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BEFORE THE ARIZONA CORPORATION COMMISSION RECEIVED

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Arizona Corporation Commission

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AZ CORP COMMISSION
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IN THE MATTER OF INVESTIGATION)	DOCKET NO. T-00000A-00-0194
INTO U S WEST COMMUNICATIONS,)	
INC.'S COMPLIANCE WITH CERTAIN)	AT&T's RESPONSE TO QWEST's
WHOLESALE PRICING REQUIREMENTS)	MOTION TO REOPEN THE
FOR UNBUNDLED NETWORK)	RECORD AND MODIFY THE
ELEMENTS AND RESALE DISCOUNTS)	DECISION

AT&T Communications of the Mountain States, Inc. ("AT&T") hereby responds to Qwest Corporation's Motion to Reopen the Record and Modify the Decision ("Motion").

Qwest Corporation ("Qwest") argues in its Motion that the HAI Model, *with the adjustments adopted by the Commission*, produces a different analog port rate (\$2.44) than the one adopted by the Commission (\$1.61). Qwest also argues that by implementing the \$1.61 analog port rate instead of the rate produced by the HAI Model, it does not recover all its switch investment. Motion at 5. The problem with Qwest's argument is that it lacks context.

Staff proposed that the present analog port rate of \$1.61 be retained.

The basis for Staff's position is that the HAI model produces a recurring port rate of \$1.10, thereby effectively allowing a \$0.51 per month charge for features above the features cost already included in the HAI model. Staff argues that the \$1.61 recurring

charge, including features, is a reasonable charge that falls within the range recommended by other parties.

Decision No. 65451 at 16.¹ The Commission adopted Staff's position, concluding that "it reflects a reasonable middle ground approach to resolving this issue. For these reasons, we adopt an analog port rate of \$1.61 in this proceeding." *Id.* Staff subsequently agreed that the HAI model includes all feature costs, eliminating the need to add the \$0.51 to the \$1.10 analog port rate advocated by AT&T. TR 49-50 (Dec. 9, 2002). If no adjustments had been made to the HAI model by the Commission, Staff's proposal would have allowed Qwest to collect \$0.51 more than the \$1.10 analog port rate produced by the HAI model. In other words, under Staff's proposal, Qwest would have collected more switch investment than it would have been entitled to. By picking a specific analog port rate independent of the model results, it is a certainty that Qwest will not recover the exact amount of its switching investment.

However, the issue is not whether the \$1.61 adopted by the Commission equals the results of the HAI model. Based on the rationale proposed by Staff and the Commission, the issue is whether the \$1.61 is no longer "within the range recommended by other parties" or no longer "reflects a reasonable middle ground approach to resolving this issue." The Commission-ordered rate of \$1.61 is within the range of the original positions advocated by the parties (\$1.10 and \$2.45 for AT&T and Qwest, respectively). The HAI model result of \$2.44 is also within the range, and is almost identical to the rate originally advocated by Qwest, which tends to confirm the reasonableness of the rate of \$1.61. Therefore, the \$1.61 continues to reflect a reasonable middle ground. AT&T sees no need to reopen the record.

¹ AT&T advocated a \$1.10 analog port rate. Qwest advocated a \$2.45 analog port rate.

However, should the Commission reopen the record, it is AT&T's position that the scope of the proceeding should not be limited solely to deciding whether the Commission should retain the analog port rate of \$1.61 or should adopt an analog port rate of \$2.44. The proceeding should take evidence on what the proper allocation of switch investment between the port and usage should be.

AT&T initially advocated a port rate based on an allocation of switch investment of 30% to port and 70% to usage. The Commission adopted an investment allocation of 60% to port and 40% to usage, in part based on criticisms of Qwest. *Id.* at 17.

AT&T filed its testimony in this proceeding several years ago.² Its position has matured over the last several years. AT&T now believes that 100% of the switch investment should be allocated to the port, based on how new switch investment is acquired, paid for and used.³ AT&T's position is consistent with testimony filed by Qwest. In the access proceeding in Arizona, Qwest's expert has pre-filed testimony stating that with the advances in digital switching, all investment can be allocated to the port.

The nature of switching cost has changed significantly over time with advances in digital technology. Switching costs today are more line-driven than traffic-sensitive. It is not unreasonable to model switching costs now as depending entirely on the number of line-side ports and the number of trunk-side ports. Switching costs in such a model can be reasonably recovered entirely as fixed monthly charges.⁴

² Mr. Richard Chandler pre-filed direct testimony on behalf of AT&T on May 16, 2001.

³ On December 21, 2001, AT&T pre-filed testimony in Minnesota advocating that 100% of switch investment be allocated to the port. This was the first testimony filed by AT&T in Qwest's region advocating that 100% of switch investment should be allocated to the port.

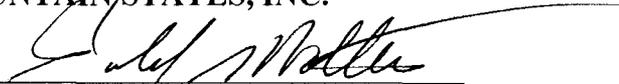
⁴ *Investigation of the Cost of Telecommunications Access*, Docket No. T-00000D-00-0672, Direct Testimony of Harry M. Shooshan III on behalf of Qwest Corporation, July 1, 2002, at 25.

If the Commission decides to reopen the record to review the analog port rate, it should take evidence on the proper allocation of switch investment.

AT&T sees no reason to reopen the record in the cost proceeding to review the analog port rate. However, AT&T will not oppose Qwest's Motion to reopen the record if, and only if, AT&T, the other parties and the Commission have the opportunity to review the allocation of switch investment between the port and usage.

Submitted this 28th day of February, 2003.

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CERTIFICATE OF SERVICE

I certify that an original and 13 copies of AT&T Communications of the Mountain States, Inc.'s Response to Qwest's Motion to Reopen the Record and Modify the Decision in Docket No. T-00000A-00-0194 were sent by overnight delivery on February 27, 2003 to:

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