051B-01-0391
Exhibit 1, Page 1 of 1

Provide the analysis and/or synthesis which shows that the tariffed SS7 rate elements are:

- 1) revenue neutral as to interLATA, intraLATA, and local traffic in general and "800", LIDB and Alternate Billing Services in particular.
- 2) revenue neutral as to end user services such as CLASS.
- 3) revenue neutral versus current compensation to Qwest from differing categories of interconnecting service providers (e.g., interexchange, local exchange (CLEC and independent ILEC), CMRS or wireless providers, etc.)

RESPONSE:

In determining the revenue neutrality of this filing, Qwest considered all call set-up signaling message traffic currently traversing the Qwest signaling network and then offset the revenue associated with that traffic with reductions in other Switched Access rate elements. The filing is not designed to be revenue neutral within specific classes of service, as this data request suggests. See Confidential Attachment A, which will be provided upon receipt of a signed Confidentiality Agreement, showing revenue impact of this filing.

Respondent: Herb Ruprecht, Sr. Project Manager, Qwest

Arizona
T-01051B-01-0391
ETELI 01-005

INTERVENOR: Eschelon Telecom, Inc.
REQUEST NO: 005

Arizona Corporation Commission
Direct Testimony of David Kunde
Eschelon Telecom of Arizona, Inc.
Docket No. T-01051B-01-0391
Exhibit 2, Page 1 of 2

Please provide a copy of all cost studies, analyses, work papers, drafts, and other documents relied upon by Qwest in preparing the tariff that is the subject of this matter.

RESPONSE:

Please see Confidential Attachments A, B, and C to this response for the analyses, workpapers, drafts, etc. used to develop the prices for the Arizona tariff filing.

The requested cost study was previously provided in response to Cox 02-002 in this docket, and is now being included in Confidential Attachment A in response to Eschelon 01-004. The Confidential Attachments are being provided subject to the terms of the Protective Agreement.

Respondent: Herb Ruprecht, Sr. Project Analyst, Qwest

Exhibit 2, Page 2 of 2

**Qwest deemed this information confidential and therefore
it is not submitted with this filing.**

Exhibit 3

**Qwest deemed this information confidential and therefore
it is not submitted with this filing.**