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March 19, 2002

Arizona Corporation Commission
Docket Control – Utilities Division
1200 West Washington Street
Phoenix, AZ 85007

Re: ACC Docket No. T-00000A-00-0194

Dear Docket Control:

Enclosed for filing are the original and ten (10) copies of the ***Exceptions of AT&T and XO to Supplemental Order***, in the above-referenced matter. If you have any questions, please contact me at the phone number, or e-mail address, above.

Very truly yours,

Davis Wright Tremaine LLP

Larry J. Weathers

Larry J. Weathers
Paralegal

Enclosures
cc: Mary Steele
Rick Wolters
David Miller
Gregory Hoffman
Caroline Butler, ACC

Arizona Corporation Commission
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BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM A. MUNDELL
Chairman
JAMES M. IRVIN
Commissioner
MARC SPITZER
Commissioner

IN THE MATTER OF INVESTIGATION INTO U S WEST COMMUNICATIONS, INC.'S COMPLIANCE WITH CERTAIN WHOLESALE PRICING REQUIREMENTS FOR UNBUNDLED NETWORK ELEMENTS AND RESALE DISCOUNTS)	**DOCKET NO. T-00000A-00-0194** **EXCEPTIONS OF AT&T AND XO TO SUPPLEMENTAL ORDER**

I. INTRODUCTION

The original Recommended Opinion and Order ("ROO") in this proceeding joined decisions from several states in recognizing that the costs of providing unbundled network elements have declined substantially since rates for those elements were initially set in the wake of the Telecommunications Act of 1996. Since the ROO, the drumbeat of the states ordering reductions in UNE rates has grown to a chorus. *See, e.g., In the Matter of the Board's Review of Unbundled Network Element Rates, Terms, and Conditions,* Docket No. TO00060356, Decision and Order (March 6, 2002, N.J. Bd. Pub. Utilities); Press Release issued January 23, 2002 by New York Public Service Commission (available at www.dps.state.ny.us); *Joint Application of AT&T and WorldCom for the Commission to Reexamine the Recurring Prices of Unbundled Elements*, Application No. 01-02-024, Interim Opinion Establishing Interim Rates (Draft Issued April 4, 2002) (Cal. Pub. Util. Comm'n.). Other states, including Washington, Utah, New Mexico, and Minnesota, are now in the process of reviewing existing UNE rates to determine whether those rates should be reduced.

The March 8 Supplement to the ROO again attempts to balance the parties' positions in developing cost-based rates. In many respects, the Supplement accomplishes that result. On a few issues, however, the Supplement has adopted positions that necessarily result in rates in excess of any reasonable TELRIC range. AT&T Communications of the Mountain States, Inc. ("AT&T") and XO Arizona, Inc. ("XO") hereby file Exceptions to these decisions of the Supplement. In addition, AT&T and XO join with WorldCom in its Exceptions to the Supplement on collocation and other issues.

II. DISCUSSION

These Exceptions address two aspects of the March 8, 2002 Supplement. First, the Supplement improperly increases the recurring charge for the unbundled analog loop by adopting a methodology that places a substantial portion of outside loop plant in expensive underground conduit. This assumption, which is unsupported by the record, adds $0.44 per month to the unbundled loop rate. Second, the Supplement adopts a methodology for calculating the rates for unbundled dedicated transport and direct trunked transport that was not proposed by any party to this proceeding. Rather than adopting this unsupported methodology and moving consideration of pricing for transport into the next phase of this proceeding, AT&T and XO propose that the Commission should adopt the transport rates recommended by the Joint Intervenors.[1]

A. Loop Pricing.

The ROO adopts the HAI Model 5.2a for the purpose of calculating recurring charges for the unbundled analog loop. The ROO made a number of determinations regarding how inputs to the HAI Model should be changed from those originally proposed by the Joint Intervenors. All

[1] The Joint Intervenors include WorldCom as well as AT&T and XO. These parties jointly filed testimony and proposed rates in this proceeding.

of the assumption changes adopted by the ROO had the effect of increasing the recurring loop charge above the rate recommended by the Joint Intervenors in this proceeding.

One of the changes adopted by the ROO was a reduction in the percentage of aerial plant assumed by the Model. The ROO ordered that the overall aerial percentage should average 19% rather than the higher average aerial percentage used in the Model as filed. The ROO did not state how the inputs to the Model should be revised to meet this 19% average. The March 8 Supplement addresses this issue by stating that the 19% aerial average should be used as a direct, single input to the Model in all density zones, in essence assuming that the same percentage of aerial plant placement will be used in rural, suburban, and urban areas.

The HAI Model is designed to allow the Model itself to determine the least-cost mix of aerial and buried plant based upon both the initial cost of placing plant and the maintenance and other costs that would be incurred during the expected life cycle of the plant at issue. In addition to aerial and buried plant, the mix of which varies based upon these life cycle costs, the Model also assumes that some percentage of the outside plant will be placed in underground conduit. The HAI Model as filed in this proceeding assumed that aerial distribution plant, including building cable, varied from 25% to 85% depending on density zone. Underground placement constituted up to 10% of placement in distribution, and between 5% and 90% of placement in outside feeder plant. Buried distribution varied from 5% to 75%, depending on the density zone.

In making decisions about plant mix, outside plant engineers typically act as the Model does by deciding to place aerial plant or buried plant based on the relative life-cycle cost of the two placement types. Because of the considerable cost of underground placement in comparison to aerial and buried, engineers typically specify underground plant only in high density areas where reinforcement of plant may be required. Nevertheless, because of the design of the HAI

Model, if the aerial plant percentage is reduced to a fixed percentage rather than permitted to vary based on cost, the Model assigns all of the plant that would otherwise be aerial to underground. In contrast, a plant engineer would likely replace the excess aerial plant with buried plant to avoid the excessive cost of placing conduit in areas where conduit is not needed.

To reflect these realities of plant engineering, AT&T and XO proposed that the ROO's determination regarding the percentage of aerial plant to be placed should be implemented by applying a scaling factor to the existing aerial percentages used in the model. This would have the effect of reducing the aerial plant to an average of 19%, with reductions in each density zone in proportion, based upon the initial assumptions of the Model. Qwest itself proposed a similar methodology during the course of the proceeding in this matter. The effect of AT&T's proposed methodology would be to replace aerial plant with buried plant, rather than with underground plant as assumed by Qwest.

Qwest proposed, as an alternative, that the ROO should be implemented by restricting the HAI Model to 19% aerial in each of the nine density zones used in the Model. This has the effect of reassigning aerial plant to underground plant, driving the monthly recurring cost for unbundled loop up by $0.44, based on the other input decisions adopted by the ROO. The Supplement adopted Qwest's methodology for calculating the recurring unbundled loop charge.

The methodology proposed by Qwest and adopted by the Supplement in this proceeding bears no relationship to the way a plant engineer would actually design outside plant. Contrary to Qwest's methodology, the mix of plant types does vary by density zone. Qwest itself recognized this fact in its own proposals in this proceeding. The methodology proposed by AT&T and XO more closely matches the process that would be used by a plant engineer in designing outside plant. For this reason, AT&T and XO propose that the inputs for plant mix found on Attachment A should be adopted by the Commission. These inputs meet the requirement of the ROO that an appropriate average for aerial placement in a forward looking cost model is 19%.

B. Transport.

The March 8, 2002 Supplement states that the HAI Model will be used for calculating transport pricing and that those prices will be determined in a new Phase III of this proceeding so that a full record may be developed. As AT&T and XO have previously set forth in Exceptions to the ROO, the Joint Intervenors did not submit the HAI Model for calculating transport pricing. Rather, the Joint Intervenors proposed that the Qwest Model be adjusted to produce rates that more closely complied with TELRIC. The Qwest Transport Model uses many of the same assumptions used by Qwest in calculating pricing for high capacity loops. The Supplement recognizes that many of the assumptions used by Qwest result in inflated costs. The Joint Intervenors suggested that the same adjustments adopted by the Supplement for high capacity loops should also be used in calculating transport pricing.

The Supplement already makes all of the determinations necessary to establish transport pricing based on the proposals made by both Qwest and the Joint Intervenors in this proceeding. There is no need for the duplicative, time consuming, and expensive effort of a new phase of this proceeding to determine transport pricing. The Commission should adopt the transport pricing proposed by the Joint Intervenors.

Nevertheless, AT&T and XO agree that if the Commission determines to use the HAI Model for the purpose of calculating the transport charges, a new phase is necessary. As noted by the Supplement, adjustments to the HAI Model are needed to allow calculation of transport prices on both a fixed and mileage-sensitive basis, as proposed by all parties to this proceeding. Other adjustments may be required, including adjustments to equipment pricing and to ensure that special access capacity is properly reflected in the interoffice transport calculations. The record presently before the Commission does not include these adjustments, precisely because the Joint Intervenors did not propose the use of the HAI Model in this proceeding.

III. CONCLUSION

AT&T and XO propose that the Commission adopt revisions to the March 8, 2002 Supplement described above.

Dated this 19th day of March, 2002.

AT&T COMMUNICATIONS OF THE
MOUNTAIN STATES, INC.

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CERTIFICATE OF SERVICE

ACC Docket No. T-00000A-00-0194

I hereby certify that on the 19th day of March 2002, the original and ten (10) copies of the ***Exceptions of AT&T and XO to Supplemental Order,*** in the above-referenced docket, were sent for filing via FedEx, next business morning delivery, to:

Arizona Corporation Commission
Docket Control – Utilities Division
1200 West Washington Street
Phoenix, AZ 85007

And, I further certify that on the 19th day of March 2002, a true and correct copy of the above was sent via FedEx, next business morning, to:

Lynn Farmer Chief Hearing Officer Hearing Division Arizona Corporation Commission 1200 West Washington Street Phoenix, AZ 85007	Dwight D. Nodes Administrative Law Judge Hearing Division Arizona Corporation Commission 1200 West Washington Street Phoenix, AZ 85007
Maureen Scott Legal Division Arizona Corporation Commission 1200 W. Washington Street Phoenix, AZ 85007	Ernest G. Johnson Director – Utilities Division Arizona Corporation Commission 1200 West Washington Street Phoenix, AZ 85007
Timothy Berg Fennemore Craig, P.C. 3003 North Central Avenue, Suite 2600 Phoenix, AZ 85012-2913	John M. Devaney Perkins Coie LLP 607 Fourteenth Street, NW, Suite 800 Washington, DC 20005-2011

And, I further certify that on the 19th day of March 2002, a true and correct copy of the above was sent via U S Mail, postage prepaid, to:

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Dated this 19th day of March, 20002 by [signature]