BEFORE THE ARIZONA CORPORATION COMMISSION

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Commissioner
JEFF HATCH-MILLER
Commissioner
MIKE GLEASON
Commissioner
KRISTIN K. MAYES
Commissioner

IN THE MATTER OF QWEST CORPORATION'S FILING AMENDED RENEWED PRICE REGULATION PLAN	)))	DOCKET NO. T-01051B-03-0454
IN THE MATTER OF THE INVESTIGATION OF THE COST OF TELECOMMUNICATIONS ACCESS	)))	DOCKET NO. T-00000D-00-0672

PREFILED TESTIMONY OF

ELIJAH O. ABINAH

FOR THE

ARIZONA CORPORATION COMMISSION

UTILITIES DIVISION

November 18, 2004

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EXECUTIVE SUMMARY

Staff is recommending continuation of the current Price Cap Plan with the modifications discussed in Mr. Rowell's testimony. In its filing to renew its Price Cap Plan, Qwest proposed substantial modifications to the Plan's terms and conditions. Staff is not opposed to many of the proposed modifications, as long as additional safeguards are adopted and put in place by the Commission.

Staff also believes it is appropriate for the Plan to recognize the changing competitive conditions in Qwest's service territory, and where warranted, to allow Qwest additional pricing flexibility. More specifically, while Staff can not recommend approval of Qwest's Competitive Zone proposal as set forth in the Qwest's testimony, Staff is not opposed to the use of Competitive Zones as long as the designation is made pursuant to R14-2-1108 and some added safeguards are in place.

Staff is requesting that the designation of competitive zones be done in a separate proceeding for primarily three reasons. First, Staff believes that in order to make this designation under R14-2-1108 additional market share information and determinations are necessary. Second, there are problems with the existing data which need to be resolved. Third, Qwest does not want to assume carrier of last result obligation ("COLR") in competitive zones and Staff believes this is a critical issue which must be resolved before competitive zones are established. Qwest supports addressing COLR in a separate proceeding.

Staff Witness' Brosch and Carvers' review of Qwest's R14-2-103 filing indicates that the Company's revenue deficiency is approximately $3.5 million. Staff recommends that the revenue caps be adjusted to recognize this deficiency as well as Staff's proposed reduction to access charges.

An analysis of Qwest's service quality reports indicates that Qwest's performance has improved significantly in some areas throughout the initial term of the Price Cap Plan. Thus the Price Cap Plan has not acted as a disincentive to Qwest to take measures to improve service quality.

Finally, Qwest has not met the criteria in the Commission's rules for Arizona Universal Service Fund ("AUSF") support and a cost/revenue analysis of providing local exchange service does not support Qwest's request for funding from the AUSF at this time.

INTRODUCTION

Q. Please state your name and business address.

A. My name is Elijah O. Abinah. My business address is 1200 West Washington Phoenix Arizona, 85007.

Q. Where are you employed and in what capacity?

A. I am employed by the Utilities Division ("Staff") of the Arizona Corporation Commission ("ACC" or "Commission") as the Assistant Director.

Q. How long have you been employed with the Utilities Division?

A. I have been employed with the Utilities Division since January 2003.

Q. Please describe your educational background and experience.

A. I received a Bachelor of Science degree in Accounting from the University of Central Oklahoma in Edmond, Oklahoma. I also received a Master of Management degree from Southern Nazarene University in Bethany, Oklahoma. Prior to my employment with the ACC, I was employed by the Oklahoma Corporation Commission for approximately eight and a half years in various capacities in the Telecommunications Division.

Q. What are your current Responsibilities?

A. As the Assistant Director, I review submissions that are filed with the Commission and make policy recommendations to the Director regarding those filings.

PURPOSE

Q. What is the purpose of your testimony in the current Docket Nos. T-01051B-03-0454 and T-00000D-00-0672, the Application of Qwest Corporation ("Qwest" or "Company") for a renewed Price Cap Plan and the investigation into Qwest's Access Charges.

A. The purpose of my testimony is to provide the Commission with an overview and explanation of Staff's position in this case including Staff's review of Qwest's application for its renewed Price Cap Plan ("Plan"), Staff's review of Qwest's R14-2-103 filing as ordered by the Commission including its proposal with respect to access charges and Staff's recommendations regarding Qwest's request.

Q. Please begin by providing the names of the Staff witnesses and the subject of their testimony.

A. Please see the chart below:

Witness	Staff/Consultant	Topic
Elijah Abinah	Staff	Overview and Explanation of the Staff Position
Matthew Rowell	Staff	Recommended Changes To The Current Price Regulation Plan
Armando Fimbres	Staff	The Competitive Situation In Qwest's Service Area
Del Smith	Staff	Qwest's Service Quality
Joel Reiker	Staff	Cost of Equity
Alejandro Ramirez	Staff	Capital Structure, Cost of Debt and Overall Rate of Return
Steven Carver	Utilitech	Review and Evaluation of Elements of Rate Base and Operating Income Included in the Overall Revenue Requirement
Michael Brosch	Utilitech	Accounting Adjustments To Qwest's R14-2-103 Filing
William Dunkel	William Dunkel & Associates	Depreciation Rates, Digital Subscriber Line Service Construction Charges, and Reproduction Cost New Less Depreciation
Thomas Regan	William Dunkel & Associates	Access Charges and Arizona Universal Service Fund

BACKGROUND

Q. Please provide a brief background of this case.

A. Yes: Pursuant to Commission Decision No. 63487, Qwest filed a renewed Price

Regulation Plan. By Procedural Order dated November 17, 2003, the ALJ ordered that the Access Charge Proceeding be bifurcated into two phases, with Phase 1 addressing Qwest's Access charges in conjunction with the review of its current Price Cap Plan in Docket No. T -01051B -03-0454.

On November 7, 2003, Qwest filed a motion to clarify, or on the alternative, to terminate the Price Cap Plan. On Page 2, lines 1-6, of its filing, Qwest asked that in the absence of a Commission Order adopting Qwest's interpretation of the Price Cap Plan the Commission enter an Order declaring that the Price Cap Plan terminate as of March 30, 2004. Entry of such an Order, according to Qwest, would return Qwest to the traditional rate of return regulation that applied to it prior to the adoption of the Plan, and continue Qwest's rates at the levels existing at the termination of the Plan.

On February 10, 2004, in Decision No. 66772, as clarified by Decision No. 67047, dated June18, 2004, the Commission denied Qwest's request as inconsistent with the express terms of the Plan and required Qwest to provide the information required under A.A.C.R14-2-103.

On May 20, 2004, Qwest made its R14-2-103 filing with the Commission.

Q. Can you briefly summarize the current Price Cap Plan?

A. Yes. In Decision No. 63487, issued on March 30, 2001, the Commission approved an alternative form of regulation ("AFOR") plan for Qwest. The Plan classified Qwest's services into three Baskets:

- Basket 1: Basic/Essential Non-Competitive Services
- Basket 2: Wholesale Services
- Basket 3: Flexibly-Priced Competitive Services

Basket 1

The weighted average price level ("Price Index") of all services contained in Basket 1 is capped using an annual inflation/productivity adjustment factor (described in detail below.) On an annual basis Qwest was required to adjust prices in Basket 1 to account for the effect of the inflation/productivity adjustment. Prices for many services could be adjusted up or down with 30 days notice (but increases were capped at 25% per year.) Certain basic services in Basket 1 have "hard caps," that is, their prices can not increase (but they can decrease.) Individual service prices must exceed Total Service Long Run Incremental Cost ("TSLRIC") and comply with the imputation requirements of A.A.C. R14-2-1310(C).

Basket 2

Basket 2 contains wholesale services such as access charges, PAL lines, and Unbundled Network Elements ("UNEs.") Many of these services are governed by their own specific pricing rules and those rules continued during the term of the Plan. Intrastate switched access rates decreased by $5 million per year during the initial term of the plan.

Basket 3

Basket 3 includes services that have been accorded pricing flexibility or have been determined to be competitive under A.A.C. R14-2-1108. The Basket 3 price cap index was set at the existing revenue level for Basket 3 services plus 13.4% increased by $5 million a year to account for the access charge reductions. New services could be placed in Basket 3, however, the Commission could require a different classification if its review of the filing warranted this treatment. New services are filed as tariff filings. Packages of services from Basket 1 and Basket 3 need to be filed for review by Staff, pursuant to A.A.C. R14-2-1108.

The price of a Basket 3 service or service package must exceed the TSLRIC of the service or package and comply with the imputation requirements of A.A.C. R14-2-1310(C).

QWEST'S PROPOSED MODIFICATIONS

Q. Can you please briefly summarize Qwest's proposed modifications to the Price Cap Plan?

A. Yes. Qwest is requesting continuation of the Plan that was approved by the Commission in Decision No. 63487, with the following major modifications:

1) Elimination of the productivity/inflation adjustment mechanism;
2) Replacement of an indexed basket cap on the Basic/Essential Service basket with newly determined revenue cap;
3) Introduction of a "Competitive Zone" test for moving services out of the Basic/Essential Services Basket on a geographic basis;
4) Ability to move wholesales services to a competitive sub-basket within Basket 2;
5) Elimination of the revenue cap on the Competitive Services basket;
6) Greater flexibility for services in the Competitive Services Basket comparable to that enjoyed by Qwest's competitors; and
7) Also Qwest requests the opportunity to earn a fair return on its investment, making appropriate prospective adjustment in light of results observed during the initial term of the price cap plan regulation.

Q. What additional relief did the Company request?

A. In Mr. Ziegler's testimony, Qwest also requested the following:

1) Elimination of distance sensitive zone charges in retail Zones 1 and 2;
2) Request to use the Arizona Universal Service Fund ("AUSF") as a mechanism to

increase competition in the less –densely populated portions of Qwest's service territory

3) Hold the issue of intrastate access charges in abeyance pending action by the FCC in its intercarrier compensation docket.

4) Elimination of the one free call allowance for directory assistance services.

In addition, in Mr. McIntyre's testimony, the Company is requesting that the Commission deregulate Billing and Collection services. Qwest has also renewed its request that Voice Mail be deregulated.

Q. What are Staff's recommendations?

A. Staff recommends that the Commission approve Qwest's request to renew its Price Cap Plan subject to the modifications discussed in Mr. Rowell's testimony. Staff also recommends adjustment of the revenue cap on Basket 3 of the Plan consistent with the findings of Staff Witnesses Brosch, Carver, Regan, Dunkel, and Rowell.

Q. Based on Staff's review of Qwest's Application, does Staff agree with all the modifications proposed by Qwest?

A. No. Staff is not opposed to some of Qwest's requests and Staff is recommending approval of those modifications. In other instances, Staff does not agree with Qwest's proposals as presented but is willing to support the proposed modifications requested by the Company, with changes. In several instances, the Staff does not support Qwest's proposals.

Basically, Staff's collective testimonies support the following modifications proposed by Qwest:

1. Elimination of the productivity/inflation factor;

2. Competitive Zone Designation as set forth in Mr. Rowell's testimony;
3. Deregulation of Voicemail and Billing and Collection services;
4. Use of a Revenue Cap on Basket 1 service;
5. Qwest's Proposal for Promotional Offering/Tariff Filings; and
6. Flexibility for Qwest to bundle and package services and their inclusion in Basket 3.

Staff does not support:

1. Elimination of the one Free Directory Assistance Call;
2. Qwest's Request for AUSF Support of $64 million;
3. An end user surcharge to recover lost revenue associated with any access charge reduction; and
4. Elimination of the Revenue Cap on Basket 3.

Q. Does Staff have any additional recommendations?

A. Yes. Staff recommends that the revenue cap on Basket 3 be adjusted as described in Mr. Rowell's testimony.

Q. Please compare and contrast Qwest's proposal to Staff's recommendation.

A. Please see the table below.

Qwest's Initial Proposals	Staff Recommendations
Elimination of the productivity/inflation adjustment mechanism	Staff agrees.
Replacement of an indexed basket cap on the Basic/Essential Service basket with newly determined revenue cap	Staff agrees.

Introduction of a "Competitive Zone" test for moving services out of the Basic/Essential Services Basket on a geographic basis	Staff agrees with the concept.
Ability to move wholesales services to a competitive sub-basket within Basket 2	This request does not appear in Qwest's revised filing. Staff has assumed that Qwest is no longer pursuing this proposal.
Elimination of the revenue cap on the Competitive Services basket	Staff disagrees
Opportunity to earn fair return on its investment, making appropriate prospective adjustment in light of results observed during the initial term of the price cap plan regulation	Staff agrees
Additional Qwest Proposals	Staff Recommendations
Elimination of distance sensitive zone charges in retail Zones 1 and 2	Staff disagrees.
Request to use the Arizona Universal Service Fund ("AUSF") as a mechanism to increase competition in the less –densely populated portions of Qwest's service territory	Staff disagrees.
Hold the issue of intrastate access charges in abeyance pending action by the FCC in its intercarrier compensation docket.	Staff disagrees.
Elimination of the one free call allowance for directory assistance services	Staff disagrees.
Qwest Deregulation Proposals	Staff Recommendations
Deregulation of Billing and Collection Services	Staff agrees.
Deregulation of Voice Mail Service	Staff agrees.

REVENUE DEFICIENCY AND NEED FOR R14-2-103 INFORMATION

Q. Why does Staff believe that a review of Section R14-2-103 information was appropriate?

A. Based on Qwest's pre-filed testimony and accompanying schedules that were filed in this Docket, Qwest contends that its revenue deficiency on its original cost rate base amounts to $318.5 million and $458.8 million on its fair value rate base. Staff believes that it was necessary to examine and verify the magnitude of the deficiency claimed by Qwest. The analysis performed by Staff was not only for the customer's benefit but for Qwest's as well. Staff's analysis allowed it to determine whether Qwest is earning a fair return and to ensure that Qwest's customers will be charged just and reasonable rates. Staff found as a result of its own independent examination that the Company has a revenue deficiency of $3.5 million.

Qwest was claiming a very large revenue deficiency and asked in its initial filing for an opportunity to earn a fair return on its investment. Qwest also made it clear, in its motion to clarify, its intention to revert back to traditional rate base/rate of return regulation if the Commission did not agree to the modifications it is requesting to the Plan. Therefore, in such circumstances, it was critical that the Commission have the benefit of an independent analysis performed by Staff before rendering its determination in this case.

Q. What is the relationship between the R14-2-103 filing and the changes proposed by Qwest?

A. A R14-2-103 filing is the equivalent of the traditional Rate Base/Rate of Return filing. Given the Arizona Constitution and current interpretations of its provisions by the Arizona Courts, it is necessary to consider this information in settling the revenue caps of the Plan. Under the Arizona Constitution, the Commission must ensure that Qwest's rates are just and reasonable. A utility in Arizona is entitled to an opportunity to earn a fair return on the fair value if its properties devoted to the public use, no more and no less. To ensure this, the Price Cap's three Baskets are tied to the revenue requirement determined by traditional methods.

Q. On page 7 lines 2-3 of Mr. Ziegler's Direct Testimony, he asks about the relationship between R14-2-103 and Qwest's proposals in this Docket. Do you agree with Mr. Ziegler's response to that question?

A. No. Staff believes a Section R14-2-103 filing is directly related to Qwest's filing. It was agreed to by all the parties that access charges and rates may not be reduced or increased outside the context of a rate proceeding unless, at a minimum, a revenue neutral-mechanism is developed. Further, Qwest, as part of its filing, is asking for "the opportunity to earn a fair return on its investment, making appropriate prospective adjustment in light of the results observed during the initial term of the price regulation plan." Thus, unless Qwest's numbers were to be accepted at face value, it was necessary to obtain, review and analyze the information required under an R14-2-103 filing.

Q. On page 3 lines 17-19 of Mr. Ziegler's Testimony, he stated that "although the Rule 103 filing shows a revenue requirement deficiency of $322 million, Qwest does not propose rate increase to recover the revenue requirement". Does Staff agree with that statement?

A. No. Although Qwest may not be directly seeking to recover the revenue deficiency, Qwest is seeking to recover $64 million from the Arizona Universal Service Fund, which amounts to an indirect rate increase as well as miscellaneous increases of several million dollars. In addition, by according Qwest additional pricing flexibility and eliminating the cap on Basket

3 as requested by Qwest, Qwest would be at liberty to adjust its rates for different services at will.

Q. What did Staff's review of Qwest's R14-2-103 filing reveal?

A. According to Staff Witness Brosch's testimony, Qwest's actual revenue deficiency is only $3.5 million. In arriving at this amount, Staff attempted to be extremely fair to Qwest. Staff added several adjustments not proposed by Qwest which actually increased the revenue requirement. A large part of the reduction to Qwest's declared revenue deficiency relates to Staff's proposal to adjust Qwest's depreciation rates. As Staff Witness Dunkel explains, the depreciation rates for some of Qwest's largest technology accounts were set at accelerated levels in the last Qwest depreciation case based on Qwest's assertions that it was planning to undertake a significant modernization effort by replacing much of its copper facilities with fiber. This did not occur nor is it part of Qwest's construction plans for the foreseeable future. Consequently, an adjustment to these rates was appropriate. However, to be fair to Qwest, Staff is proposing use of the midpoint of the current FCC ranges, and has ensured that the new rates are consistent with the rates authorized for Qwest by other states in its 14 state region.

PRICE CAP PLAN

Q. Why is Staff not recommending that the Company revert back to traditional rate base rate of return regulation?

A. Based on the nature of the market, Staff believes that the most appropriate form of regulation of Qwest is for the Commission to renew the Plan that was approved in the 2001 settlement, with the modifications discussed in Staff Witness Rowell's testimony.

Q. What are the reasons for Staff's recommendation to continue the current Price Cap Plan with modifications?

A. Staff believes that in today's telecommunications market, an alternative form of regulation other than the traditional rate base rate of return regulation is appropriate. Staff Witness Rowell addresses the benefits of alternative regulation in his testimony.

Staff recognizes that in the telecommunications industry today, consumers have options available to them when it comes to the provision of telephone services. As stated in Mr. Rowell's testimony, alternative forms of regulation were implemented to increase the incentive for utilities to provide services more efficiently. Staff believes that by approving Qwest's request for renewal of the Plan with the modifications proposed by Staff will incent the Company to provide services in a more efficient manner that might lead to lower costs of service, which should lead to lower rate to its customers.

Q. Does Staff believe granting Qwest's request for renewal of the Plan with Staff's proposed modifications is in the public interest?

A. Yes. Staff believes that if the safeguards and added criteria recommended by Staff are put in place, then granting Qwest's request for Competitive Zones is in the public interest. As stated in Mr. Rowell's testimony, the prices for basic services in Basket one will be capped. Qwest can only lower its rates in that Basket. Staff also believes that, by granting Qwest's request for renewal of the Plan, Qwest will be able to respond in a timely manner to end users' needs and potentially have the ability to deploy new technology and innovative offering. Also, Staff believes that Staff's proposals will allow Qwest to earn a fair return on their investment. Staff's proposal at the same time ensures that customers' rates are just and reasonable.

Q. Based on your understanding of the Plan, are there any provisions that preclude the Commission or the Staff from reviewing other forms of regulation or additional changes to Qwest's Plan?

A. No. Section 6 (c) of the Plan, states "Nothing herein shall affect the Commission's jurisdiction or authority to determine the most appropriate form of regulation for Qwest at the end of the three year term of the Price Cap Plan, including termination of the Plan."

COMPETITIVE ZONE DESIGNATION

Q. Should the Commission adopt Qwest's Competitive Zone Proposal?

A. The Commission should only adopt Qwest's Competitive Zone Proposal if the modifications proposed by Staff Witness Rowell are adopted. As stated in Mr. Rowell's testimony, Staff is not opposed to the idea of Competitive Zone Designation, Staff's recommendation will be to utilize the zip code as the geographic areas for such designation. Staff also believes that the designation of specific competitive zones should be done in separate dockets.

Q. Have any other Commissions utilized zip codes as the geographic area of analysis?

A. It is my understanding that the FCC has utilized zip codes to review where broadband deployment has occurred.

Q. Why is Staff recommending a separate docket to address Qwest's request for Competitive Zone Designation?

A. Staff is recommending a separate docket to address Qwest's Request for Competitive Zone Designation because of the following reasons:

1) Staff believes the issue of carrier of last resort ("COLR") needs to be resolved prior to such designations.

2) Staff believes that R14-2-1108 at the minimum should be the criteria used for designation of Competitive Zones. Staff believes that the same criteria should apply whether the Commission is designating an area as competitive or declassifying an area as non-competitive.

3) R14-2-1108 lists market share as one criterion for competitive classification. However, a particular market share level that meets the criteria needs to be established.

<u>AUSF</u>

Q. What are staff's recommendations regarding Qwest's request for Arizona Universal Service Funds?

A. Staff cannot support Qwest's request.

Q. Please explain Qwest's request.

A. Qwest's proposal is to eliminate existing zone charges to consumers, by adopting the Commission's UNE zone de-averaging scheme. Qwest sought AUSF support to make up the difference between current and cost-based rates, in the higher cost areas so they will be relieved of covering the direct cost of providing services and the cost will be spread over all of those paying into AUSF.

Q. Should Qwest's request be considered a request to deploy DSL or broadband?

A. No. Based on the information provided by Qwest in their application, Qwest will not utilize the fund to deploy DSL or broadband. As a matter of fact, Staff believes this would simply be an additional revenue stream for the Company.

Q. Has Qwest demonstrated to Staff how it will address the rural subscribers issue, such as broadband deployment?

A. No. Qwest has made no commitment with respect to the rural areas in its service territory.

Q. What are the benefits to Competitive Zones?

A. Competitive Zone Designation would allow Qwest more pricing flexibility if the level of competition in the geographic area selected justified this designation. As discussed in Staff Witness Rowell's testimony, if a geographic area is designated as competitive, the services for which competitive designation are approved would move to Basket 3.

Q. Do competitive conditions within Qwest's service territory support this type of additional pricing flexibility for Qwest?

A. Based on Staff's findings, Qwest is still the dominant provider in the local exchange markets within its service territories.

Staff Witness Fimbres' testimony indicates that while the local market is still highly concentrated, competition has a foothold in some business markets. The degree of competition in residential markets is a more difficult determination given recent developments at the federal level. Mr. Rowell's testimony indicates that given developments at the federal level, the market for traditional residential wireline service is likely to be a duopoly with Cox Arizona Telecom, L.L.C. left as the only CLEC serving significant numbers of residential customers. Nonetheless, there is a trend as noted in Staff's testimonies of both access line decline and associated revenue decline, which must be attributed at least in part to competition. Thus, the additional flexibility afforded by the Price Cap Plan is appropriate to address increased competition where warranted. However, because the R14-2-1108 criteria ere not all satisfied by Qwest, and problems with the underlying data exist as discussed by Mr. Fimbres, Staff is recommending separate Competitive Classification proceedings to determine which areas of Qwest's service territory warrant Competitive Zone classification in the future.

Q. How have recent actions at the federal level affected competition in Arizona?

A. Recent court decisions such as the United States Court of Appeals for the District of Columbia Circuit's ("D.C. Circuit") decision in *United States Telecom Association v. FCC*, 359 F.3d 554 (D.C. Cir. 2004) ("USTA II") and FCC decisions have reduced the ability of competitors to compete using Unbundled Network Element-Platform ("UNE-P") and the ability of Competitive Local Exchange Companies ("CLECs") to lease the wide band portion of the loop or fiber facilities.

Q How does Staff address these developments in its testimony?

A. First, Staff Witness Rowell points out that the residential market use of the Unbundled Network Element-Loop ("UNE-L") is almost nonexistent. The FCC found in its Triennial Review Order ("TRO") that Incumbent Local Exchange Companies "(ILECs") cannot handle the volume of UNE-L conversions necessary to serve the mass market. Therefore, Staff is recommending that Qwest be ordered as part of this case to revive the collaborative Batch Hot Cut Process.

Second, in recognition of federal decisions which no longer require the ILECs to lease or make available the wideband portion of the loop in many instances, the Commission could require Qwest to submit its plans for broadband deployment in rural areas on an annual basis including areas where it has determined that deployment would not be economically feasible. One of the reasons for the FCC action was to encourage broadband deployment by ILECs. Thus, it is reasonable that the Commission examine the Company's Plans especially in rural areas, where the incentive to deploy advanced services may not be as great.

RATE DESIGN ISSUES

SWITCHED ACCESS CHARGES

Q. What is Qwest's position as it relates to switched access charges?

A. On page 14 lines 22-23 and page 15 lines 1-7 of Mr. McIntyre's testimony, he states that Qwest is not proposing any changes for switched access at this time because of the sweeping changes to the entire intercarrier compensation issue being considered at the FCC and the industry. The FCC has taken extensive comments and is likely to make its position known in the future. The result according to Qwest may well be a completely different structure for revenue collection that could change the state role in regulating this revenue.

Q. Does Staff agree with Qwest?

A. No. Staff believes that this Commission has jurisdiction over intrastate access charges and that the Commission should not delay until proceedings at the FCC are concluded. The proceedings at the FCC may take some time to resolve, thus, the Commission should proceed to address the issues at this time.

Q. What is Qwest's position as it relates to any access charge reduction by the Commission?

A. On page 15 lines 22-23 and page 16 lines 1-3 of Mr. McIntyre's testimony, he states "…in that case, Qwest will ask the Commission to provide a plan on how to recover the revenue currently provided by switched access. If for example, intrastate switched access rates are reduced to the interstate level and the revenue recovery is shifted to residential rate payers, the impact will be a rate increase of about $1.00 per residential access line."

Q. What is Staff's recommendation regarding access charge reduction at this time?

A. Staff recommends the intrastate access charges be reduced by $8.9 million as proposed by Staff Witness Regan, for the reasons given in Mr. Regan's testimony.

Q. Is Staff opposed to Qwest recovering its access charge revenue loss?

A. No. Staff believes that Qwest should be able to recover the revenue loss due to any access charge reductions.

Q. Does Staff support use of an end-user surcharge to recover this revenue loss?

A. No. Staff believes that the current methodology utilized under the Plan is more appropriate. Today, Qwest is allowed to recover its access charge revenue reduction in the form of an increase to the Basket 3 Revenue Cap.

FREE CALL ALLOWANCE TO DIRECTORY ASSISTANCE

Q. What is Qwest's position as it relates to the free call allowance for directory assistance?

A. Qwest is proposing to eliminate the free call allowance for directory assistance.

Q. What is Staff's position?

A. Staff cannot support this request. Dex usually prints and issues, yellow pages or white pages once a year. The publication may occur when an end user is in the process of moving, thus sometimes an end user's name might not appear in the directory. Staff believes that this is a benefit to the end users.

CONSUMER BENEFITS

Q. What benefits does the consumer receive under the Plan as modified?

A. Staff is proposing hard caps on basic service rates whether they are contained in Basket 1 or Basket 3 at existing rate levels. Competitive Zone Designation may result in lower basic rates for some consumers where the degree of competition warrants this added flexibility. Staff has proposed several changes to Qwest's Service Quality Tariff to ensure continued improvement by Qwest in this area as well.

Q. What are Special Rural Construction Charges and when do these charges apply?

A. Section 4.2.2 of Qwest's Exchange and Network Services Price Cap Tariff describes when these charges apply and how they are determined. Generally, these charges apply to new establishments of service outside the exchange base rate area when the rural customer's pro rata share of the cost of constructing facilities exceeds $3,000.

Q. So the $3,000 represents that portion of the pro rata construction cost that the Company is responsible for?

A. Yes. The $3,000 allowance makes service more affordable for many rural customers and is intended to strike a reasonable balance in keeping rural construction charges as affordable as possible without over burdening the general body of rate payers with these costs.

Q. Did Staff collect any data regarding the amount of these types of charges collected from customers in its review of the Price Cap Plan?

A. Yes data was collected on the construction charges Qwest collected from customers in 2001, 2002 and 2003 in Staff Data Request WDA 04-023.

Q. Was Staff able to draw any conclusions from this data?

A. Only that the level of these contributions declined significantly in 2003. The data included contributions for other types of construction so no specific conclusions regarding Special Rural Construction could be made only that contributions in general had declined.

Q. Could the decline mean that less rural customers were able to get service in 2003?

A. If fewer rural customers can afford to pay the applicable construction charge, I would expect the level of contributions to decline.

Q. Have telephone plant construction costs increased significantly since the $3,000 allowance was established?

A. I understand that the $3,000 allowance was established in the late 70s early 80s time frame so I think it is safe to conclude that there has been a significant increase in these types of construction costs.

Q. In your opinion is it reasonable to conclude that a larger percentage of these construction costs are being assessed to the rural customer versus when the $3,000 allowance was established 20 years ago?

A. While Staff did not conduct any studies to compare rural construction costs 20 years ago with today's costs, I think we can assume that the rural customer is probably paying a higher percentage of these costs today than back when the allowance was first established.

Q. Does Staff have any recommendations to make regarding the $3,000 construction allowance?

A. Yes. Staff recommends that the $3,000 allowance be increased to $5,000.

Q. Why does staff believe that $5,000 is a reasonable allowance?

A. In response to Staff Data Request WDA 15-001 Qwest estimated that the annual revenue impact of this change would be $202,000, that is, contributions would be reduced by $202,000. Qwest should be allowed to recover the $202,000 in an appropriate manner. Qwest went on to estimate that 115 customers who would have exceeded the $3,000 allowance and incurred a construction charge would not exceed a $5,000 allowance. Staff's experience has been that many of the applicants who live in the more remote areas where the construction charges are greater can afford to pay little if any construction charge. Therefore, this could equate to 115 rural customers getting service who without the increased allowance couldn't afford telephone service. Staff believes its proposal strikes a reasonable balance that is fair to all Qwest customers.

SUMMARY OF STAFF'S RECOMMENDATIONS

Q. Please summarize Staff's recommendations.

A. Staff recommends the following:

(1) Continuation of the Price Cap Plan that was approved in 2001 with the modifications discussed in Staff's testimonies:

(2) Elimination of the productivity/inflation adjustment mechanism factor;

(3) Replacement of an indexed basket cap on the Basic/Essential Service basket with a newly determined revenue cap;

(4) Designation of Competitive Zones as long as the safeguards and criteria discussed by Staff Witness Rowell are incorporated;

(5) Deregulation of Voicemail and Billing and Collection service as requested by Qwest;

Staff does not recommend the following:

(1) Granting Qwest AUSF;

(2) Eliminating the one free call allowance for Directory Assistance;

(3) Imposing any end-user surcharge to recover lost revenues due to a reduction in access charges; and

(4) Eliminating the revenue cap in Basket 3 services.

Staff also recommends that the Commission adjust the revenue cap in Basket 3.

Q. Does this conclude you direct testimony?

A. Yes, it does. However, Staff reserves the right to supplement its testimony based upon subsequent filings in this docket.