BEFORE THE ARIZONA CORPORATION COMMISSION

<u>COMMISSIONERS</u>

JEFF HATCH-MILLER, CHAIRMAN
WILLIAM A. MUNDELL
MARC SPITZER
MIKE GLEASON
KRISTIN K. MAYES

IN THE MATTER OF QWEST CORPORATION'S FILING OF 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**

SURREBUTTAL TESTIMONY

OF

WILLIAM DUNKEL

AND

THOMAS REGAN

ON BEHALF OF

THE STAFF OF THE ARIZONA CORPORATION COMMISSION

JANUARY 12, 2005

NOTICE: CONFIDENTIAL INFORMATION HAS BEEN REDACTED FROM THIS TESTIMONY.

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I. IDENTIFICATION OF WITNESS AND INTRODUCTION

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Thomas M. Regan. I am employed as an economist with the firm of William Dunkel and Associates. My business address is 8625 Farmington Cemetery Road, Pleasant Plains, Illinois, 62677.

Q. ARE YOU THE SAME THOMAS M. REGAN WHO FILED DIRECT TESTIMONY IN THIS PROCEEDING?

A. Yes.

Q. WHAT IS THE PURPOSE OF YOUR SURREBUTTAL TESTIMONY?

A. The purpose of my Surrebuttal testimony is to respond to the Testimony of Dr. Johnson filed on behalf of RUCO, to respond to the Direct testimony of Mr. Price filed on behalf of MCI, to respond to the Direct testimony of Mr. Lafferty filed on behalf of Cox, to respond to the Rebuttal testimony of Mr. Teitzel filed on behalf of Qwest, to respond to the Rebuttal testimony of Mr. McIntyre filed on behalf of Qwest and to respond to the Rebuttal testimony of Ms. Million filed on behalf of Qwest in this proceeding.

II. THE PROPER CALCULATION OF TSLRIC

Q. ON PAGE 21 OF YOUR DIRECT TESTIMONY, YOU STATED THAT THE TSLRIC OF RESIDENTIAL BASIC LOCAL EXCHANGE SERVICE (1FR) IS ** **. DID RUCO'S WITNESS, DR. JOHNSON, ALSO REACH THIS CONCLUSION?

A. Yes. As shown on Dr. Johnson's Table 1 in his testimony, Dr. Johnson has calculated the TSLRIC of residential basic local exchange service to be ** **.

Q. IN YOUR DIRECT TESTIMONY, YOU DEMONSTRATED THAT THE PROPERLY CALCULATED TSLRIC OF BASIC LOCAL EXCHANGE SERVICE DOES NOT INCLUDE ANY OF THE SHARED LOOP OR PORT FACILITY COSTS. DOES RUCO'S ECONOMIST WITNESS ALSO ACKNOWLEDGE THIS PRINCIPLE?

A. Yes. On page 53, lines 5-9,

> Although loop and port costs are required for the provision of local exchange, custom calling, switched access, and toll service, there is no universally accepted method of allocating these costs. Differences in the allocation percentage or method can result in very significant differences in the cost study results. That is one reason why I prefer a "pure" **TSLRIC approach, which doesn't allocate shared costs to individual services**. (emphasis added)

Q. ON PAGE 2, LINE 13 OF HER REBUTTAL, MS. MILLION STATES:

> FIRST, WHILE IT MAY BE TRUE THAT THE OTHER MAJOR SERVICES LISTED BY MR. REGAN ARE PROVIDED OVER QWEST'S LOOP AND PORT FACILITIES, THEY ARE NOT THE REASON FOR QWEST'S DECISION TO INVEST IN THOSE

> FACILITIES...QWEST'S DECISION TO INVEST IN ADDITIONAL LOOP AND PORT FACILITIES IS BASED ON THE PROVISIONING OF LOCAL DIAL TONE TO CONSUMERS. MR. REGAN'S SUGGESTION THAT THE APPROPRIATE WAY TO CALCULATE QWEST'S TSLRIC COST FOR BASIC LOCAL EXCHANGE SERVICE IS TO EXCLUDE THE COST OF THE LOOP AND PORT ENTIRELY IGNORES THIS REALITY.

SHOULD THIS COMMISSION ACCEPT MS. MILLION'S IMPLICATION THAT BASIC LOCAL SERVICE REVENUES ARE THE ONLY REVENUES THAT QWEST CONSIDERS WHEN MAKING THE DECISION TO INVEST IN LOOP AND PORT FACILITIES?

A. Absolutely not. Qwest responded **"No"** to my Data Request WDA 19-13(a and b), where I asked Qwest the following questions:

Data Request WDA 19-13:

> A. Is it Ms. Million's testimony that Qwest's decision to invest in additional loop and port facilities is based on solely the revenue that Qwest expects to receive for basic local service?
>
> B. Is it Ms. Million's testimony that when Qwest decides to invest in additional loop and port facilities, Qwest does not consider the revenues that it expects to receive from vertical services, switched access or toll services?

Qwest's Response:

> A. No.
>
> B. No.

Q. DO YOU HAVE ADDITIONAL EVIDENCE THAT CLEARLY DEMONSTRATES THE FACT THAT QWEST DOES RECOGNIZE THAT SERVICES OTHER THAN JUST BASIC LOCAL SERVICE CONTRIBUTE TO

THE RECOVERY OF QWEST'S TOTAL COSTS OF SERVING ITS CUSTOMERS?

A. Yes. For example, on page 66 of his Rebuttal testimony, Mr. Teitzel is responding to a statement made by RUCO's witness Dr. Johnson. In this response, Mr. Teitzel clearly admits that it is true that "Qwest doesn't rely exclusively on its basic monthly rate to recover its costs". Mr. Teitzel states:

> Dr. Johnson supports his Table 2 by saying 'Qwest doesn't rely exclusively on its basic monthly rate to recover its costs, nor do any of its competitors.' He is correct. Qwest does receive revenues from other services that contribute to the overall cost of serving a customer, just as Qwest's competitors do.

In addition, Qwest's Executive Vice President-Retail Markets for USWC, Inc., C.J. Bernard clearly indicated that Qwest considers the total revenues, not just the basic exchange service revenues:

> In the voice world today that $12 to $14 access line really represents anywhere from $60 to $80 a month as we add those vertical features. The same thing in the data world. That's how any of us in this business think about it.[1]

Ms. Million's implication that Qwest's decision to invest in loop and port facilities is based only on the revenues Qwest expects to receive from basic local exchange service is absolutely false, and should be disregarded.

[1] C.J. Bernard, Executive Vice President-Retail Markets for USWC, Inc. "Turning DSL Into Dough Is The Goal of US WEST", Telecommunications Reports, December 13, 1999, page 35.

III. THE PROPER IDENTIFICATION OF A "SUBSIDY"

Q. IN ITS REBUTTAL TESTIMONY, QWEST MAKES NUMEROUS CLAIMS REGARDING "SUBSIDIES" THAT QWEST ALLEGES EXIST IN QWEST'S RATES.[2] WHAT MUST BE DEMONSTRATED IN ORDER FOR A SERVICE TO BE PROPERLY CONSIDERED TO BE RECEIVING A "SUBSIDY"?

A. As discussed below, in order for a service to be properly considered to be receiving a subsidy, it must be demonstrated that the rate charged for that service is below the service's properly calculated Total Service Long Run Incremental Cost (TSLRIC). If the rate charged for the service is equal to or above the TSLRIC of the service, the service is not receiving a subsidy.

Q. HAS QWEST ACKNOWLEDGED THE FACT THAT A SERVICE IS NOT RECEIVING A SUBSIDY IF IT IS PRICED EQUAL TO OR ABOVE ITS TSLRIC?

A. Yes. Qwest responded "Yes" to Data Request WDA 19-12(f), where I asked Qwest the following question:

Data Request WDA 19-12:

F. Is it a correct statement that as long as a service is priced equal to or above its Total Service Long Run Incremental Cost (TSLRIC), that service is not properly considered to be receiving a subsidy?

[2] For example, see Teitzel Rebuttal testimony page ii, page iii, page 34 line 3, page 37 line 18, page 43 line 5, page 45 lines 9, 10 and 18, page 46 line 11, page 56 line 3, page 65 line 19, page 66 line 8, page 67 line 2, page 73 line 10 and Million Rebuttal testimony page 4 line 18, page 5 line 18 and line 21, page 6 lines 5, 15, 18 and 21, page 12 lines 5, 7 and 9, page 15 line 22, page 16 line 3.

Qwest's Response:

F. Yes.

As Qwest acknowledged, a service is not properly considered to be receiving a subsidy as long as the service is priced equal to or above its TSLRIC.

Q. YOU INDICATED THAT A SERVICE IS NOT RECEIVING A SUBSIDY AS LONG AS IT IS PRICED EQUAL TO OR ABOVE ITS TSLRIC. HOWEVER, ARE THE PRICES FOR SERVICES GENERALLY PRICED ABOVE TSLRIC?

A. Yes. Pricing at least equal to TSLRIC prevents a service from being subsidized, however prices for services are generally set above TSLRIC. The reason is that the TSLRIC only includes the costs that are caused directly by the individual service being addressed. Costs that are shared or are common to more than just the individual service being addressed are not included in the TSLRIC. Nevertheless, the shared and common costs must be recovered in the rates charged for services. Therefore, services are generally priced <u>above TSLRIC</u> to contribute toward the shared and common costs. If all services were priced just equal to TSLRIC, it would be correct that no service would be receiving a subsidy, however, the shared and common costs would not be recovered. The prices for services should be set in a manner such that the overall contribution from the whole family of services is sufficiently above TSLRIC to recover the shared and common costs.

Q. THE MAJORITY OF QWEST'S CLAIMS REGARDING "SUBSIDIES" AND "IMPLICIT SUBSIDIES" PERTAIN TO RESIDENTIAL BASIC LOCAL

EXCHANGE SERVICE. CAN YOU DEMONSTRATE THAT QWEST'S RESIDENTIAL BASIC LOCAL EXCHANGE SERVICE DOES NOT RECEIVE ANY "SUBSIDIES" OR "IMPLICIT SUBSIDIES"?

A. Yes. There is a specific economic test that is used to determine whether or not a service is receiving a subsidy. As long as a service is priced equal to or above its properly calculated TSLRIC, the service cannot properly be said to be receiving a subsidy. As I indicated in my direct testimony, the TSLRIC of residential basic local exchange service is ** ** per month[3], and the rate charged for residential basic local exchange service is $13.18 per month.[4] Qwest's residential basic local exchange service cannot properly be said to be receiving any subsidy. Therefore, every one of Qwest's numerous claims that residential basic local exchange service receives a "subsidy" or "implicit subsidy" are completely false, and should be disregarded.

IV. **<u>THE ARIZONA UNIVERSAL SERVICE FUND (AUSF)</u>**

Q. ON PAGE 57, LINE 6 OF HIS TESTIMONY, DR. JOHNSON DISCUSSES DIRECTORY ADVERTISING REVENUES. HE STATES THAT THE DIRECTORY ADVERTISING REVENUES "CAN APPROPRIATELY BE CONSIDERED IN EVALUATING THE EXTENT TO WHICH QWEST CAN

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[3] Regan Direct testimony, page 21, line 13.
[4] Regan Direct testimony, page 13, line 18.

PROFITABLY SERVE CUSTOMERS AT CURRENT RATES." DO YOU AGREE WITH DR. JOHNSON?

A. Yes. I agree that directory advertising revenue is important to consider when assessing the profitability of serving customers. However, the "overall analysis" that I originally presented in my Direct testimony does not include imputed directory advertising revenues. As discussed below, I have now incorporated imputed directory advertising revenues into my "overall analysis" of Qwest's intrastate revenues and intrastate costs by UNE Zone. My revised "overall analysis" that incorporates the imputed directory advertising revenues is attached hereto as Schedule TMR-S1. Schedule TMR-S1 replaces my original "overall analysis" which was presented on my Direct testimony Schedule TMR-3. Therefore, my Direct testimony Schedule TMR-3 is no longer a valid schedule.

Q. ON PAGE 66 OF HIS REBUTTAL TESTIMONY, MR. TEITZEL INDICATES THAT QWEST SOLD ITS DIRECTORY ADVERTISING BUSINESS OVER ONE YEAR AGO. SHOULD DIRECTORY ADVERTISING REVENUES CONTINUE TO BE CONSIDERED WHEN ASSESSING THE PROFITABILITY OF SERVING QWEST'S CUSTOMERS?

A. Yes. As Mr. Teitzel discusses beginning at page 66, line 4 of his Rebuttal testimony, pursuant to a settlement agreement, Qwest imputes $72 million of directory advertising revenue to its intrastate revenue requirement analysis. Under the settlement agreement, Qwest agreed that the $72 million directory revenue imputation would be included within all reporting to the Commission of Qwest's Arizona intrastate earnings.[5]

Q. HOW MUCH REVENUE DOES THE DIRECTORY ADVERTISING IMPUTATION ADD ON A PER LINE, PER MONTH BASIS?

A. The $72 million annual directory imputation represents about $2.53[6] per billable access line, per month in revenue.[7]

Q. HAVE YOU REVISED YOUR "OVERALL ANALYSIS" TO RECALCULATE THE LEVEL OF SURPLUS/SHORTFALL FOR EACH OF THE UNE ZONES WHEN THE IMPUTED DIRECTORY ADVERTISING REVENUE IS ADDED TO THE INTRASTATE REVENUES?

A. Yes. The results of my revised "overall analysis", including imputed directory advertising revenues, are shown on Schedule TMR-S1, attached hereto. Schedule TMR-S1 replaces the analysis that I filed with my Direct testimony as Schedule TMR-3. Schedule TMR-3 is no longer a valid schedule.

The results of my "overall analysis" are now as follows:

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[5] ACC Docket No. T-0105B-02-0666, Decision No. 66230, Exhibit A "Stipulation", starting at page 2, line 26.

[6] $72,000,000 divided by 12 months, divided by 2,367,173 total billable access lines (See FCC Armis Annual Summary Report 43-01, Row 2150, for the year 2003) = $2.53.

[7] The "overall analysis" does not include all billable access lines. For example, large business lines (e.g. Centrex lines) are not included in the "overall analysis". Therefore, the amount of imputed directory advertising revenues included in my "overall analysis" is actually less than $72 million.

[11] The added lines have the USOC codes ** ** on pages 2,3 and 4 of Schedule TMR-S1.

Zone 1: Qwest's annual intrastate revenues exceed Qwest's annual intrastate costs by a surplus of over ** **.

Zone 2: Qwest's annual intrastate revenues exceed Qwest's annual intrastate costs by a surplus of over ** **.

Zone 3: Qwest's annual intrastate revenues exceed Qwest's annual intrastate costs by a surplus of nearly ** **.

Statewide: Qwest's annual intrastate revenues exceed Qwest's annual intrastate costs by a surplus of over ** **.

Q. ABOVE, YOU INDICATED THAT YOU HAVE REVISED YOUR "OVERALL ANALYSIS" TO INCORPORATE IMPUTED DIRECTORY ADVERTISING REVENUES. HAVE YOU MADE OTHER MINOR REVISIONS TO YOUR "OVERALL ANALYSIS"?

A. Yes. I have made several other minor revisions to my "overall analysis". These revisions include the following:

1. Certain residential lines were inadvertently omitted in my original "overall analysis". My revised "overall analysis" incorporates the previously omitted lines.[11]

2. The residential revenue for intrastate toll and intrastate switched access were inadvertently applied to business package (e.g. packages that bundle 1FB service with vertical features) lines in UNE Zones 1 and 2. This revision does not impact my "overall analysis" for UNE Zone 3. My revised "overall analysis" applies the business revenues for intrastate toll and intrastate switched access to business package lines.[12]

3. Various minor formatting changes were made. For example, on page 3 of the original "overall analysis", various text inadvertently appears in the Column headed "UNE Zone". This Column is intended to specify the UNE Zone that is being analyzed. In the revised "overall analysis", the inadvertent text has been replaced by the appropriate UNE Zone indicators.

4. Page 1 of the original "overall analysis" summarized data contained elsewhere in the "overall analysis". This page has been omitted in the

[12] For example, one of the business packages that needed this revision has the USOC ** **, as shown on pages 2 and 3 of Schedule TMR-S1.

revised “overall analysis”. The figures used on this page can be found on pages 3 and 4 of the revised analysis Schedule TMR-S1.

Q. WHAT DOLLAR IMPACT DO THE FOUR ADDITIONAL REVISIONS YOU DESCRIBED ABOVE HAVE ON YOUR “OVERALL ANALYSIS”?

A. Only revisions 1 and 2 described above impact the dollar amounts in the “overall analysis”. These revisions have very little impact on the results of the “overall analysis”. In total, these revisions described above result in an increase in the surplus of ** ** annually statewide.[13]

Q. ON PAGE 12 OF HER REBUTTAL, MS. MILLION DISCUSSES THE FACT THAT IN YOUR “OVERALL ANALYSIS” PRESENTED IN YOUR DIRECT TESTIMONY, YOU CALCULATED A $4.6 MILLION SHORTFALL FOR UNE ZONE 3. DOES THIS SHORTFALL STILL EXIST IN YOUR REVISED “OVERALL ANALYSIS”?

A. No. As shown on page 1 of Schedule TMR-S1 attached hereto, each of Qwest’s three UNE Zones have annual intrastate revenues that exceed Qwest’s annual intrastate costs. Schedule TMR-S1 is my revised “overall analysis”, which replaces my previous “overall analysis presented on my Direct testimony Schedule TMR-3. Schedule TMR-3 is no longer a valid schedule.

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[13] **

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As shown on page 1 of Schedule TMR-S1, UNE Zone 3 now has a surplus of about ** **. The primary reason that UNE Zone 3 went from a shortfall of ** ** to a surplus of ** ** is the addition of the imputed directory advertising revenues.[14]

Q. ON PAGE 65, LINES 12-15 OF HIS REBUTTAL TESTIMONY, MR. TEITZEL STATES:

> INTERESTINGLY, EVEN STAFF WITNESS MR. REGAN IDENTIFIED A REVENUE SHORTFALL OF OVER $4.6 MILLION IN THE ZONE 3 WIRE CENTERS, AND MR. REGAN'S CALCULATIONS ARE BASED ON AN EXTREMELY CONSERVATIVE SET OF ASSUMPTIONS REGARDING HOW TSLRIC COSTS SHOULD BE CALCULATED IN HIS ANALYSIS.

PLEASE COMMENT.

A. First of all, the $4.6 million shortfall that Mr. Teitzel is referring to is the result of the "overall analysis" that I presented in my Direct testimony. In this Surrebuttal testimony, I have revised my "overall analysis" to include imputed directory advertising revenues.[15] The results of the revised analysis show that there is no revenue shortfall in any of Qwest's three UNE Zones, as shown on Schedule TMR-S1.

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[14] Of the approximate ** ** increase, nearly ** ** of the increase is from the addition of the imputed directory advertising revenues.

[15] I made several other minor revisions, but these other changes have a very small impact on UNE Zone 3 (i.e. an increase in surplus of about ** **).

Secondly, Mr. Teitzel's comments regarding a "conservative set of assumptions regarding how TSLRIC costs should be calculated" appears to be referring to the "Code Analysis" I presented in my Direct testimony, not the "overall analysis" that I presented. The "Code Analysis" compares the TSLRIC of basic local exchange service to the "benchmark rates" defined by the Code (i.e. the sum of the rates for basic local exchange service and the interstate EUCL charge).[16]

The "overall analysis" does not limit costs to just the TSLRIC costs. The "overall analysis" includes all of Qwest's intrastate costs of providing the whole family of services that are provided using Qwest's loop and port facilities. The "Overall Analysis" <u>does</u> include the intrastate loop and port costs. Therefore, Mr. Teitzel's comments are simply misplaced, and irrelevant with respect to my "overall analysis".

Q. BEGINNING ON PAGE 9, LINE 12 OF HER REBUTTAL TESTIMONY, MS. MILLION IS DISCUSSING YOUR "OVERALL ANALYSIS", AND THEN ON PAGE 10, LINE 3 OF HER REBUTTAL, MRS. MILLION STATES:

> IF THE PURPOSE OF MR. REGAN'S ANALYSIS IS TO COMPARE THE RETAIL REVENUES FOR A 1FR SERVICE TO THE TSLRIC COSTS FOR THAT SERVICE, THEN IT SHOULD USE THE TSLRIC COSTS BASED ON RETAIL FACTORS, NOT UNE RATES THAT WERE DEVELOPED USING WHOLESALE FACTORS.

DO YOU HAVE A RESPONSE?

[16] Qwest would not receive any AUSF support following the analysis required by the Code, as discussed on page 13, line 24 of my Direct testimony.

A. Yes. First of all, it is **not** the purpose of my **"overall analysis"** to "compare the retail revenues for a 1FR service to the TSLRIC costs for that service". Ms. Million has failed to recognize the distinction between the two separate analyses I have presented in this proceeding. The **"Code Analysis"** that I have presented in my direct testimony compares the TSLRIC of basic local service to the "benchmark rates" for basic local service (i.e. the sum of the monthly rate for basic local service and the End User Common Line Charge), not the **"overall analysis"**.[17] The cost of shared facilities **are not** properly included in the TSLRIC of a service, and are therefore not included in the "Code Analysis" I have presented.[18]

However, the **"overall analysis"** that I have presented is completely separate from, and totally unrelated to, the "Code Analysis". The "overall analysis" I have presented compares all intrastate revenues to all of the intrastate costs of serving customers.[19] The intrastate costs used in the "overall analysis" are not limited to just TSLRIC costs. The costs used in the "overall analysis" are the total intrastate costs, which includes the intrastate costs of the loop and port facilities, and also includes other shared and/or common costs.

Q. IN THE ABOVE QUOTE, MS. MILLION CRITICIZES YOUR USE OF THE COMMISSION'S APPROVED UNE LOOP AND PORT RATES IN YOUR "OVERALL ANALYSIS", BECAUSE SHE SAYS THAT THOSE RATES WERE

[17] See Regan Direct testimony, page 14, lines 1-11.
[18] As I pointed out on page 23, lines 18-26 of my Direct testimony, Qwest has specifically acknowledged the fact that the TSLRIC does not include shared costs.
[19] My presentation of the "overall analysis" begins on page 26 of my Direct testimony.

CALCULATED USING "WHOLESALE FACTORS" INSTEAD OF "RETAIL FACTORS". IS THIS A VALID CRITICISM?

A. No. The loop and port facilities are not retail services. The loop and port are facilities that are *used to provide* retail services, but they are not, in themselves, services. In docket FCC 96-325, CC Docket No. 96-98, et. al., Released August 8, 1996 (Local Competition Order), the FCC specifically addressed the issue of whether UNEs are properly identified as facilities, or "services". The FCC specifically found that UNEs are not services. This is clear from the FCC's Local Competition Order[20], which states that:

> Moreover, we agree with those commenters that argue that network elements are defined by facilities or their functionalities or capabilities, and thus**, cannot be defined as specific services.** A single network element could be used to provide many different services. **For example, a local loop can be used to provision inter- and intrastate exchange access services, as well as local exchange services.** (citations omitted, emphasis added) (Paragraph 264)

> We premised the latter view on **the definition of the term "network element," as a facility and not a service**,... (citations omitted, emphasis added) (Paragraph 343)

> **The incumbent LEC offerings to be priced using this methodology generally will be "network elements," rather than "telecommunications services," as defined by the 1996 Act.** ...The **costs of local loops** and their associated line cards in local switches, for example**, are common with respect to interstate access service and local exchange service**, because once these facilities are installed to provide one service they are able to provide the other at no additional cost. **By contrast, the network elements, as we have defined them, largely correspond to distinct network facilities.** (citations omitted, emphasis added) (Paragraph 178)

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[20] *In the Matter of Implementation of the Local Competition Provisions in the Telecommunications Act of 1996; Interconnection between Local Exchange Carriers and Commercial Mobile Radio Service Providers*, CC Docket No. 96-98; CC Docket No. 95-185, 11 FCC Rcd 15499; 1996 FCC LEXIS 4312; 4 Comm. Reg. (P & F) 1, August 8, 1996 Released; Adopted August 1, 1996 ("Local Competition Order").

The UNE loop and port costs that I used in the "overall analysis" were calculated by starting with the Commission's approved UNE loop and UNE port rates.[21] I then determined the intrastate portions of the UNE loop and port using jurisdictional separations.[22] However, for the costs of the retail services that I included in my "overall analysis" (e.g. basic local exchange service, toll, switched access, vertical features, etc.), I used the "Fully Allocated TSLRIC" costs that were filed by Qwest in this proceeding.[23] According to Ms. Million, the "Fully Allocated TSLRIC" costs that Qwest has filed in this proceeding are calculated using Qwest's proposed "retail factors".[24] Therefore, I have used "retail factors" for the costs of retail services, and I have used the Commission's approved UNE loop and UNE port rates for the costs of the loop and port facilities.

Q. DOES THE FEDERAL UNIVERSAL SERVICE FUND ADDRESS THE ISSUE OF PROVIDING SUPPORT FOR HIGH COST LOOPS?

A. Yes. The Federal Universal Service Fund provides "High Cost Loop Support" to those carriers that have high loop costs.[25] Therefore, the issue of high cost loops is already being addressed at the Federal level.[26] In fact, the Commission's rules require that AUSF funding is to be provided "net of any universal service support

[21] Ms. Million's proposed "retail factors" have not been approved by the Commission.
[22] Regan Direct testimony, page 27, line 21 through page 28, line 9.
[23] Regan Direct testimony, page 28, lines 14-17.
[24] Million Rebuttal testimony, page 10, lines 1-6.
[25] See the FCC's "High-Cost Support" discussion in Section 3 of the FCC's Universal Service Monitoring Report, October 2004.
[26] Despite the fact that Qwest's loop costs are already being addressed under the current Federal Universal Service Fund system, as discussed beginning on page 26 of my Direct testimony, I have performed an "overall analysis" that considers Qwest's total intrastate costs of serving its customers, including the intrastate costs of Qwest's loop and port facilities. The results of the "overall analysis" demonstrate that Qwest's total intrastate revenues exceed Qwest's total intrastate costs in each of Qwest's three UNE Zones. Therefore, the conclusion to be drawn is the Qwest does not need any additional support to recover its intrastate costs in any of its three UNE Zones..

from federal sources."[27] The Arizona Commission has found that federal funding should be pursued as "the primary source of high cost support." The Commission specifically found:

> In addition, the Commission's rules require that AUSF funding is to be provided "net of any universal service support from federal sources". This rule clearly intends AUSF to supplement FUSF and, implicitly, that **federal funding should be pursued as the primary source of high cost support rather than AUSF** being provided as a precursor to FUSF funding. (emphasis added, citations omitted)[28]

As I pointed out on page 33 of my Direct testimony, Qwest does not receive any Federal high cost loop support in Arizona under the current Federal high cost loop system. It would make little sense to conclude that the "supplement" to federal support should provide $64 million per year in high cost support, while "the primary source of high cost support" concludes that Qwest does not need high cost loop support.

Q. BEGINNING AT PAGE 7, LINE 7 OF HER REBUTTAL TESTIMONY, MS. MILLION STATES THAT YOUR "CONCLUSION THAT THE LOOP AND PORT COSTS SHOULD BE EXCLUDED FROM THE AUSF CALCULATION CANNOT BE CORRECT BECAUSE IT DOESN'T MAKE SENSE...." WHY DOES IT MAKE SENSE TO EXCLUDE THE COSTS OF THE LOOP AND PORT IN THE AUSF ANALYSIS THAT YOU HAVE PERFORMED IN

[27] A.A.C. Rule 14-2-1202.A.

[28] Arizona Corporation Commission Decision No. 64011 in Docket No. T-02532A-00-0512, September 5, 2001, page 19, lines 18-21.

COMPLIANCE WITH THE ARIZONA ADMINISTRATIVE CODE (I.E. THE "CODE ANALYSIS")?

A. It makes sense to exclude the costs of the loop and port in the "Code Analysis" I have performed, because: (1) the Code requires that the TSLRIC be used in the AUSF analysis, as discussed on page 23, line 33 of my Direct testimony. The TSLRIC excludes the costs of shared facilities. Since the loop and port are facilities that are shared by the whole family of services that are provided using the loop and port facilities, they are properly excluded from the TSLRIC of basic local exchange service. (2) the "Code Analysis" includes only the revenues from basic local exchange service and the interstate EUCL.[29] There are many other services that share the loop and port facilities with basic local exchange service, and the revenues from those other services contribute toward the recovery of the shared costs of the loop and port facilities. If the costs of the shared loop and port facilities were to be included in the analysis, but all of the revenues that contribute toward the recovery of the shared costs of the loop and port facilities are not also included, the result would be a misleading mismatch of costs and revenues. (3) As I discussed above, The Federal Universal Service Fund provides high cost loop support to those carriers that have high loop costs. Therefore, the issue of high cost loops is <u>already being addressed</u> at the Federal level. In fact, the Arizona Commission has found that federal funding should be pursued as "the primary source of high cost support." and that the AUSF is intended to be a "supplement" to the Federal USF.

[29] Regan Direct testimony, page 13.

Q. DID ANOTHER WITNESS IN THIS PROCEEDING ALSO STRESS THE IMPORTANCE OF PROPERLY MATCHING COSTS AND REVENUES WHEN THE COSTS OF SHARED FACILITIES ARE INCLUDED IN AN ANALYSIS?

A. Yes. RUCO's economist witness Dr. Johnson stresses the importance of matching costs and revenues when shared costs[30] are included in an analysis. For example, on page 70 of his Direct testimony, Dr. Johnson states:

> Despite using the TSLRIC label, Qwest includes joint costs in its analysis. Furthermore, it mismatches all of its joint costs with only a portion of the revenues it receives that provide support for those costs.

On page 71, lines 17-21 of his Direct testimony, Dr. Johnson states:

> I strongly dispute the notion that total costs should be compared to just a subset of the revenues that result from the decision to serve these customers. An appropriate matching of revenues and costs is crucial for meaningful results. If total costs (including joint costs) are to be considered in the analysis, then total revenues should also be considered, including revenues from toll, access, and features.

On page 42 of his Direct testimony, Dr. Johnson states:

The LECs have many revenue sources which help cover these joint costs, including toll, switched access, and custom calling. Carriers have long relied upon all of these different revenue sources in order to pay their loop costs. The loop facilities used in providing local exchange service are also required for (and used by) other services that local carriers provide, including interstate switched access, intrastate switched access, intrastate toll, custom calling, and Caller ID service. The poles, cable, drop wire, line card, and channel connection are equally required for the

[30] Dr. Johnson refers to the loop facilities as being a "joint cost".

provision of these other services, and there is no logical reason to impose the entirety of these costs onto just one of the services benefiting from them.

Q. ON PAGE 10 OF HER REBUTTAL, MS. MILLION CRITICIZES THE FACT THAT YOU INCLUDED ONLY THE INTRASTATE PORTIONS OF THE LOOP AND PORT COSTS IN YOUR "OVERALL ANALYSIS". MS. MILLION ARGUES THAT YOU SHOULD HAVE ALSO INCLUDED THE INTERSTATE LOOP AND PORT COSTS AND THE INTERSTATE REVENUES IN THE "OVERALL ANALYSIS". DO YOU AGREE?

A. No. As I discussed beginning on page 24, line 18 of my Direct testimony, the USF being addressed in this proceeding is an <u>intrastate</u> USF. A comparison of Qwest's intrastate revenues and intrastate costs should logically provide the Commission with an accurate depiction of Qwest's <u>intrastate</u> USF needs.

Q. IN YOUR DIRECT TESTIMONY, YOU POINTED OUT THAT MS. MILLION'S USE OF WHAT SHE CALLS THE "FULLY-ALLOCATED COSTS" IN HER CALCULATION OF AUSF SUPPORT VIOLATES THE ARIZONA ADMINISTRATIVE CODE'S REQUIREMENT THAT AUSF SUPPORT BE CALCULATED USING TSLRIC.[34] DID COX'S WITNESS MR. LAFFERTY ALSO POINT OUT THIS FLAW IN THE QWEST ANALYSIS?

A. Yes. On page 47, line 9 of his Direct testimony, Cox witness Mr. Lafferty states:

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[34] Regan Direct testimony, page 23, line 29.

> Qwest witness Million's choice of fully-allocated costs violates the specific requirement that Qwest use TSLRIC to calculate its costs.

On page 48, line 3 of his Direct testimony, Mr. Lafferty states that using Qwest's claimed TSLRIC instead of Qwest's claimed fully-allocated costs in the AUSF analysis reduces Qwest's AUSF draw from $64.04 million to "no more than $24.5 million.

Q. DOES MS. MILLION'S CALCULATION OF AUSF SUPPORT SUFFER FROM ANOTHER CRITICAL FLAW THAT MR. LAFFERTY DID NOT ADDRESS?

A. Yes. Mr. Lafferty recognized the fact that in its AUSF analysis, Qwest is using what Qwest calls the "fully allocated costs" instead of what Qwest calculates as the "TSLRIC" of basic local exchange service. However, Mr. Lafferty failed to recognize that even the TSLRIC that Ms. Million uses in her AUSF analysis is seriously flawed. Qwest's seriously flawed calculation of the "TSLRIC" of basic local exchange service is the key reason that Qwest calculates its enormous $64 million claimed support funding need from the AUSF

As discussed beginning on page 16 of my Direct testimony, Ms. Million's claimed TSLRIC of basic local service includes 100% of the loop facility costs, and includes 100% of the port facilities costs. The loop and port facilities are examples of facilities whose costs are shared among the whole family of Qwest's major services. Qwest requires the loop and port facilities to deliver vertical features to end users, to provide IXCs with switched access services, and to provide end-users with toll services. In this proceeding, Qwest has acknowledged the concept that the properly calculated TSLRIC of a service excludes the costs of shared facilities.[35] However, when Qwest calculates its claimed TSLRIC of basic local exchange service, Qwest refuses to acknowledge the fact that the loop and port facilities are shared by a number of Qwest's major telecommunications services.

The costs of the loop and port facilities are not included in a proper calculation of the TSLRIC of any of these major services, as discussed more fully beginning on page 16 of my Direct testimony.

Q. ON PAGE 66, LINE 15 OF HIS REBUTTAL TESTIMONY, MR. TEITZEL IS RESPONDING TO RUCO WITNESS DR. JOHNSON'S DIRECT TESTIMONY WHEN HE STATES:

> DR. JOHNSON SUPPORTS HIS TABLE 2 BY SAYING: 'QWEST DOESN'T RELY EXCLUSIVELY ON ITS BASIC MONTHLY RATE TO RECOVER ITS COSTS, NOR DO ANY OF ITS COMPETITORS.' HE IS CORRECT. QWEST DOES RECEIVE REVENUES FROM OTHER SERVICES THAT CONTRIBUTE TO THE OVERALL COST OF SERVING A CUSTOMER, JUST AS QWEST'S COMPETITORS DO. HOWEVER, THE REVENUE GENERATED BY CUSTOMERS IN THE HIGHEST COST WIRE CENTERS IS NOT SUFFICIENT TO COVER QWEST'S COSTS OF PROVIDING SERVICE TO THOSE CUSTOMERS. THIS FACT IS THE DRIVER OF QWEST'S AUSF PROPOSAL.

PLEASE RESPOND.

A. In the above referenced quote from Mr. Teitzel's Rebuttal testimony, Mr. Teitzel implies that Qwest's AUSF proposal is driven by an analysis that includes

[35] See Regan Direct testimony, page 23, lines 23-26 and Million Direct, beginning at page 19, line 16.

"revenues from other services that contribute to the overall cost of serving a customer". Mr. Teitzel's statement is misleading. Mr. Teitzel's statement implies that Qwest did an "overall analysis" that included all Qwest revenues, but Qwest did not. Qwest's AUSF analysis that resulted in a $64 million AUSF support request[36] includes all of the shared costs of the loop and port facilities, but does not include all of the revenues from the services that share and contribute to the cost of the loop and port facilities.[37]

Qwest's AUSF analysis only includes the revenues from basic local exchange service and the interstate EUCL charge, as does my "Code Analysis". However, unlike Qwest's proposed AUSF analysis, my "Code Analysis" compares these limited revenues to the properly calculated TSLRIC of basic local exchange service, as required by the Arizona Administrative Code. The properly calculated TSLRIC of basic local exchange service does not include the costs of shared facilities (e.g. the loop and port facilities).

Since Qwest's AUSF analysis includes the costs of the shared loop and port facilities, but excludes the considerable revenues that Qwest receives from other services that contribute toward the overall cost of serving a customer[38], what Qwest has proposed is a misleading mismatch of revenues and costs.

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[36] Teitzel Rebuttal testimony, page 65, line 9.
[37] Regan Direct testimony, page 26, line 2.
[38] The other services include switched access services, toll services and vertical services.

In addition to the “Code Analysis”, I have presented a separate and unrelated additional AUSF analysis, which I call the “overall analysis”. My proposed “overall analysis” includes all of the intrastate costs of the loop and port facilities, and includes the revenues from all of the intrastate services that share the loop and port facilities.[39] Therefore, my “overall analysis” properly matches total intrastate revenues to total intrastate costs. The results of my “overall analysis” are presented on my Surrebuttal Schedule TMR-S1, attached hereto.

Q. ON PAGE 39, LINE 13 OF HIS REBUTTAL TESTIMONY, MR. TEITZEL STATES:

> REGARDLESS OF WHETHER THE COST OF THE LOOP IS CONSIDERED JOINT, COMMON OR A DIRECT COST, QWEST NEEDS TO HAVE A REASONABLE OPPORTUNITY TO RECOVER THIS COST.

DOES QWEST HAVE A “REASONABLE OPPORTUNITY” TO RECOVER ITS LOOP COSTS?

A. Yes. As shown on page 1 of Schedule TMR-S1 attached hereto, Qwest’s total intrastate revenues exceed Qwest’s total intrastate costs[40] by over ** **. In Zone 1, Qwest’s total intrastate revenues exceed Qwest’s total intrastate costs by over ** **. In Zone 2, Qwest’s total intrastate revenues exceed Qwest’s total intrastate costs by over ** **. In Zone 3, Qwest’s total intrastate revenues exceed Qwest’s total intrastate costs by nearly ** **.

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[39] Regan Direct testimony beginning at page 27, line 12.
[40] The total intrastate costs include the intrastate portions of the shared loop and port facilities costs.

Qwest's allegation that it does not have a reasonable opportunity to recover its shared loop facility costs is the result of failing to look at the overall picture of Qwest's costs and revenues. Qwest's analysis looks at all of Qwest's shared loop and port costs and just a portion of Qwest's revenues that contribute toward the recovery of Qwest's shared loop and port costs. A proper comparison of Qwest's intrastate revenues and intrastate costs clearly demonstrates that Qwest is recovering all of its intrastate costs.

Q. ON PAGE 31, LINES 12-14 OF HIS REBUTTAL TESTIMONY, MR. TEITZEL CRITICIZES YOUR ANALYSIS OF QWEST'S AUSF PROPOSAL, BECAUSE YOU HAVE FOCUSED ON QWEST'S COST STRUCTURE AND "VIRTUALLY IGNORE" COSTS FACED BY QWEST'S COMPETITORS. PLEASE COMMENT.

A. First of all, one of the purposes of this proceeding is to determine whether or not Qwest needs support funding from the AUSF. It seems logical that Qwest's need for support should be based on a comparison of Qwest's costs to serve customers and Qwest's revenues that Qwest uses to recover those costs. Therefore, it is not clear how or why Qwest's competitor's costs would be used to calculate AUSF support needs for Qwest.

Q. ON PAGE 33 OF HIS REBUTTAL TESTIMONY, MR. TEITZEL COMPARES QWEST'S AUSF PROPOSAL WITH AN APPLICATION FOR A

DISBURSEMENT FROM THE AUSF MADE BY MIDVALE TELEPHONE EXCHANGE, INC. DO YOU BELIEVE THAT A COMPARISON OF QWEST AND MIDVALE IS RELEVANT WITH RESPECT TO THE ISSUE OF AUSF DISBURSEMENTS?

A. No. Midvale Telephone Exchange, Inc. ("Midvale") is a very small telephone company. Under the Arizona Administrative Code, AUSF disbursements for small telephone companies like Midvale are calculated using a completely different formula than they are for a large telephone company like Qwest.

At the time of the application that Mr. Teitzel is referring to, Midvale had fewer than 700 lines in service.[42] Under the Arizona Administrative Code, Midvale is considered a "small local exchange carrier".[43] Under the Arizona Administrative Code, the calculation of AUSF support for a "small local exchange carrier" like Midvale is performed using the formula and process described in Section R14-2-1202(B) of the Code.

Under the Arizona Administrative Code, the calculation of AUSF support for a "large local exchange carrier" like Qwest is performed using the formula and process described in Section R14-2-1202(A) of the Code.[44] The "Code Analysis" that I have presented in my Direct testimony for Qwest, is the AUSF calculation

[42] FCC's Universal Service Monitoring Report, October 12, 2004, Table 3.33 "Number of Loops by Study Area"), for the year 2000.
[43] Section R14-2-1201(13) indicates that a "Small Local Exchange Carrier" is an incumbent provider of basic local exchange telephone service serving 20,000 or fewer lines in Arizona.
[44] Section R14-2-1201. "Definitions", defines "Large Local Exchange Carriers" as incumbent providers of basic local exchange telephone service serving 200,000 or more access lines in Arizona.

that specifically applies to a "Large Local Exchange Carrier" under the Arizona Administrative Code. There is no other ILEC in Arizona that is a "Large Local Exchange Carrier". Qwest is the only incumbent provider of basic local exchange service serving 200,000 or more access lines in Arizona.[45]

Q. ON PAGE 33 OF HIS REBUTTAL TESTIMONY, MR. TEITZEL ARGUES THAT MIDVALE RECEIVED A "WAIVER" OF THE COMMISSION'S AUSF RULES IN ORDER TO RECEIVE ITS AUSF DISBURSEMENT. HOW DOES MIDVALE'S AUSF DISBURSEMENT COMPARE TO QWEST'S REQUESTED DISBURSEMENT FROM THE AUSF?

A. As indicated on page 33, line 21 of his Rebuttal testimony, Midvale's annual draw from the AUSF is $71,651. This is a far cry from the $64 million in annual AUSF funding that Qwest is requesting in this proceeding. Quite simply, Qwest's request for a "waiver" from following the Commission's AUSF rules to receive AUSF funding would place a much larger burden on the AUSF than the Midvale annual draw to which Mr. Teitzel refers.

In addition, as Mr. Teitzel indicates on page 33, lines 4-7 of his Rebuttal, Midvale applied for AUSF funding so that Midvale could begin serving two communities that were unserved areas at that time. Midvale was asking for AUSF support until federal USF funding became available for those areas. Midvale indicated that it expected that it would eventually receive federal USF support for these new areas,

[45] For example, see the FCC's Universal Service Monitoring Report, October 12, 2004, Table 3.33 "Number of Loops by Study Area".

but that the federal support would not be available to Midvale until several years after Midvale began providing service to these new areas.[46]

On page 33, lines 12-15 of his Rebuttal, Mr. Teitzel states that the Commission found that a waiver of the AUSF rules for Midvale was in the public interest. However, it is important to understand that Midvale wanted AUSF funding so that it could begin serving two communities that were unserved areas at that time. It is clear that the Commission found it in the public interest to do what it could to encourage carriers like Midvale to make the investments necessary to begin serving unserved areas.

Qwest has expressed no intent to use AUSF funds to provide new services to unserved areas. Therefore, from a public interest perspective, Qwest's AUSF proposal in this proceeding is much different than Midvale's request for AUSF funding.

V. <u>INTRASTATE SWITCHED ACCESS SERVICE</u>

Q. ON PAGE 7 OF HIS REBUTTAL, MR. MCINTYRE STATES THAT THE COMMISSION HAS INDICATED THAT HAVING QWEST'S INTRASTATE SWITCHED ACCESS RATES REACH PARITY WITH THE INTERSTATE RATES IS A "LAUDABLE GOAL". ON PAGE 8, MR. MCINTYRE STATES THAT THE COMMISSION SHOULD BALANCE THIS GOAL WITH "THE

[46] ACC Decision No. 64011 in Docket No. T-02532A-00-0512, September 5, 2001, page 20, lines 9-15.

CURRENT SITUATION IN ARIZONA AND DETERMINE THE CURRENT STATE OF PROGRESS TOWARD THIS GOAL." IS YOUR INTRASTATE SWITCHED ACCESS PROPOSAL A REASONABLE BALANCE OF REACHING PARITY WITH THE INTERSTATE RATES WHILE ALSO CONSIDERING PUBLIC POLICY CONCERNS?

A. Yes. As I discussed in my Direct testimony, my switched access proposal will effectively bring Qwest to "parity" with the Qwest interstate switched access rates (when the interstate EUCL charges are factored into the calculation of the interstate switched access rates).[47] The interstate switched access charges are priced so much lower because those rates are supported by end-user charges called End User Common Line (EUCL) charges.[48] The Commission has specifically expressed concern about imposing a EUCL charge in the intrastate jurisdiction. The Commission stated:

> While we agree that achieving parity between intrastate and interstate switched access rates is a laudable goal, there are many other public policy issues that impact our ability to reach that goal, such as the desirability of imposing an End User Common Line charge.[49]

By factoring in the interstate EUCL charges into the interstate rates, my proposed rates balance the goal of achieving parity with the interstate rates, while also addressing the Commission's public policy concern regarding imposing an EUCL charge on end users.

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[47] Regan Direct testimony, page 39.
[48] Regan Direct testimony, page 35.
[49] Commission Opinion and Order in Docket No. T-01051B-99-0105 et. al, page 12, October 20, 2000.

Q. ON PAGE 6, LINE 3 OF HIS REBUTTAL TESTIMONY, MR. MCINTYRE ADDRESSES YOUR COMPARISON OF INTRASTATE SWITCHED ACCESS CHARGES ACROSS QWEST'S 14-STATE SERVICE REGION.[50] MR. MCINTYRE CLAIMS THAT YOUR COMPARISON OF RATES IS FLAWED BECAUSE IT DOES NOT ADDRESS THE DIFFERENCES IN REGULATORS' PUBLIC POLICIES REGARDING THE "SUBSIDIES" THAT INTRASTATE SWITCHED ACCESS SERVICE PROVIDES TO BASIC LOCAL SERVICE. IS THIS A VALID CRITICISM OF YOUR ANALYSIS?

A. No. The foundation of Mr. McIntyre's argument (i.e. that intrastate switched access rates "subsidize" basic local exchange service) is factually incorrect. As I have already discussed, the proper test for a subsidy is to compare the rate for the service to the properly calculated TSLRIC of that service. If the rate for the service is equal to or above the TSLRIC, the service is not receiving a subsidy. Both RUCO's economist witness and myself have concluded that the TSLRIC of residential basic local exchange service is ** **. The rate for residential basic local exchange service is $13.18. Therefore, residential basic local exchange service is not subsidized by any service. Qwest's residential basic local exchange rate covers its TSLRIC and makes a contribution above TSLRIC toward the shared and common costs of providing the whole family of services to customers. Quite simply, the basis for Mr. McIntyre's claim is factually incorrect. Therefore, Mr. McIntyre's criticism is not valid.

[50] This analysis is shown on page 2 of my Direct testimony Schedule TMR-5.

Q. ON PAGE 3 OF HIS DIRECT TESTIMONY, MCI'S WITNESS MR. PRICE ARGUES THAT QWEST'S INTRASTATE SWITCHED ACCESS RATES ARE ABOVE "COST". IS THERE ANYTHING WRONG WITH RATES BEING ABOVE THE "COST" THAT MR. PRICE IS REFERRING TO?

A. No. A service must be priced equal to or above its TSLRIC in order to prevent the service from being subsidized. The "cost" that Mr. Price is referring to is the Total Service Long Run Incremental Cost (TSLRIC).[51] Prices for services are generally priced above their TSLRIC. The reason that services are generally priced above TSLRIC is because the TSLRIC does not include any shared or common costs. In discovery, MCI admitted that if Qwest's intrastate switched access rates were set equal to TSLRIC, the intrastate switched access rates would not make any contribution toward Qwest's shared, joint or common overhead costs.[52] Quite simply, the appropriate price for a service is generally above the TSLRIC to provide a contribution to shared and common costs.

In discovery, Mr. Price indicated that it is not his position that all of Qwest's services should be priced equal to TSLRIC.[53] Apparently, Mr. Price believes that just the rates that his client pays should be priced at a level that would no make any contribution toward Qwest's shared, joint or common overhead costs. Mr. Price's position is unreasonable and unfair. <u>All</u> of Qwest's services (including basic local exchange service, toll services, switched access services, vertical services, etc.)

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[51] MCI's response to WDA Data Request 1-3(a).
[52] MCI's response to WDA Data Request 1-3(c),
[53] MCI's response to WDA Data Request 1-3(d).

should be priced above TSLRIC in order to provide some contribution toward Qwest's shared, joint or common overhead costs.

Q. ON PAGE 9 OF HIS REBUTTAL, MR. MCINTYRE CLAIMS THAT QWEST'S PROPOSED $5 MILLION INTRASTATE SWITCHED ACCESS REDUCTION IS MORE VALID THAT THE STAFF'S PROPOSED $8.9 MILLION REDUCTION BECAUSE THE $5 MILLION "HAS ALREADY BEEN PLANNED FOR IN TERMS OF THE RATE ADJUSTMENTS NECESSARY TO DEVELOP THIS REVENUE REDUCTION." MR. MCINTYRE THEN STATES THAT ANY ADDITIONAL REVENUE REDUCTION IN SWITCHED ACCESS BEYOND THIS $5 MILLION "WOULD REQUIRE ADDITIONAL ANALYSIS AND RATE CALCULATIONS." HAS THE STAFF DETERMINED THE RATE ADJUSTMENTS NECESSARY TO ACHIEVE ITS PROPOSED $8.9 MILLION REDUCTION?

A. Yes. The Staff's proposed rates for intrastate switched access are shown on my Direct testimony Schedule TMR-5. The $8.9 million reduction is the result of applying an across the board reduction of ** ** to each of the switched access rate elements shown on Schedule TMR-5. Mr. McIntyre failed to specify what "additional analysis and rate calculations" he believes should be performed, or why he believes they would be necessary.

Q. ON PAGE 9, LINE 9 OF HIS REBUTTAL, MR. MCINTYRE CLAIMS THAT ANY INTRASTATE SWITCHED ACCESS REDUCTIONS BEYOND QWEST'S

$5 MILLION REDUCTION "MUST BE OFFSET WITH AN INCREASE IN OTHER RATES." DOES THE STAFF'S PROPOSAL IN THIS PROCEEDING ADDRESS THIS CONCERN?

A. Yes. As discussed on page 13, beginning on line 1 of Mr. Rowell's Direct testimony, Staff has proposed to increase the revenue cap on Basket 3 to account for Staff's proposed switched access reduction.

Q. ON PAGE 14 OF HIS DIRECT TESTIMONY, MCI'S WITNESS MR. PRICE STATES:

> ...THERE IS NO NON-ARBITRARY WAY TO ALLOCATE "RESPONSIBILITY" FOR THE COST OF THE LOOP PLANT BETWEEN QWEST'S TRADITIONALLY REGULATED SERVICE AND THE OTHER SERVICES PROVIDED OVER THE LOOP...IN TODAY'S ENVIRONMENT WHERE BOTH REGULATED AND UNREGULATED SERVICES CAN BE PROVIDED BY QWEST OVER THESE LOOP FACILITIES, HOWEVER, THE ONLY RATIONAL WAY TO SOLVE SUCH DISPUTES IS FOR THE END USER TO BEAR ALL COSTS ASSOCIATED WITH THE LOOP.

IS MR. PRICE'S PROPOSED LOOP ALLOCATION REASONABLE?

A. No. Mr. Price is proposing an "arbitrary" allocation that is unreasonable and unfair to end-users. Mr. Price's position is that determining how much each user or each service that uses the loop facilities should contribute to the costs of the loop facilities is not simple and is often controversial, so therefore the easiest solution is to place the full burden on end users. Basically, Mr. Price is arguing that his client, MCI, should be allowed to use the loop facilities for free, and have end users foot the entire bill for the loop facilities costs. Mr. Price's proposed allocation is arbitrary, egregious, unreasonable and unfair to end users. Mr. Price's position should be rejected.

Q. IN FOOTNOTE 20 OF HIS DIRECT TESTIMONY, MR. PRICE DISCUSSES A PLAN PROPOSED BY A GROUP COMPRISED OF INCUMBENT LECS, RURAL CARRIERS, COMPETITIVE LECS, NEXT GENERATION NETWORK PROVIDERS AND WIRELESS CARRIERS, WHERE THE LOOP COSTS WOULD BE RECOVERED DIRECTLY FROM END USERS. MR. PRICE CLAIMS THAT SINCE THESE "DISPARATE" COMPANIES CAN AGREE ON THIS ISSUE, THIS DEMONSTRATES THAT THERE IS A "CONSENSUS" REGARDING HOW THE COSTS OF THE LOOP FACILITIES SHOULD BE RECOVERED. DO YOU AGREE?

A. No. Noticeably missing from Mr. Price's "consensus" is any representation on behalf of the end users who would be left holding the bill for the loop facilities under the "plan" he describes. It is not difficult to obtain a "consensus" that someone else should pay for something that you would like to rent. For example, assume that three men decide to share a cab. Further assume that two of the men talk amongst themselves and reach a "consensus" that the third man should pay for the entire cab ride. The third man, who would be stuck paying the full bill for the cab would not likely be happy about this "consensus". This is exactly the type of "consensus" that Mr. Price is describing.

Q. BEGINNING ON PAGE 30, LINE 25 OF HIS DIRECT TESTIMONY, MR. PRICE DISCUSSES THE CARRIER COMMON LINE CHARGE (CCLC) FOR SWITCHED ACCESS SERVICE. MR. PRICE CLAIMS THAT THE CCLC "REPRESENTS A REAL COST OF SERVICE TO MCI, BUT NOT TO QWEST". DO YOU AGREE?

A. No. The CCLC is Qwest's charge for providing IXCs with Carrier Common Line Access Service. Qwest's tariff describes Carrier Common Line Access Service as follows:

> Carrier Common Line Access Service provides for the use of Company common lines by customers for access to end users to furnish intrastate telecommunications service.[54]

The "common lines" are the loop facilities owned by Qwest. Qwest's investment in loop facilities is one of Qwest's most significant investments in Arizona. Qwest has many expenses associated with constructing and maintaining its loop facilities. The IXCs want to share the loop facilities with other services so that the IXCs can provide toll services to their end users. The IXCs should pay for renting the loop facilities. I agree with the National Association of Regulatory Utility Commissioners (NARUC), when they stated:

> Interexchange carriers should pay a portion of the NTS loop cost because they use the LECs loop to provide their services.[55]

In the real world, there is no such thing as a "free ride" or "free rent". In the real world, if you want to rent a facility, you must pay rent for that facility, or work out some

[54] Qwest Arizona Access Service Price Cap Tariff, Section 3.1.
[55] Page 13, Initial Comments of the National Association of Regulatory Utility Commissioners, CC Docket No. 96-262, January 29, 1997.

arrangement with the owner of the facility where something of value can be provided to the owner of that facility in exchange for renting that facility.

Q. ON PAGE 36, LINE 26 OF HIS DIRECT TESTIMONY, MR. PRICE STATES THAT QWEST'S INTRASTATE SWITCHED ACCESS RATES DO NOT APPLY TO WIRELESS CARRIERS. DO WIRELESS CARRIERS PAY ACCESS CHARGES?

A. Yes. If a wireless customer calls a landline telephone, the wireless carrier does pay terminating access charges to the LEC for wireless calls that originate outside of the wireless carrier's local calling area (Major Trading Area ("MTA")).[58] Therefore, for wireless calls that originate outside of the wireless carrier's local calling area, the wireless carriers do pay switched access charges just as the IXCs do.

The wireless carriers do not pay access charges for calls <u>within</u> the MTA, because calls within the MTA are effectively considered local calls.

Q. ARE THERE ANY VALID DIFFERENCES BETWEEN WIRELESS CARRIERS AND INTEREXCHANGE CARRIERS THAT JUSTIFY HAVING INTEREXCHANGE CARRIERS PAY QWEST FOR INTRASTATE SWITCHED ACCESS, WHILE WIRELESS CARRIERS DO NOT PAY QWEST INTRASTATE SWITCHED ACCESS CHARGES FOR CALLS WITHIN THE MTA?

[58] FCC 96-325, First Report and Order, CC Docket No. 96-98, Released August 8, 1996, paragraph 1043.

A. Yes. In a nutshell, Qwest and wireless carriers both own valuable loop facilities that they can trade access to rather than charging each other for it. The IXCs do not own loop facilities, so they cannot make a similar trade of access with Qwest. Instead, the IXCs make a payment of access charges to Qwest in exchange for renting the Qwest loop facilities.

The wireless carriers own and maintain "loop" facilities. Radio equipment is required, expensive frequency licenses must be purchased, etc. There is still a "loop" cost, even if that loop is provided using radio facilities. The wireless carriers own and maintain the cellular towers used to originate and terminate wireless-to-landline and landline-to-wireless calls. When a Qwest customer terminates a call to a wireless customer, the wireless carrier is providing Qwest with access to the wireless carrier's loop facility. In this scenario, Qwest owns the loop facility on the originating end of the call and the wireless carrier owns the loop facility on the terminating end of the call.

When a wireless customer terminates a call to a Qwest customer, Qwest is providing the wireless carrier with access to Qwest's loop facility. In this scenario, the wireless carrier owns the loop facility on the originating end of the call and Qwest owns the loop facility on the terminating end of the call.
Therefore, Qwest and wireless carriers own valuable loop facilities that they can trade access to rather than charging each other for it. This is why it is common for wireless carriers and LECs to have arrangements where the wireless carriers and

LECs exchange terminating access services between each other's networks rather than making an actual monetary payment to each other.[59]

In contrast, IXCs do not own their own loop facilities. When an IXC provides a toll call, the IXC is using someone else's loop facilities (either a wireless carrier's loop facilities or an LEC's loop facilities, or a combination of both) on **both the originating and terminating ends** of the call. Quite simply the IXCs have little or no loop facilities of their own to provide to Qwest in exchange for allowing the IXCs to rent Qwest's loop facilities. Therefore, it is appropriate for the IXCs to make a payment to Qwest for using the Qwest loop facilities.

VI. ZONE INCREMENT CHARGES

Q. ON PAGE 44, LINE 12 OF HIS DIRECT TESTIMONY, MR. TEITZEL STATES THAT THE ACC SHOULD RETAIN THE CURRENT ZONE INCREMENT STRUCTURE IF THE ACC DENIES QWEST'S AUSF PROPOSAL. DO YOU AGREE WITH THIS PROPOSAL?

A. Yes. As I discussed on page 35 of my Direct testimony, the current Zone increment charges are properly serving the purpose of defraying at least part of the costs in high cost areas. Therefore, I agree with Mr. Teitzel's proposal to maintain the current Zone Increment Charge structure if the ACC does indeed reject Qwest's request for AUSF support. My recommendation is that the ACC should reject Qwest's request for AUSF support.

[59] Or it will be a lower payment than the intrastate switched access rates are.
[61] Million Direct testimony Exhibit TKM-01, page 2.

VII. DIRECTORY ASSISTANCE

Q. ON PAGE 45, LINE 1 OF HIS REBUTTAL, MR. TEITZEL STATES

> STAFF'S CONSULTANT, MR. REGAN, SUGGESTS THAT QWEST SHOULD CONTINUE TO PROVIDE FREE DIRECTORY ASSISTANCE CALLS BASED ON HIS VIEW THAT THE QWEST DIRECTORY ASSISTANCE ("DA") PRODUCT IS MARGINALLY PROFITABLE.

DID YOU EVER SAY THAT QWEST'S DA SERVICE IS "MARGINALLY PROFITABLE"?

A. No. On page 42 of my Direct testimony, I stated that Qwest's current DA rates (including free call allowance calls) provide contribution of over ** ** above Qwest's proposed "Fully Allocated TSLRIC" cost. Qwest's proposed <u>TSLRIC</u> for Qwest's DA service is even lower than Qwest's proposed "Fully Allocated TSLRIC" cost.[61] Qwest's Local DA service provides contribution of over ** ** above Qwest's proposed "TSLRIC".[62]

In addition, it is important to understand that both Qwest's TSLRIC and "Fully Allocated TSLRIC" include cost of money (i.e. a return on investment). In response to Data Request WDA 20-15(a and b), Qwest acknowledged the fact that Qwest's "Fully Allocated TSLRIC" includes a 9.61% cost of money. Therefore, the contribution of over ** ** above "Fully Allocated TSLRIC" is <u>over and above</u> the cost that already includes return on investment.

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[62] (** **

In addition, on pages 42-44 of my Direct testimony, I explained that Qwest has provided no valid support for eliminating the one free call allowance for DA.

Q. ON PAGE 45, LINE 7, MR, TEITZEL STATES "QWEST RECEIVES NO REVENUE FOR DA CALLS PROVIDED WITHIN THE EXISTING FREE CALL ALLOWANCE, AND THE COST OF THOSE CALLS MUST BE SUBSIDIZED BY DA CALLS FOR WHICH A FEE IS CHARGED." IS IT ACCURATE TO DESCRIBE THE FREE CALL ALLOWANCE AS A "SUBSIDY"?

A. No. Qwest's claimed TSLRIC of Local Directory Assistance "Local DA" is ** ** per call.[63] The average revenue per Local DA call (including the current free call allowance calls) is ** ** per call.[64] Therefore, Qwest's Local DA service provides contribution of over ** ** above Qwest's proposed "TSLRIC", even after considering the free call allowance calls.[65] The current Qwest Local DA rates are well above the TSLRIC. Therefore, DA service does not require a subsidy from any other service.

Q. DOES THIS CONCLUDE YOUR SURREBUTTAL TESTIMONY?

A. Yes.

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[63] Million Direct testimony Exhibit TKM-01, page 2.

[64] Regan Direct testimony, page 42, line 14.

[65] As discussed on page 42, line 15 of Regan Direct testimony, the current Local DA rates (including free call allowance calls) provide a contribution of over ** ** above Qwest's proposed "Fully Allocated TSLRIC" cost. Qwest's proposed TSLRIC is ** ** Qwest's proposed "Fully Allocated TSLRIC" cost.