BEFORE THE ARIZONA CORPORATION COMMISSION

WILLIAM MUNDELL
Chairman
JIM IRVIN
Commissioner
MARC SPITZER
Commissioner

IN THE MATTER OF THE INVESTIGATION INTO QWEST CORPORATION'S COMPLIANCE WITH CERTAIN WHOLESALE PRICING REQUIREMENTS FOR UNBUNDLED NETWORK ELEMENTS AND RESALE DISCOUNTS

DOCKET NO. T-00000A-00-0194

EXCEPTIONS OF AT&T TO RECOMMENDED PHASE IIA OPINION AND ORDER

The Recommended Phase IIA Opinion and Order ("Phase IIA RO&O") largely proposes to continue the Commission's efforts to reduce unbundled network element rates to be more compliant with total element long-run incremental cost ("TELRIC") principles. Accordingly, AT&T Communications of the Mountain States, Inc., and TCG Phoenix (collectively "AT&T") support most of the determinations proposed in the Phase IIA RO&O. AT&T takes issue only with three proposed decisions that do not reflect the evidence in this phase of the proceeding, and AT&T recommends that the Commission adopt the Phase IIA RO&O with only the modifications necessary to address the three exceptions discussed below.

SUMMARY OF EXCEPTIONS

AT&T takes exception to the following aspects of the Phase IIA RO&O:

1. In recent filings with the FCC and the Colorado Commission, Qwest has stated that it no longer contends that the port cost developed by the HAI model needs to be increased to cover the cost of switch features, but the Phase IIA RO&O proposes just such an increase.

2. The HAI model properly includes an adjustment to account for cost savings

associated with increased use of digital loop carrier ("DLC"). The Phase IIA RO&O incorrectly eliminates this adjustment.

3. The Phase IIA RO&O requires the HAI model to be adjusted to account for the costs of billing associated with switch usage, but the HAI model already accounts for such costs.

DISCUSSION

1. The Commission Should Not Increase the Port Rate to Include Additional Costs for Switching Features.

The Phase IIA RO&O proposes not to change the existing analog line port rate because "continuing the current overall $1.61 rate would effectively provide Qwest with a $0.51 per line per month allowance for features costs, based on the results of the HAI model which produces a recurring port rate of $1.10."[1] The Order concludes that this result "reflects a reasonable middle ground" between Qwest's proposal to include an additional charge for features and AT&T's contentions that the HAI model already accounts for features costs. Qwest, however, now concedes that features costs are included in the HAI model output. Qwest explained its current position in a recent motion to the Colorado Public Services Commission to reduce the port charges initially adopted by that commission:

> At the FCC, AT&T has argued that an adjustment made by Qwest for vertical features costs it believed were omitted from the HAI Model was unnecessary. Based on those comments, Qwest has re-examined its adjustment. As Qwest explained in its FCC reply comments, Qwest's $0.38 adjustment for vertical features costs was based on its belief that the HAI Model utilized Qwest-specific books of account as the starting point for its determination of the forward-looking costs of digital switching maintenance. Since Qwest accounts for applications software as an intangible amortization expense rather than as a maintenance expense, however, Qwest believed that the costs for vertical features were omitted from the HAI Model.
>
> Upon reexamination, Qwest has not been able to refute the possibility that the version of the HAI Model used in Docket No. 99A-577T overrides the Qwest

[1] Phase IIA RO&O at 16.

> accounting data with a "user defined input." In this case, the Model uses a digital switch maintenance factor of 0.0558 instead of the lower, Qwest-specific factor of 0.04209. According to the HAI Inputs portfolio, the origin of the higher 0.0558 switching factor is not the Qwest 2000 ARMIS data, but a "New England Telephone Company Incremental Cost Study." Qwest cannot verify that this is the correct origin of this factor, or that the New England company included applications software in Account 6212, Digital Switching Expense, for this "incremental cost study"; however, neither can Qwest refute AT&T's assertion that this factor includes vertical feature costs. ***Since the HAI factor is higher than the factor based upon Qwest's actual accounting that excludes the application software expense, it is plausible that the application software is included in the HAI factor. As such, Qwest will eliminate its vertical feature-related adjustment to the switch port rate in Colorado, thereby reducing the rate to $1.15*** in order to remove any residual controversy over this issue.[2]

Qwest also conceded to the FCC that features costs are included in the HAI model output when Qwest supplemented its Section 271 filing to reduce UNE rates, including the port charge, in Colorado and in all other states in which Qwest reduced UNE rates using Colorado rates as a benchmark.[3] Qwest is continuing to maintain this position in other states as well. The Utah Public Service Commission is reexamining Qwest's unbundled switching and other UNE rates, and in testimony Qwest recently filed in that proceeding, Qwest no longer contends that the HAI model output should be increased to account for features costs.[4]

The Commission should not base any determination on a position that Qwest has abandoned. Because Qwest no longer takes the position that the HAI model output does not include switching features costs, no addition of $0.51 – or any other amount – is appropriate to

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[2] *In re Colorado Public Utilities Commission's Recommendation to the FCC Regarding Qwest's Provision of In-Region, InterLATA Services in Colorado*, Docket No. 02M-260T, Qwest's Motion for Approval of Exhibit A Pricing Changes in 8th Revised SGAT, at 2-3 (Aug. 2, 2002) (footnotes omitted and emphasis added) (a copy of the motion is attached as Exhibit A for the Commission's reference).

[3] *In re Qwest Communications International, Inc., Consolidated Application for Authority to Provide In-Region InterLATA Services in Colorado, Idaho, Iowa, Nebraska, and North Dakota*, WC Docket No. 02-148, Reply Declaration of Jerrold L. Thompson at 23-25 (July 2002).

[4] *See, e.g., In re Determination of the Cost of the Unbundled Loop of Qwest*, Utah PSC Docket No. 01-049-85, Rebuttal Testimony of Robert Brigham on behalf of Qwest (Aug. 16, 2002).

the rate resulting from the model run. Accordingly, the Commission should modify the Phase IIA RO&O to establish the port charge based on the HAI model output without any adjustment for additional features costs.

2. The HAI Model Properly Includes an Adjustment to Account for Cost Savings Associated With Increased Use of DLC Technology.

The HAI model includes an adjustment to account for cost savings associated with increased use of integrated DLC, which is less costly because lines served via integrated DLC do not use the main distribution frame and use a multiplexed switch port termination that is less expensive on a per-line basis than the corresponding analog line interface. The switching investments used in the model assume that Qwest serves 18.3% of the total number of lines with DLC, but because DLC systems are a forward-looking network technology, the percentage actually used to estimate costs should be higher than this default value. Largely based on a similar FCC decision, however, the Phase IIA RO&O concludes that the CLECs did not present "sufficient evidence in this case to support their claim that an additional offset for analog line circuit should be included."[5] The Commission should not adopt this conclusion.

AT&T and WorldCom presented the testimony of Richard Chandler, who testified that a forward-looking network in Arizona would deploy DLC to serve almost 71% of the lines.[6] Unlike the generic proceeding at the FCC, this evidence is specific to Arizona and more than adequately supports the proposed offset. Indeed, without that offset, the HAI model would be internally inconsistent, assuming 71% deployment of DLC for some purposes and 18.3% for others. The result would be that "switching investment and hence cost would be overstated on a

[5] Phase IIA RO&O at 18.

[6] Ex. AT&T/WorldCom 8 (Chandler Rebuttal) at 6.

forward-looking basis."[7] Accordingly, the Commission should modify the Phase IIA RO&O to adopt the analog line circuit offset in the HAI model.

3. The HAI Model Already Includes Switch Usage Billing Costs and Requires No Adjustment.

The Phase IIA RO&O agrees with "Qwest claims that the HAI model underestimates switching costs because it does not include the cost of billing for switch usage," and concludes that "[t]he HAI model should therefore be adjusted to account for the costs of billing associated with switch usage."[8] The HAI model, however, already includes these costs, and no further adjustment is warranted.

Billing for switch usage is included among the expenses captured by the model.[9] Among the expenses included in the HAI model are costs for Carrier to Carrier Customer Service. These expenses are developed based on the costs incurred to provide switched access to interexchange carriers and include costs associated with Carrier Access Billing Service ("CABS"), which Qwest and other local exchange companies use to bill for switch usage.[10] The HAI model thus already includes costs associated with billing for switch usage.

Qwest's claim to the contrary is simply erroneous. Qwest, moreover, never proposed any specific adjustments to the HAI model to account for the alleged lack of billing costs, even

[7] *Id.*

[8] Phase IIA RO&O at 19.

[9] The Phase IIA RO&O appears to give credence to Qwest's claim because AT&T witness Richard Chandler was unable to state where in the model the cost of billing for switch usage is included. Mr. Chandler, as the developer of the network components of the HAI Model, is thoroughly familiar with the engineering aspects of the model. Because the expense components were primarily developed by others, he is not as familiar with the details of some of the expense inputs. His inability to identify the specific location in the model where the cost of billing for switch usage is included reflects only Mr. Chandler's unfamiliarity with that aspect of the model and does not suggest the absence of those costs from the model.

[10] HAI Inputs Portfolio, Section 5.5.11 & Appendix C.

though Qwest proposed modifications to cure other Qwest-alleged "deficiencies" with the HAI model. Had Qwest been convinced of the absence of billing costs from the model, Qwest would have proposed a specific model adjustment to include (or at least quantify) those costs. The Commission should give no weight to Qwest's unsubstantiated criticism, particularly where, as here, the claim is demonstrably incorrect. Accordingly, the Commission should revise the Phase IIA RO&O to conclude that no adjustment to the HAI model for switch usage billing costs is appropriate or required.

CONCLUSION

For the foregoing reasons, the Commission should adopt the Phase IIA RO&O but only after making the modifications recommended above.

Dated this 25th day of November 2002.

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CERTIFICATE OF SERVICE

I hereby certify that the original and 13 copies of Exceptions of AT&T to Recommended Phase IIA Opinion and Order, regarding Docket No. T-00000A-00-0194, were hand delivered this 25th day of November, 2002, to:

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BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

Docket No. 02M-260T

IN THE MATTER OF THE COLORADO PUBLIC UTILITIES COMMISSION'S RECOMMENDATION TO THE FEDERAL COMMUNICATIONS COMMISSION REGARDING QWEST CORPORATION'S PROVISION OF IN-REGION, INTERLATA SERVICES IN COLORADO

QWEST CORPORATION'S MOTION FOR APPROVAL OF EXHIBIT A PRICING CHANGES IN 8TH REVISED SGAT AND REQUEST FOR SHORTENED RESPONSE TIME AND EXPEDITED RULING

Qwest Corporation ("Qwest"), through its undersigned counsel, hereby requests that this Commission grant it leave to amend Exhibit A to Qwest's 8th Revised Statement of Generally Available Terms and Conditions (SGAT). A clean and red-lined copy of Exhibit A are attached hereto. In particular, Qwest requests leave to make changes to the rates for the switch port and the high frequency portion of the loop used for line sharing. In addition, Qwest is also clarifying the OSS ongoing maintenance per order charge. As grounds for this motion, Qwest states as follows:

1. On June 13, 2002, the Commission determined that the rates filed by Qwest in Exhibit A to the SGAT to the SGAT and Appendix A complied with the Commission's decisions in Docket No. 99A-577T.[1]

2. Qwest filed its 271 application with the Federal Communications Commission (FCC) on June 13, 2002 and the Department of justice issued its recommendation for approval

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[1] Decision No. C02-718, adopted June 13, 2002, mailed June 26, 2002.

on July 23, 2002. In response to comments filed by CLECs concerning certain prices in the application, and consistent with its comments in WC Docket No. 02-148,[2] Qwest proposes the following modifications to its Colorado rates:

Line sharing (Ex. A, 9.4.1). While Qwest does not agree with the comments of those CLECs advocating a zero price for the high frequency portion of the loop, Qwest is nonetheless proposing a modification to the Commission-approved rate for the high frequency portion of the loop used in line sharing arrangements by establishing geographically deaveraged rates. This modification would be subject to review in Phase II of the cost docket proceedings. Qwest submits this proposal in order to minimize residual controversy concerning this rate element. Qwest proposes to establish geographically deaveraged HFPL rates using a formula that incorporates the same proportions as the geographic deaveraging of the loop, except that, to preclude any claim by CLECs that Qwest has unilaterally impose a price increase, Qwest will not increase the HFPL rate in Zone 3 beyond the level of the current, averaged rate of $4.89. Qwest submits that the deaveraging of this rate element gives CLECs additional flexibility in their business plans and reduces any inconsistency between an averaged HFPL rate on the one hand and a geographically deaveraged loop rated on the other.

Switch port rate (Ex. A, 9.11.1 and 9.11.2). At the FCC, AT&T has argued that an adjustment made by Qwest for vertical features costs it believed were omitted from the HAI Model was unnecessary. Based on those comments, Qwest has re-examined its adjustment. As Qwest explained in its FCC reply comments, Qwest's $0.38 adjustment for vertical features costs

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[2] *In the Matter of Qwest Communications International Inc. Consolidated Application for Authority to Provide In-Region, InterLATA Services in Colorado, Idaho, Iowa, Nebraska and North Dakota*, WC Docket No. 02-148.

was based on its belief that the HAI Model utilized Qwest-specific books of account as the starting point for its determination of the forward-looking costs of digital switching maintenance.[3] Since Qwest accounts for applications software as an intangible amortization expense rather than as a maintenance expense, however, Qwest believed that the costs for vertical features were omitted from the HAI Model.

Upon reexamination, Qwest has not been able to refute the possibility that the version of the HAI Model used in Docket No. 99A-577T overrides the Qwest accounting data with a "user defined input." In this case, the Model uses a digital switch maintenance factor of 0.0558 instead of the lower, Qwest-specific factor of 0.04209. According to the HAI Inputs portfolio, the origin of the higher 0.0558 switching factor is not the Qwest 2000 ARMIS data, but a "New England Telephone Company Incremental Cost Study."[4] Qwest cannot verify that this is the correct origin of this factor, or that the New England company included applications software in Account 6212, Digital Switching Expense, for this "incremental cost study"; however, neither can Qwest refute AT&T's assertion that this factor includes vertical feature costs. Since the HAI factor is higher than the factor based upon Qwest's actual accounting that excludes the application software expense, it is plausible that the application software s included in the HAI factor. As such, Qwest will eliminate its vertical feature-related adjustment to the switch port rate in

[3] Qwest understands that as a general matter, the HAI Model uses each individual ILEC's network expenses, as reported through ARMIS, as the starting point to develop the forward-looking operating expenses that an efficient carrier would face in that ILEC's service area. However, as discussed in the following paragraph, this may be true in most circumstances, but apparently not ubiquitously.

[4] HAI Model Release 5.2, Inputs Portfolio, Appendix C, p. 174.

Colorado, thereby reducing the rate to $1.15 in order to remove any residual controversy over this issue.

OSS Ongoing maintenance per order (Ex. A, 12.2). There is no charge for this element at this time, however the notation to that effect is included under the recurring rate heading rather than the non-recurring rate heading. Qwest has moved the notation to the non-recurring column.

Multiplexing (Ex. A, 7.4). In Decision No. C02-409, the Commission-ordered rates for DS1 to DS0 per arrangement were $156.81 (R) and $272.52 (NR) and the Commission-ordered recurring and non-recurring rates for DS3 to DS1 per arrangement were set at $157.16 and $279.00, respectively. The rates for each of these two products were inadvertantly transposed when the Exhibit A was produced and filed by Qwest in its June 12, 2002 Errata filing. With this filing, this transposition is being corrected to accurately reflect the Commission-ordered rates.

Request for Shortened Response Time and Expedited Ruling

3. The changes to rates proposed in this motion are reductions in existing prices. Qwest requests that these rate modifications and clarification be made effective by no later than August 15, 2002 so that Qwest can begin offering these new, reduced rates available to its customers.

4. The rate reductions proposed in this filing are being offered in response to CLEC comments with respect to the Colorado rates. Under the circumstances, Qwest submits that good cause exists for shortening the response time to this motion and granting the relief requested on an expedited basis. Conversely, Qwest submits that no party will be harmed by Qwest's reduction of these rates.

WHEREFORE, Qwest respectfully requests that this Commission enter an order approving the modifications to Exhibit A described in this motion, shortening response time to the motion to 7 days, or Friday, August 9, 2002, and ruling on this motion on an expedited basis such that the modifications, if approved, become effective by no later than August 15, 2002.

RESPECTFULLY SUBMITTED this 2nd day of August, 2002.

Qwest Corporation

By:________________________

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CERTIFICATE OF SERVICE

I hereby certify that an original and five copies of the above and foregoing **QWEST CORPORATION'S MOTION FOR APPROVAL OF EXHIBIT A PRICING CHANGES IN 8TH REVISED STATEMENT OF GENERALLY AVAILABLE TERMS AND CONDITIONS AND REQUEST FOR SHORTENED RESPONSE TIME AND EXPEDITED RULING** was hand delivered this 2nd day of August, 2002, to the following:

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