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USWEST
COMMUNICATIONS

November 19, 1996

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Mr. Jerry L. Rudibaugh
Chief Hearing Officer
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007

Arizona Corporation Commission
DOCKETED

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Re: Notice of Filing:
Witness Summary
Consolidated Cost Docket
Docket Nos. U-3021-96-448, U-3245-96-448, E-1051-96-448, U-2428-96-417,
E-1051-96-417, U-2752-96-362, E-1051-96-362, U-3016-96-402, E-1051-96-402,
U-3175-96-479, E-1051-96-479, U-3009-96-478, E-1051-96-478,
U-2432-96-505, E-1051-96-505, U-3155-96-527, E-1051-96-527

Dear Mr. Rudibaugh:

Attached is a summary of the testimony of Susanne J. Mason, who is scheduled to testify on behalf of U S WEST in the above proceeding.

If you have any questions, please call me.

Very truly yours,

Norton Cutler, Jr.

cc: Parties of Record

SUMMARY OF TESTIMONY OF SUSANNE J. MASON

My name is Susanne J. Mason. I am employed by U S WEST Communications, Inc. ("U S WEST") as the Director-Arizona Regulatory and am currently responsible for U S WEST's regulatory activities in Arizona. I began my career with Mountain Bell in 1978 and have held various management positions in the Customer Service, Network Engineering, Finance, Costs, Rates and Regulatory Matters, and Issues Management groups of U S WEST Communications. I have also worked in a small organization at U S WEST, Inc. that developed overall wireless strategy. In January 1995, I assumed my current responsibilities.

First, U S WEST recommends that the Commission adopt the TELRIC studies presented by U S WEST in this docket. These studies conform to the principles set forth in the FCC's First Report and Order In the Matter of *Implementation of the Local Competition Provisions in the Telecommunications Act of 1996* CC Docket No. 96-98 (First Interconnection Order). As explained by Dr. Harris, the studies follow sound economic principles and are the appropriate floor for interconnection rates. Internal and external data also demonstrate the reasonableness of the costs.

Second, U S WEST recommends that the Commission adopt the Avoided Cost studies presented by U S WEST in this docket. U S WEST's studies reflect the true net savings that U S WEST will realize when it provides service to a wholesale customer instead of a retail customer. To ignore costs U S WEST will incur to serve the wholesale customer in determining the discount implies that U S WEST's retail

customers should pay those costs. Cost shifting in this manner is simply not appropriate.

Third, U S WEST recommends that the Commission set prices for U S WEST's interconnection, unbundled, and resold services at a level that will allow the Company a fair opportunity to compete in the marketplace and earn a reasonable return on its investment in Arizona. The prices for interconnection services -- including interconnection, transport, termination -- and unbundled services should be set at the TELRIC costs plus a reasonable allocation of common costs. Resale prices should be set at U S WEST's retail rate minus its true avoided costs. The Commission should adopt the specific prices proposed by U S WEST. In adopting these prices, the Commission should delay implementing geographic deaveraging until it also deaverages U S WEST's retail rates. Deaveraging wholesale prices without a simultaneously deaveraging the retail prices will simply create an additional arbitrage opportunity and further undercut U S WEST's ability to invest in and maintain the public switched network for the benefit of all consumers in Arizona.

Under the current form of regulation for ILECs in Arizona, U S WEST is entitled to recover its prudent costs and earn a reasonable profit. Any pricing scheme for interconnection, unbundling and resold services that denies U S WEST the ability to cover prudent costs and have the opportunity to realize a positive return is problematic. In order to help recover the Company's costs, U S WEST is proposing an equitable allocation of its depreciation reserve deficiency costs to interconnectors, via a

surcharge which will be added to the TELRIC (plus common) rate for local and tandem switching. While allocating the reserve deficiency costs to local and tandem switching prices will not guarantee the recovery of U S WEST's actual costs, it will reduce the "gap" between forward-looking costs and U S WEST's actual costs.

U S WEST proposes to spread the reserve deficiency cost over all minutes of use that pass through the end office or tandem switch. This allocation is added to the TELRIC calculation for both local and tandem switching (the unbundled switch port, tandem switching and call termination elements). With this method, all users of the network -- new entrants and U S WEST customers -- will pay a proportionate share of this cost. Thus, the method is competitively neutral.

Fourth, U S WEST recommends the Commission give careful consideration to the consumer impacts of decisions reached in this proceeding. Prices that are too low would eliminate U S WEST's ability to expand and maintain its existing network. This is not a matter of choice for U S WEST, as Mr. Thompson describes, there will simply be no money available to invest.