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BEFORE THE ARIZONA CORPORATION COMMISSION RECEIVED

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2001 JUL 17 P 4: 28  
AZ CORP COMMISSION  
DOCUMENT CONTROL

IN THE MATTER OF INVESTIGATION )  
INTO U S WEST COMMUNICATION, )  
INC.'S COMPLIANCE WITH CERTAIN )  
WHOLESALE PRICING REQUIREMENTS )  
FOR UNBUNDLED NETWORK ELEMENTS )  
AND RESALE DISCOUNTS. )

DOCKET NO: T-00000A-00-0194  
NOTICE OF FILING  
EXECUTIVE SUMMARY OF  
DIRECT TESTIMONY OF  
WILLIAM DUNKEL

Arizona Corporation Commission Staff ("Staff") hereby files the Executive Summary of the Direct Testimony of William Dunkel in the above-referenced matter

RESPECTFULLY SUBMITTED this 17<sup>th</sup> day of July 2001.

Arizona Corporation Commission  
DOCKETED

JUL 17 2001

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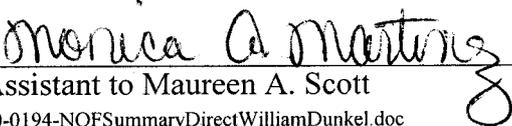
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BEFORE THE  
ARIZONA CORPORATION COMMISSION

IN THE MATTER OF INVESTIGATION )  
INTO U S WEST COMMUNICATION, )  
INC.'S COMPLIANCE WITH CERTAIN )  
WHOLESALE PRICING REQUIREMENTS )  
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DOCKET NO: T-00000A-00-0194

EXECUTIVE SUMMARY OF DIRECT TESTIMONY

OF

WILLIAM DUNKEL

ON BEHALF OF

THE STAFF OF THE ARIZONA CORPORATION COMMISSION

JULY 17, 2001

**EXECUTIVE SUMMARY**  
DIRECT TESTIMONY OF  
WILLIAM DUNKEL  
DOCKET NO. T-00000A-00-0194

I have participated in over 130 state telephone regulatory proceedings before over one-half of the state commissions in the United States. I have been participating in telephone regulatory proceedings for over 20 years.

I recommend the following unbundled loop rates:

|                   | <u>Including Sold Exchanges</u> | <u>Excluding Sold Exchanges</u> |
|-------------------|---------------------------------|---------------------------------|
| Zone 1            | \$ 9.35                         | \$ 9.35                         |
| Zone 2            | \$14.57                         | \$14.20                         |
| Zone 3            | <u>\$43.80</u>                  | <u>\$36.34</u>                  |
| Statewide average | \$13.22                         | \$11.89                         |

Additional details and costs by wire center are shown on Schedules WD-14 and WD-15.

I recommend the rates "excluding" the sold exchanges be utilized. The above rates include 15% for common costs (including common overhead, directly assigned, and directly attributed). My recommendation for the unbundled loop rates utilized the Hatfield model with the inputs that the ACC and FCC have adopted. The Hatfield model is the model that the ACC utilized in Decision No. 60635. In addition, the ACC adopted various inputs in that Decision. For those inputs that were not addressed in the ACC Decision, I used the inputs that the FCC adopted in its Order FCC 99-304.

These and the other rates I recommend are shown on Schedule WD-8.

My analysis determined that the Qwest calculated costs to provide collocation and line sharing services to the CLECs were overstated. For example:

- The Qwest claimed "actual" costs for collocation jobs were based upon labor rates of a vendor that actually did no work on those jobs.
- For installing a certain type of cable, Qwest used a "actual" cost of \*\*\$ \*\* per foot. However, it costs \*\* \*\* per foot for Qwest installers to install this cable. (\*\* \*\* per foot if overtime and administrative costs are included.)
- Schedule WD-1 shows that the installation costs using the Qwest installers (QTI) are a tiny fraction of the costs that Qwest claims to be the "actual" costs. The Qwest installers do most of the installations.
- In Qwest's study of the cost of providing service to CLECs, a specific piece of equipment had a claimed material cost of \*\* \*\*. However, that same item had a

material cost of \*\* \*\* in a Qwest study of the cost of providing Qwest's xDSL service. (See Schedules WD-3 and WD-4)

- Qwest's "engineering" cost included the cost of a "field survey." However, Qwest's personnel in its Phoenix central office stated that the engineers are located in Denver, and generally do not conduct a "field survey." Instead, they have detailed electronic drawings similar to "blueprints", on which they draw in the new facilities. Those documents are then forwarded to the installation personnel in Arizona for installation.
- Qwest proposes an "engineering fee" that includes the cost of engineering a bay. However, Qwest proposes to charge this fee whenever a CLEC wishes to use even one or a few shelves in a bay. There are eight shelves in one bay.
- Qwest's claimed costs of providing a bay to a CLEC include costs for "aerial support", "cable racking" and "lighting fixtures". However, Qwest's cost study for Qwest DSL services does not include any of these costs. (Schedules WD-3 and WD-4) My analysis does include reasonable costs for such items, but this shows the inconsistency of Qwest's cost studies.
- The depreciation rates that Qwest applied to land and buildings to calculate the CLEC's "rent" were not the ACC approved depreciation rates for land and buildings. Instead, Qwest applied the depreciation rates for electronic equipment, which results in a depreciation expense that is \*\* \*\* the depreciation expense calculated using the ACC approved depreciation rates for the land and building accounts. (See Schedules WD-5 and WD-6)

My analysis determined that the overhead expenses of Qwest were overstated. For example,

- In calculating the "rent", Qwest first calculated the investment in central office land and buildings, and then inflated that by a factor for central office land and buildings. (See Schedule WD-5)
- Qwest calculated a "product management" factor that was designed to be applied to just a small fraction of the "direct" costs of providing service. However, Qwest applied that product management factor to the full "direct" costs of providing service, resulting in greatly overstating the product management expense. (Schedules WD-5 and WD-7)
- In Decision No. 60635, the ACC selected a 15% overhead factor. This was not remanded. I recommend that the 15% overhead factor be used in this proceeding. This includes what Qwest calls directly attributed, directly assigned, and common costs.

A maintenance factor can be calculated by dividing the annual maintenance expense by the "book" investment. This is a factor that can be properly applied to "book" investment figures. A different maintenance factor is calculated if you divide the annual maintenance expense by the "current" investment (which is the investment if current prices were paid). This gives a maintenance factor that is appropriately applied to "current" investment figures. For many accounts, Qwest calculated the factor based upon "book" investments, but applied that factor to "current" investments.

In its cost models, Qwest used a 10.37% cost of money and associated capital structure which was based upon the ACC's 1998 Order in the prior UNE proceeding, Docket No.

U-3021-96-448 et al. AT&T/XO/Worldcom used a 9.61% overall cost of money and associated capital structure from the Commission's March 30, 2001 decision in the recent general rate proceeding, Decision No. 63487. In the cost of money factors used in my analyses, I utilized the more recent 9.61% overall cost of money from the Staff testimonies and ACC Decision No. 63487, and the associated capital structure.

Qwest treats its affiliated xDSL provider, Broadband Services Inc. (BSI), much differently than it treats unaffiliated xDSL providers. For example,

- Qwest proposes a \$2.74 recurring per line per month charge for modifying its operational support systems (OSS) for a "long term" solution to line sharing. This charge would apply to unaffiliated xDSL providers. However, it would not apply to Qwest's affiliate DSL provider, BSI, in spite of the fact that BSI does utilize line sharing.
- If the line sharing OSS cost is collected in a charge that applies to all line sharing xDSL providers, including the Qwest affiliate (BSI), a charge of \$0.10 per shared line per month will recover the costs. This is my recommendation.
- Unaffiliated xDSL providers must pay Qwest numerous collocation charges. (See Schedule WD-11) However, Qwest's xDSL affiliate does not pay the charges on this list, but instead has a very simple charge that it pays for collocation, as shown on page 3 of Schedule WD-10.
- In general, I recommend that the tariff charges for a particular service that apply to the unaffiliated xDSL providers should also apply to the Qwest affiliated xDSL provider.

Qwest proposes a \$5.00 per line monthly line sharing loop charge, which is a line sharing charge equal to approximately 20% of the Qwest calculated unbundled loop cost. Twenty percent of the statewide average unbundled loop rate of \$11.89 that I propose is \$2.38, which is my recommendation for the line sharing loop charge.

The Qwest loop cost model does not include reasonable cable placement costs. Qwest assumed that \*\* \*\* of the length of the distribution cables would have to be placed by the expensive placement methods of boring, cutting and restoring concrete, and cutting and restoring asphalt. This is an unrealistic assumption. When a new residential subdivision is being developed, Qwest normally installs buried distribution cables prior to the time that the surface obstructions (i.e. roads, sidewalks, driveways, lawns, etc.) are in place. The developer frequently provides the trench at no cost to Qwest. The ACC rejected similar Qwest placement cost claims in Decision No. 60635.

It is important to recognize that the loop facility cost is not "caused" by just basic exchange service. Even a Qwest witness acknowledges that the cost of a loop facility is at least partially caused by the high frequency portion of the loop (HFPL).

The FCC has declared that it has jurisdiction over ISP bound traffic. Therefore, the ACC does not set the rates for ISP bound traffic. However, the FCC order also appears to try to take control of local interconnection traffic that is not ISP bound. For purposes of this proceeding, the ACC should set the appropriate rates for the non-ISP bound local interconnection traffic.

Qwest proposes that there be a separate UNE charge for each vertical service. Currently in Arizona the switching "port" charge includes the vertical features provided by the switch. I recommend this treatment continue.

In the Jennings proceeding, the Court required the Commission to "at least consider the range of cost savings for different categories of service." The Court expressed "no opinion regarding the proper result on remand." In addition, "Whether the ACC has, or can even obtain, the information needed to more accurately identify the cost savings attributable to various services will also be a factor in deciding whether to establish additional discount rates." I addressed this issue including:

- The required detailed avoided cost information is not available by product or major product group. Much of the Qwest analysis was based on "managerial judgment."
- The Jennings ruling in no way required that the overall discount be reduced, but the Qwest proposal would reduce the current average composite discount, which is \*\* \*\* down to an average discount of 10.46%.
- The existing discount in Arizona is 12% for residential basic exchange service, and 18% for virtually all other services. The majority of the Qwest jurisdictions have only one or two different discount categories.
- Qwest has claimed that seven other states had relied upon the Qwest study. However, a review of the percent discounts that resulted from those Orders, and a review of the wording from a Washington Order indicates that those other states did not rely on the studies similar to what Qwest has filed in this proceeding. In the seven other states that Ms. Gude claims relied on Qwest's study, the avoided cost discount for residential basic exchange service adopted by the commissions averaged 14.9%, whereas the avoided cost study that Ms. Gude has filed in this proceeding alleges a 4.19% discount for residential basic exchange service.
- Section 252(d)(3) of the TA96 requires that the calculation of the wholesale rates must be the "retail rates" less "avoided cost". However, instead of properly using the rates or revenues in the denominator, Ms. Gude used "total operating costs" in the denominator. This is in violation of the TA96 requirements. Using total costs in the denominator instead of rates or revenues has been properly rejected by the ACC and other commissions in the past.
- I recommend that the current discount of 12% for residential basic exchange service, and 18% for virtually all other services continue. I have provided the information needed to consider other discounts as required by the Court.

My testimony addresses numerous other items that were remanded by the Court, or otherwise placed at issue in this proceeding.

I recommend that the rates shown in Column 5 on Schedule WD-8 be adopted. These are the rates that are consistent with the ACC and FCC ordered inputs, and are consistent with the various applicable requirements, including the requirements of TA96.