



E 0000097160

RECEIVED
AZ CORPORATION COMMISSION

1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
21
22
23
24
25
26
27
28

MARC SPITZER,
CHAIRMAN
JIM IRVIN
COMMISSIONER
WILLIAM A. MUNDELL
COMMISSIONER
JEFF HATCH-MILLER
COMMISSIONER
MIKE GLEASON
COMMISSIONER

Arizona Corporation Commission

DOCKET

MAY 12 2003

2003 MAY 12 P 1:57

AZ CORP COMMISSION
DOCUMENT CONTROL

DOCKETED BY *AM*

**IN THE MATTER OF THE GENERIC
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

NOTICE OF FILING
REBUTTAL TESTIMONY

The Arizona Corporation Commission Staff ("Staff") hereby files the Rebuttal Testimony of William Dunkel, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 12th day of May 2003.

Maureen A. Scott, Attorney
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007
Telephone: 602/542-6022
Facsimile: 602/542-4870
e-mail: maureenscott@cc.state.az.us

The ORIGINAL and thirteen (13) copies of the foregoing were filed this 12th day of May, 2003 with:

Docket Control
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

1 COPIES of the foregoing were mailed
2 this 12th day of May, 2003 to:

3
4 Jon Poston
5 Arizonans for Competition in Telephone
6 Service
7 6733 East Dale Lane
8 Cave Creek, Arizona 85331-6561

Jeffrey W. Crockett
Jeffrey B. Guldner
Snell & Wilmer L. L. P.
One Arizona Center
Phoenix, AZ 85004-2202

7 Richard S. Wolters
8 AT&T Communications of the
9 Mountain States, Inc.
10 1875 Lawrence Street, Room 1575
11 Denver, CO 80202-1847

Steve Sager
McLeodUSA
215 S. State Street, 10th Floor
Salt Lake City, Utah 84111

10 Mary E. Steele
11 Davis-Wright-Tremaine
12 2600 Century Square
13 1505 - 4th Avenue
14 Seattle, WA 98101-1688

Rex Knowles
Nextlink Communications
111 East Broadway, Suite 1000
Salt Lake City, Utah 84111

13 Joan Burke
14 Osborn Maledon, P.A.
15 2929 N. Central Avenue, 21st Floor
16 Phoenix AZ 85067-6379

Michael Grant
Todd C. Wiley
GALLAGHER & KENNEDY
2575 E. Camelback Road
Phoenix, AZ 85016-9225

16 Gregory Kopta
17 Davis Wright Tremaine
18 2600 Century Square
19 1501 Fourth Avenue
20 Seattle, WA 98101-1688

Thomas F. Dixon, Jr.
MCI WORLDCOM
707 17th Street, #3900
Denver, CO 80202

18 Drake Tempest
19 Qwest Communications
20 555 Seventeenth Street
21 Denver, CO 80202

Eric S. Heath, Esq.
SPRINT COMMUNICATIONS CO., L.P.
100 Spear Street, Suite 930
San Francisco, CA 94105

21 Kathryn E. Ford
22 QWEST COMMUNICATIONS, INC.
23 1801 California Street, Suite 4900
24 Denver, CO 80202

Scott S. Wakefield
RUCO
1110 West Washington, Suite 220
Phoenix, AZ 85007

24 Timothy Berg
25 Fennemore Craig, P.C.
26 3003 North Central Avenue, Suite 2600
27 Phoenix, AZ 85012

Curt Huttzell
ELECTRIC LIGHTWAVE, INC.
4 Triad Center, Suite 200
Salt Lake City, UT 84180

26 Michael W. Patten
27 Roshka Heyman & DeWulf
28 One Arizona Center
400 East Van Buren, Suite 800
Phoenix, AZ 85004

Douglas Hsiao
RHYTHMS LINKS, INC.
6933 S. Revere Pkwy.
Englewood, CO 80112

1 NEW EDGE NETWORKS
2 P.O. Box 5159
3 3000 Columbia House Blvd.
4 Vancouver, WA 98668

5 Andrea Harris, Sr. Mgr.
6 ALLEGIANCE TELECOM INC. OF AZ
7 2101 Webster, Suite 1580
8 Oakland, CA 94612

9 Harry L. Pliskin, Sr. Counsel
10 Covad Communications Co.
11 7901 Lowry Blvd
12 Denver, CO 80230

13 Marti Allbright, Esq.
14 Mpower Communications Corp.
15 5711 South Benton Circle
16 Littleton, Colorado 80123

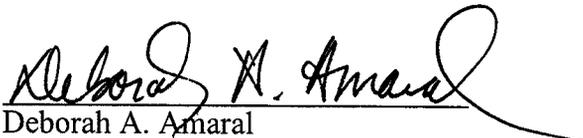
17 Dennis D. Ahlers, Sr. Attorney
18 Eschelon Telecom, Inc.
19 730 Second Ave. South, Ste 1200
20 Minneapolis, MN 55402

21 Janet Livengood, Reg. VP
22 Z-Tel
23 601 S. Harbour Is. Blvd.
24 Tampa, FL 33602

25 Michael B. Hazzard
26 Kelley Drye & Warren LLP
27 1200 - 19th St., NW 5th Fl.
28 WA DC 20036

Ray Heyman
Roshka-Heyman & DeWulf
One Arizona Center
400 East Van Buren, Suite 800
Phoenix, AZ 85004
Attorneys for Alltel Communications

Gregory Hoffman
AT&T Telecommunications
795 Folsom Street, Room 2159
San Francisco, CA 94107-1243


Deborah A. Amaral
Assistant to Maureen A. Scott

Kevin Chapman, Dir. Regulatory Relations
SBC Telecom, Inc.
300 Convent Street, Rm. 13-Q-40
San Antonio, TX 78205

Thomas H. Campbell
LEWIS & ROCA
40 N. Central Avenue
Phoenix, AZ 85004

Brian Thomas
Vice-President Regulatory-West
Time Warner Telecom, Inc.
520 S.W. 6th Avenue, Suite 300
Portland, Oregon 97204

Steven J. Duffy
Ridge & Isaacson P.C.
3101 N. Central Avenue, Suite 1090
Phoenix, AZ 85012-2638

Jacqueline Manogian
Mountain Telecommunications, Inc.
1430 Broadway Road, Suite A200
Tempe, AZ 86282

Deborah R. Scott
Associate General Counsel
2901 North Central Avenue, Suite 1660
Phoenix, AZ 85012

Robert S. Kant
E. Jeffrey Walsh
Greenberg, Traurig, LLP
2375 East Camelback Road, Suite 700
Phoenix, AZ 85016

Kimberly M. Kirby
Davis Dixon Kirby LLP
19200 Von Karman Avenue, Suite 600
Irvin, CA 92612

Mitchell F. Brecher
Greenberg Traurig LLP
800 Connecticut Avenue, NW
Washington, DC 20006

Mark Brown, Senior Attorney
QWEST
3033 N. Third Street, Suite, Suite 3009
Phoenix, AZ 85012

BEFORE THE

ARIZONA CORPORATION COMMISSION

RECEIVED

2003 MAY 12 P 1:57

IN THE MATTER OF THE GENERIC)
INVESTIGATION INTO U S WEST)
COMMUNICATIONS, INC.'S NKA QWEST)
CORPORATION, COMPLIANCE WITH)
CERTAIN WHOLESALE PRICING)
REQUIREMENTS FOR UNBUNDLED)
NETWORK ELEMENTS AND RESALE)
DISCOUNTS)

) DOCKET NO. T-00000A-00-0194

AZ CORP COMMISSION
DOCUMENT CONTROL

REBUTTAL TESTIMONY AND SCHEDULES

OF

WILLIAM DUNKEL

ON BEHALF OF

THE STAFF OF THE ARIZONA CORPORATION COMMISSION

MAY 12, 2003

1 Q. ARE YOU THE SAME WILLIAM DUNKEL WHO PREVIOUSLY FILED DIRECT
2 TESTIMONY IN THIS PROCEEDING ON BEHALF OF THE STAFF?

3 A. Yes.

4

5 Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?

6 A. The purpose of this Rebuttal Testimony is to respond to the Direct Testimonies filed by
7 other parties in this preceding.

8

9 **I. THE SWITCHING EQUIPMENT IS NOT 100% "PORT"**

10

11 Q. IN THE GILLAN-CHANDLER TESTIMONY, MCI AND AT&T PROPOSE THAT
12 THE SWITCHING EQUIPMENT BE CONSIDERED 100% PORT. DO YOU AGREE
13 WITH THIS RECOMMENDATION?

14 A. No. A portion of the switch investment has the function of switching usage. Therefore, a
15 portion of the switch costs is usage cost, not port cost.

16

17 Q. DOES THE GILLAN-CHANDLER TESTIMONY ACKNOWLEDGE THAT A
18 PORTION OF THE SWITCHING EQUIPMENT HAS THE FUNCTION OF
19 SWITCHING TRAFFIC?

20 A. Yes. On page 11 of their Direct Testimony, Gillan-Chandler properly state:

21 The switch fabric provides connection paths between ports; it connects lines to
22 lines, lines to trunks, trunks to lines, and trunks to trunks.

23

24 On page 13 of their Testimony regarding the "switch fabric", Gillan-Chandler state:

25

1 Its capacity limit is thus affected by traffic and is usually expressed in traffic
2 terms, either Erlangs or CCS.
3

4 On page 18 of their Direct, Gillan-Chandler state:

5 An ILEC will obviously not install switches with maximum capacity in all wire
6 centers.
7

8 Therefore, Gillan-Chandler acknowledge that an ILEC will size the switch based upon
9 the expected usage in that wire center.
10

11 On Page 20 of their Direct, Gillan-Chandler state

12 ...that review demonstrates that Qwest purchases switching by paying a flat-rate,
13 albeit a flat-rate that may increase as the capability of the switch increases.
14
15
16

17 Q. WHAT DO THE ABOVE STATEMENTS INDICATE?

18 A. The above statements indicate that: (1) a portion of the switch investment, including the
19 "switch fabric" is for the purpose of switching usage, and (2) the Qwest investment in
20 the switch does depend on the level of usage the switch is designed to handle. In short,
21 part of the investment in the switch is investment that is made for the purpose of
22 switching usage. The costs associated with this portion of the switch are usage-related
23 costs. They are not "port" or a line related costs.
24

25 Q. WHAT DOES THE GILLAN-CHANDLER TESTIMONY ARGUE PERTAINING TO
26 THE COSTS OF THE "SWITCH FABRIC" THAT IS USED TO SWITCH USAGE?

27 A. On pages 16, 17, 18 and 20 of their Testimony, Gillan and Chandler argue that switches
28 are initially installed with enough usage capacity so that usage capacity is seldom

1 exceeded. Then they argue that since the initial usage investment is made at a high
2 enough level to handle the expected usage, that usage investment is no longer a usage-
3 related cost. For example, on page 17 of their testimony they state:

4 Forward-looking switches contain very robust control and switch fabric
5 capacities that are not exhausted by realistic subscriber usage.
6

7 On page 20, they state:
8

9 The fact that Qwest pays more (on a flat rate basis) for a switch with more
10 capability than another switch, however, is not a reasonable basis to impose a
11 usage cost on CLECs sharing those same switches each and every time their
12 subscriber makes (or receives) a call.
13

14 "Capability" means capacity to switch usage.
15

16 Q. IS THIS ARGUMENT VALID?

17 A. No. Proper cost recovery is on the basis of "cost causation". Costs that are incurred for
18 the purpose of switching usage are "usage" related costs, and should be recovered in
19 "usage" rates. The fact that the company installs a high level of usage switching capacity
20 at the time of initial switch installation does not change the fact that this usage investment
21 is made for the purpose of switching usage. The fact that the investment is made at the
22 time of initial installation does not make the costs of that usage-related investment zero.
23 The investors that funded the switching fabric¹ investment expect a return on their
24 investment. Since that investment is being used to switch usage, rates that are based on
25 usage are the appropriate source for that return on investment. In addition, the
26 investment used to switch usage depreciates over time. The depreciation expense of the
27 usage switching equipment is properly recovered from usage rates. Likewise,

¹ "Switch fabric" is not the only investment that is for usage. For example, certain trunk investments depend upon the level of usage and therefore are usage related investments.

1 maintenance expense and other expenses of the equipment that is used to switch usage
2 are also properly recovered from usage rates.

3

4 Q. PLEASE SUMMARIZE YOUR POSITION ON THIS ISSUE.

5 A. A portion of the switching equipment investment is related to the lines. This investment
6 is generally called the "port". The port costs are reasonably recovered in "per month, per
7 line" fixed charges. However, other parts of the switch investments are used to switch
8 usage. These costs are usage-related, and should be recovered in usage charges. The
9 MCI/AT&T proposal to consider the switch as 100 percent "port" and zero percent
10 "usage" is incorrect and does not reflect actual cost causation.

11

12 At this point, I have not seen any evidence that would cause a change in the allocation
13 contained in the Commission Order, which is 60 percent port, 40 percent usage.

14

15 Q. DOES THE "PER MINUTE" USAGE RATE PLACE AT&T AND MCI AT ANY
16 IMPROPER DISADVANTAGE?

17 A. No. It would take over 1600 minutes of average usage per line, per month for the per-
18 minute charges to exceed the additional port rate that AT&T and MCI are proposing.
19 This is shown on Schedule WDA-2. This number is the same as the average per line
20 usage in the HAI model. Therefore, unless AT&T and/or MCI are planning to sign up a
21 disproportionate share of high-volume customers (such as telemarketers), paying the "per
22 minute" rate should not place them at any disadvantage.

23

1 Of course, if AT&T and/or MCI are planning to signing up a disproportionate share of
2 high-volume customers (such as telemarketers) then the average usage per line they
3 would generate would be above average, and the usage costs they would be causing
4 would be above average. Under those conditions it would be appropriate for them to
5 support the associated higher than average usage costs.

6

7 Q. ON PAGE 12 OF THE MILLION DIRECT, QWEST ADDRESSES THE ALLEGED
8 SOURCE OF THE \$1.61 PORT RATE. WHAT IS THE ACTUAL SOURCE OF THE
9 \$1.61 PORT RATE?

10 A. \$1.61 was the port rate that was previously in effect. As was stated on page 16 of the
11 Commission Phase IIA Order, the Commission decided to continue to use the existing
12 port rate, because it was within the range established by the parties. However, Qwest later
13 demonstrated that the sum of the \$1.61 port rate plus the usage rates did not cover 100%
14 of the switching equipment costs ("costs" as determined by the HAI).

15

16 As discussed in my Direct Testimony, Staff supports recovering 100% of the properly
17 calculated switching equipment costs.

18

19 **II. THE UNE LOOP RATES SHOULD NOT BE CHANGED BY \$0.12**

20

21 Q. THE DIRECT TESTIMONY OF MR. DENNEY STATES THAT 12 CENTS PER LINE
22 OF THE "NETWORK OPERATION" EXPENSE WAS TRANSFERRED FROM
23 "LOOPS" TO "SWITCHING" IN THE PHASE IIA RUNS. MR. DENNEY

1 RECOMMENDS THAT THE AVERAGE UNE LOOP RATE BE REDUCED FROM
2 \$12.11 TO \$11.99 TO CORRECT THIS PROBLEM, AS SHOWN ON SCHEDULE
3 WDA-1. DO YOU AGREE WITH THAT RECOMMENDATION?

4 A. No. The UNE loop rates were previously set, and there is no reason to revisit them now.
5 The April 11, 2003 Procedural Order which established this proceeding makes no
6 reference to addressing the UNE loop rates in this proceeding. According to that Order,
7 the only rates to be addressed in this proceeding are (1) the DS1 and DS3
8 transport/entrance facility rates and (2) the port and usage rates.

9
10 If \$0.12 per line of overhead that were previously included in the "Loop" runs are also
11 included in the new "Switching" runs, the obvious way to solve that problem is to not
12 include that \$0.12 in the new "Switching" runs. Instead of reopening the loop rates, I
13 recommend that this \$0.12 per line per month of the network operations expense that is
14 already recovered in the UNE loop rates not be recovered in the "switch" rates (port and
15 usage rates).

16
17 The \$2.44 per line per month "port" rate and the \$0.00097 per minute usage rates²
18 include this \$0.12 per line of overhead cost that is already included in the UNE loop
19 rates. If these rates are recalculated without including this double recovery, the revised
20 rates are \$2.36 per line "port" and \$0.00094 per minute, as shown on the attached
21 Schedule WDA-3. These are the rates I recommend.

22

² Qwest Notice of Filing in Compliance with Decision No. 65451, Exhibit A, page 1. These are the rates at 60% port, 40% usage, which is the split established in the Commission Order.

1 Q. Does this conclude your Rebuttal Testimony?

2 A. Yes.

QWEST ARIZONA UNE LOOP RATES

	(A) Current UNE <u>Loop Rate (1)</u>	(B) AT&T Proposed UNE <u>Loop Rate (2)</u>	(C = A-B) <u>Difference</u>
Statewide Average	\$12.11	\$11.99	\$ 0.12
Zone 1	\$9.05	\$8.97	\$ 0.08
Zone 2	\$14.84	\$14.72	\$ 0.12
Zone 3	\$36.44	\$36.14	\$ 0.30

(1) AT&T/WorldCom Submission of HAI Model Run Using Qwest 2000 Data and Conditional Request for Rehearing, May 24, 2002, Exhibit A, Page 5.

(2) Direct Testimony of Douglas Denney on Behalf of AT&T, April 28, 2003, Page 7.

**CALCULATION OF THE AVERAGE USAGE NEEDED TO
MAKE UP THE DIFFERENCE BETWEEN
QWEST'S AND AT&T'S PROPOSED PORT RATES**

	<u>Monthly Port Rate</u>	<u>Per Minute Usage Rate</u>	
AT&T Proposal (1)	\$ 4.06	-	
Qwest Proposal (2)	\$ <u>2.44</u>	\$ <u>0.00097</u>	
Difference	\$ 1.62	divided by \$ 0.00097	= <u>1,670</u> = Average Usage Needed To Make Up Difference Between Qwest and AT&T Proposed Rates (in minutes).

- (1) Direct Testimony of Douglas Denney on Behalf of AT&T, Page 7.
- (2) Qwest Corporation's Notice of Filing in Compliance with Decision No. 65451, Exhibit A, Page 1, January 10, 2003.

CALCULATION OF SWITCHING RATES
CALCULATED TO ADJUST FOR OVER RECOVERY OF NETWORK OPERATIONS EXPENSES

	Annual Cost (a)	% Assignment	Units (b)	Cost (c) = (a)/(b)
HAI MODEL OUTPUT				
End office switching	144,259,313	100%		
Line Port	86,555,588	60%	2,959,791 switched lines	2.44 per line/month
Non-Line Port	57,703,725	40%	62,141,633,323 actual minutes	0.00093 per actual minute
				0.00097 using 1.044 DEM to Billed MOU Ratio
DEDUCT 12 CENTS PER SWITCHED LINE PER MONTH				
End office switching (1)	(4,262,099)	100%		
Line Port	(2,557,259)	60%	2,959,791 switched lines	(0.07) per line/month
Non-Line Port	(1,704,840)	40%	62,141,633,323 actual minutes	(0.00003) per actual minute
				(0.00003) using 1.044 DEM to Billed MOU Ratio
PROPOSED SWITCHING RATES				
End office switching (2)	139,997,214	100%		
Line Port	83,998,328	60%	2,959,791 switched lines	2.36 per line/month
Non-Line Port	55,998,886	40%	62,141,633,323 actual minutes	0.00090 per actual minute
				0.00094 using 1.044 DEM to Billed MOU Ratio

Notes:

- (1) \$0.12 * 2,959,791 lines * 12 months = \$4,262,099
- (2) HAI Model output minus \$0.12 cents per switched line per month

Sources:

HAI Model output Annual Cost and Units from Attachment DKD-01 of Doug Denney's Direct Testimony