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Arizona State Council

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April 10, 2002

William Mundell, Chairman
Arizona Corporation Commission
1200 W. Washington
Phoenix, AZ 85007

RE: WHOLESALE PRICING DOCKET T-00000A-00-0194

Dear Mr. Mundell:

My name is Joe Gosiger. I am president of the Communications Workers of America (hereinafter the CWA) Local 7019. I have served in that position since 1994. CWA represents over 5,500 telecommunications workers in Arizona and New Mexico. I am representing the Communications Workers of America Arizona State Council (hereinafter the Union), a coalition of eight CWA locals that represents over 14,000 telecommunications workers, Arizona State Correction Officers, Law Enforcement Officers, workers in the printing and publishing industry and the City of Tucson White Collar workers. In addition, I have been a telecommunication worker in Arizona for over twenty-eight years.

The Union is in a unique position because of its varied and diverse interests. As unionized telecommunication workers at AT&T, Citizen Communications, SBC and Qwest Communications in Arizona, we stand to benefit from a well-balanced wholesale pricing order by the Arizona Corporation Commission (hereinafter the Commission). Well-balanced wholesale will spur competition to the benefit of the consumer, the worker and the future of Arizona as well as the competitive local exchange carriers (hereinafter the CLECS).

Like most issues there are two sides. Both are based in facts that are formulated by opposing sides that sometimes do not quite mesh. Borrowing from a well-known radio commentator, *Paul Harvey*, the Union would like to tell "*The Rest of the Story*".

The Union has heard the rhetoric from both sides on how to achieve a "fair-market" price for the wholesale charges of the incumbent local exchange carriers (hereinafter the ILECs). The question is what should be charged in a competitive environment? The Union believes that the proposed Integrated Cost Model (hereinafter the ICM) by Qwest of \$25.95 would be a short-term benefit for our union members in Arizona. We believe it is not in the best interest of the Arizona consumer because it is not a fair-market price

that would spur competition. In addition, the Union believes that the proposed wholesale price by the Administrative Law Judge (ALJ) of \$12.95 would have devastating impacts on our membership and in the long-term hurt the Arizona consumer.

If the wholesale price is set too low, long-term damage may occur in Arizona. An ILEC, the provider of last resort, could decide not to invest additional capital dollars for new technology into a state where the rate of return has been diminished compared to other states it services. This is a possibility of a "future looking" scenario that is based on the American Economic Model of Capitalism that dictates a corporation's ability to leverage the most money on its investments.

It is essential to create an economic balance that would insure the continuance of a viable up to date telephone network. The establishment of a fair-market price for the wholesale cost of telephone services would allow an ILEC to achieve a reasonable profit. That would continue capital dollar investment in Arizona. In addition, a fair-market price should allow the CLECs a reasonable profit, but not a windfall at the expense of the future of the Arizona telephone network.

The Union has been perplexed by all the rhetoric that drowns out some commonsense facts that are within the telecommunications industry. First, the term competition and how to achieve it is truly in the eye of the beholder. The long distance CLECs - AT&T and WORLDCOM - would have us believe that the number of "unbundled loops" sold should be the only measure of market penetration. Competition should be reflected in total lines lost by the ILECs in Arizona. In addition, another key factor in the changing environment of the telecommunications industry is the anomaly that in spite of the growth in Arizona there is a lack of line growth by ILECs. The upside of this new phenomenon is the reduction of Commission complaints by Qwest customers.

Today's telecommunications industry is not just limited to the "local loop". It is also includes wireless and vertical services offered by Cox Communications i.e. telephone, is now an embedded part. Furthermore, the additional local loops into a single residential and/or business customer have greatly diminished as new technologies i.e. DSL have replaced the need for the second and third telephone lines.

The union members of the CWA experienced an example of this shift in the telecommunications industry in Arizona this last December. The month of December is normally a time when there is a "spike" in additional telephone lines in the residential market i.e. "the teenager's Christmas present." In the past, the business office had increased call volumes and the residential telephone technician installed the "kid's telephone line". This year that was not the case, as parents purchased the "electronic leash of the 21st century" - the cell phone. Although, the cost of the cell phone is higher than a traditional telephone line, it gives the parents additional options for keeping an "eye" on their children.

This evolution of telecommunications has affected the cost of doing business within the industry. The old adage of the economy of scale comes into play, as capacity diminishes in the pipeline that delivers telephone services to residential and business customers, capital costs escalate proportionally upward.

The Union believes the ALJs' proposed wholesale price is far below the fair-market prices established by other regulatory commissions within the serving areas of Qwest. Below is a comparison of other wholesale prices currently established by other state regulatory agencies within the Qwest serving area – Chart One (1):

CHART ONE – WHOLESALe RATES

Ordered Rates Other Qwest States	State Docket Number	Wholesale Price
Colorado	96S-331T	\$15.75
Idaho	USW-T-96-15	\$25.52
Iowa	RPU-96-9*	\$20.15
Minnesota	C196-1540	\$17.87
Montana	D2000.6.89	\$28.37
Nebraska	C-1385	\$15.79
New Mexico	96-310TC	\$20.50
North Dakota	PU-453-96-497	\$19.75
Oregon	UM844*	\$15.00
South Dakota	TC 184/TC99-106	\$21.09
Utah	94-999-01	\$16.46
Washington	UT-960369	\$17.61
Wyoming	70000-TF-96-319	\$ 25.65
* Loop rate ruling reversed on Appeal by AT&T and Qwest. Court remanded issue to Commission for further findings.		

The Commission, the Union believes, understands that all the rhetoric is just that and its past Orders reflect that understanding. The Commissioners understand that if the CLECs were interested in competition in the entire telecommunications industry, the CLECs have had the opportunity to purchase a Plain Old Telephone Line (hereinafter POTS) from Qwest at a 20% discount off the retail rate established by the Commission. Two factors that impact this opportunity are that the CLECs would have to pay the residential rate - \$13.45 - for residential customers they would serve and the business rate - \$31.80 - for the business customers they would serve. However, the CLECs would have to invest capital dollars to install a Central Office Switch so they could offer vertical services i.e. Voice Messaging and Caller I.D. In the case of AT&T, who has built and maintains an extensive nationwide wireless network that offers vertical services, the cost should be an existing "embedded" capital expense.

The residential market will be serviced by the long distance CLECs after the approval of 271 in Arizona. The Union has concerns that the long distance CLEC's real interest is to not spur competition for the entire industry, but to "cherry-pick" the large business customers off at a drastically reduced rate.

The wholesale pricing outlined in the ALJs' opinion, the total element long-run incremental costs ("TELERIC"), Qwest's ICM and the interconnection and unbundled network elements ("UNEs") is complex and the Union would not attempt to weigh-in on the correct numbers to "plug-in". The Union will outline some basic concerns in regards to the ALJs' opinion later in this testimony. The Union will defer to the "experts" to find the proper numbers to plug-in to all the different formulas or models that establish a fair wholesale price that Qwest should charge the CLECs.

The Union would propose a simple baseline for establishing a fair-market wholesale price in Arizona. The equation is as follows:

Step One – The average of the 1FB and 1FR telephone rate

$$\begin{aligned} & \$31.80 \text{ (Arizona Basic Business Telephone Rate – 1FB)} \\ & + \$13.45 \text{ (Arizona Basic Residential Telephone Rate – 1FR)} \\ & \hline & \$45.25 \div 2 = \$22.63 \end{aligned}$$

Average of the 1FB and 1FR telephone rate is \$22.63

Step Two – A 20 % discount of the 1FB and 1FR telephone rate average

$$\$22.63 * .20 = \$ 4.25$$

$$\begin{aligned} & \$22.63 \\ & - \$ 4.25 \\ & \hline & \$18.11 \end{aligned}$$

The proposed Union baseline for wholesale price: \$ 18.11

The rationale for our proposed wholesale price is that the current basic residential and business telephone rate has gone through the scrutiny of a full rate hearing and approval process by the Commission. Furthermore, the union proposed wholesale price would be a "reasonable rate of return" for Qwest. The 20% discount is the same percentage currently used for retail pricing. We believe by using the average plus a 20% discount will insure adequate rates of return by the CLECs and ILECs, which would allow the ILECs to maintain its investments in the Arizona telephone network - a balance of profit and investment.

The Union would direct the Commission to review the ALJs' opinion on the Minimum Spanning Tree (hereinafter MST)(*ALJs' Phase II Opinion and Order, Pages 21 -22*) as one area that might be adjusted upward. Again, the Union is not a subject matter expert on the numbers the ALJs has plugged into the wholesale pricing structure; but we do have an understanding of the telecommunications industry; and we disagree with the ALJs' conclusion in regards to MST.

The ALJs' opinion acknowledges the CLECs' model that is based on cable lengths and does not recognize the real world expenses of growing and maintaining a viable telephone network.

The Union agrees with Qwest's opinion that the real world includes obstructions in placing and/or improving the telephone network in Arizona (*Qwest Corporation's Exceptions to the ALJs' Recommended Opinion and Order, pages 18- 21*). Even though, the ALJs' opinion is based on the best-case scenario moving forward, the cost of doing business is based on the real world expenses. The real world includes financial requirements imposed by City, County, Federal and Sovereign Indian Nation governments to place and/or expand the telephone network within their governmental jurisdictions. In the Phoenix Metropolitan area, the new expansive freeway system that dissects our state capital is another real world obstacle that is hard to avoid when engineering expansion of the telephone network, which adds additional capital expense.

Another area the Union has identified as a problem is with the ALJs' decision in regards to "Nonrecurring Cost". Throughout the ALJs' opinion some of their decisions are based on forward-looking scenarios, which is not an issue if the look forward was based on a reasonable probability of happening. A case in point is the ALJs' decision that recognizes "efficiencies that would likely be realized with a fully mechanized OSS system (*ALJs' Phase II Opinion and Order, Page 30, lines 6-7*)". A fully mechanized system doesn't exist today.

The Union would like the Commission to request the ALJ to outline in their looking forward scenarios and their probability. Our request is based on the recent debacle of the deregulation of the electrical industry in the state of California. The Commission did not

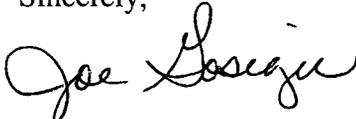
“rush” their decision in Arizona to deregulate our state’s electrical industry. That has proven to be a correct decision.

The Commission has the ability in their pending decision on wholesale pricing to establish a fair- market value price that would insure the viability of the ILECs continuing investment in our state’s telephone infrastructure and in addition, encourage the CLECs to invest capital into our state’s telecommunication’s infrastructure.

Furthermore, it would be easier to adjust downward the wholesale price in the future; if the Commission felt the wholesale price was an impediment for new entrants (ILECs) into the telecommunications industry in Arizona. However, it would be more difficult if the Commission set the price to low and then adjusted the wholesale price upward. The damage, if the wholesale price is set to low, would have already affected the capital investment in our state’s telecommunications industry; similar to the fiasco in California last summer.

The Union clearly understands that the Commission’s decision should be based on “the pricing standards set forth in Section 251(d) of the 1996 Act. The rates charged for interconnection and unbundled elements must be based on the cost (determined without reference to a rate of return or other rate-based proceeding) of providing the interconnection, or network element...[they must be] nondiscriminatory...and may include a reasonable profit. (ALJs’ *Phase II Opinion and Order, Page 2, lines 18-21*)”. We believe the Commission will balance the financial needs of the CLECs and ILECs and the future of Arizona’s overall telecommunications industry in their final decision.

Sincerely,



Joe Gosiger, President
CWA Local 7019

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