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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission
DOCKETED
MAR 21 2002
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In the Matter of Investigation into US West Communications, Inc.'s Compliance with Certain Wholesale Pricing Requirements for Unbundled Network Elements and Resale Discounts	Docket No: T-00000A-00-0194 Phase II

WORLDCOM, INC.'S EXCEPTIONS TO MARCH 8, 2002 SUPPLEMENTAL ORDER

WorldCom, Inc., on behalf of its operating subsidiaries ("WorldCom") appreciates that Administrative Law Judges' efforts in preparing a Supplemental Recommended Opinion and Order ("SROO") to address and clarify important issues in this wholesale pricing docket. For the most part, WorldCom supports the SROO but does respectfully request two modifications.[1] First, WorldCom requests that additional reductions to the space construction costs be made to eliminate double counting of certain HVAC and

[1] These exceptions only address the SROO. WorldCom filed separate exceptions to the initial Recommended Opinion and Order ("ROO") and assumes both sets of exceptions will be addressed at the April 11, 2002 Open Meeting. WorldCom will not reiterate its ROO exceptions here, except to the extent they relate directly to findings in the SROO.

electrical costs. Second, WorldCom requests that the SROO be modified to require that Qwest file support and justification for its Directory Assistance and Operator Services ("DA/OS") prices in Phase 3 of these proceedings unless, prior to Phase 3, Qwest files an application with the Arizona Corporation Commission ("Commission") seeking competitive treatment for DA/OS services. In that case, WorldCom requests that evidence supporting Qwest's proposed DA/OS prices be included in the competitive application proceeding. WorldCom also joins in the exceptions to the SROO filed by AT&T and XO.

I. DOUBLE COUNTING OF HVAC AND ELECTRICAL COSTS

Qwest includes the same HVAC and electrical costs in its space construction charge – the charge imposed for building out new areas for collocation within the central office – that are also included in the floor space rent. Transcript,[2] pp. 421-422, Lathrop Direct, pp. 51-52.

Qwest contends that these costs were backed out of Qwest's space rent cost study thereby avoiding double recovery. SROO, p. 12. Qwest also claims that Staff witness Dunkel verified that such costs were backed out of the Qwest study. Qwest witness Mr. Fleming argued that Qwest's floor space rent includes only "centralized system" costs while "distribution facilities" costs are included in Qwest's space construction charge. The centralized system serves all users of the central office while the distribution facilities are the specific electrical and mechanical facilities connecting the central system to the

[2] Transcript refers to the Reporter's Transcript of proceedings of July 17, 2001.

collocation space. Mr. Fleming maintains that Qwest removed all "distribution facilities" from its rent costs.

The reduction of HVAC and electrical costs in the rent study appear to be an adjustment required to shorten the distribution lines from 210 feet to 70 feet. This adjustment was necessary because the 1998 rent study used a one-story building in which HVAC and electrical lengths were presumed to be 70 feet rather then the GLHN study on which the rent study was based that used a three-story building and assumed 210 feet of distribution. It is WorldCom's position that <u>two</u> adjustments need to be made: one to reduce distribution to 70 feet from 210 feet to take into account a modern central office configuration; and a second adjustment to avoid counting the 70 feet distribution costs in both the rent charge and the space construction charge. Qwest only offered evidence of <u>one</u> adjustment and could not identify where the second adjustment, if any, was made. Qwest could not explain away this double counting except to say that it is adjusted "someplace else." Transcript, pp. 432-437. *See also* WorldCom Hearing Exhibit 6, Appendix, p. 1. WorldCom Exceptions, pp. 11-12; WorldCom Post-Hearing Brief, p.8; Transcript, pp. 421-422; Lathrop Direct, pp. 51-52.

Contrary to Qwest's assertion, Staff witness Dunkel does not conclude that there is no double counting. Instead, Dunkel simply says that certain costs for electrical and air conditioning were backed out from the rent calculations and placed in other charges. Staff Exhibit 29, pp. 23:19-24:11 ("Dunkel Direct"). A copy of those pages is attached. Dunkel does not opine on WorldCom's double counting argument. In fact, Dunkel states that "the amount Qwest put back in those other specific charges were much larger than the amounts they had backed out of the rent so that the amounts for air conditioning, duct work and electrical work that the company put back in individual charges was excessive." *Id.*

Qwest could not demonstrate that the same distribution facilities costs included in the space construction were not also included in the space rent. As a result, the collocation space construction charge should be reduced to eliminate this double counting.

II. MARKET PRICING FOR DA AND OS.

The SROO concurs with WorldCom's position that the Commission intended to retain jurisdiction over the reasonableness of wholesale rates (referred to as basket 2 services in the Qwest rate case settlement) and that Qwest has not provided sufficient justification for the reasonableness of its proposed DA/OS rates in the form of cost studies or other supporting documentation. SROO, p. 14. The SROO, therefore, rejects the proposed DA/OS prices and states that Qwest must file an application for competitive treatment if it believes these services qualify for competitive treatment under Commission rules.

While WorldCom agrees with the SROO's conclusions, WorldCom respectfully suggests that two other issues need to be addressed in this Order. First, when and how should Qwest be required to provide that support and justification? Second, what prices should Qwest charge for DA and OS in the interim until it provides support and justification for its DA/OS prices?

WorldCom suggests that the SROO be modified to require that Qwest either provide price justification and support in Phase 3 of this docket or, prior to Phase 3, apply for competitive treatment pursuant to the Commission rules and in that proceeding provide justification and support for its proposed DA/OS prices. To satisfy the federal Act's non-discrimination provisions, DA and OS prices should be the same price at which Qwest provides these services to itself. In the interim, Qwest should charge its proposed prices subject to a true-up once final prices have been approved by the Commission.

III. CONCLUSION

WorldCom supports the SROO but respectfully requests that it be modified to eliminate the double counting of HVAC and electrical costs by removing those costs from Qwest's space construction charges and to require a price support filing for DA and OS services.

RESPECTFULLY SUBMITTED this 21st day of March, 2002.

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depreciation rates. This correction alone greatly reduces the claimed rent expense. In addition, as previously discussed, the Company was charging land and building factors on top of the cost of the land and buildings.

One factor in the Company's calculation of the rent is that the Company used the "reconstruction cost new" for buildings. The Company's actual investment in the actual buildings is less than ** ** the investment that would be required to reconstruct these buildings today. Although the rent is calculated on investment that is much larger than the investment that actually exists, I did not adjust the investment down. In its testimony, AT&T/XO/Worldcom took the position that they would accept the concept that these buildings were built new, but that meant there would not be some of the problems of older buildings that result in some of the other costs being higher.[35] For example, if built new with the CLECs in mind, it is reasonable to expect that the buildings could be built so that the length of the cable runs to the CLEC locations could be shorter than the Company is claiming in their study. In short, if it is assumed that the buildings are built new, inefficiencies that result from the existing older buildings do not have to be accepted.

In fact, the investment I used is somewhat higher than the investment the Company used. In calculating its rent, the Company calculated the "reconstruction cost new" for the buildings, but then backed out certain costs for electrical and air conditioning. Having backed them out of the rent calculations, Qwest then included them in specific

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[34] Section 9.4.6, Arnold Exhibit MA-1A.
[35] Pp. 27-28, Lathrop Direct.

calculations for specific charges. In most cases, the amounts Qwest put back in those other specific charges were much larger than the amounts they had backed out of the rent. The amounts for the air conditioning, ductwork[36], and electrical work that the Company put back in the individual charges was excessive. For example, in one of its calculations, the company assumed it was running separate air conditioning ducts to each cage, but in fact they do not run them. In the real world, a new building would have air conditioning appropriately placed in the entire equipment room. That is what I have included in the rent. Therefore, there is no need for additional air conditioning ducts to be added into individual CLEC charges. In other words, when building a new building, it is assumed that the whole equipment room is air conditioned, and ducts and other required equipment are included in the rent charge already.

Q. HAVE YOU DEVELOPED RATES YOU PROPOSE FOR LINE SHARING?

A. Yes. Those rates are included on Schedule WD-8.

X. FOR MAINTENANCE FACTORS, QWEST USED THE "CURRENT TO BOOK" ADJUSTMENT SELECTIVELY

Q. WHAT ARE "MAINTENANCE FACTORS"?

A. Maintenance factors are cost factors that are applied to investments to calculate the maintenance expense.

[36] Qwest refers to this as "HVAC" air conditioning. Qwest response to Request ATT 02-103, Attachment A; Qwest Arizona Collocation Cost Model "Defaults and Overrides", Cell BM13.