BEFORE THE ARIZONA CORPORATION COMMISSION

MARC SPITZER
CHAIRMAN

WILLIAM A. MUNDELL
COMMISSIONER

JEFF HATCH-MILLER
COMMISSIONER

MIKE GLEASON
COMMISSIONER

KRISTIN K. MAYES
COMMISSIONER

WorldCom, Inc., on behalf of its operating subsidiaries ("MCI"), responds to the
procedural questions posed by the Administrative Law Judge at the October 14, 2003 Procedural
Conference.
I. **Bifurcation**

The case should be bifurcated. At the Open Meeting at which the Arizona Corporation Commission ("Commission") approved Qwest Corporation’s ("Qwest") § 271 application, the Commission instructed Staff to evaluate expeditiously Qwest’s access charges. Investigation and adjustment of Qwest’s access charges is urgent because Qwest will likely be entering the Arizona long distance market in a few months. Given Qwest’s dominant role as a provider of access, it is imperative that Qwest’s access charges be adjusted prior to its entrance into the long distance market. Consolidating Qwest’s access charge case with access charge cases of other incumbent local exchange carriers ("ILECs") or competitive local exchange carriers ("CLECs") complicates and delays the process. For instance, each ILEC and CLEC access charge structure will need to be reviewed individually. Unlike Qwest’s access charges, time is not of the essence to review the other ILECs’ or CLECs’ access charges. As a result, this matter should be bifurcated, with Qwest’s access charges the only issue in Phase I.

Another reason for bifurcation relates to the most recent Qwest rate case and its current amended price regulation plan. Qwest is presently regulated under a price regulation plan that it describes as a first step to move away from traditional utility-style regulation.\(^1\) Qwest has proposed to continue evolution of its price regulation plan in Arizona in its Qwest Renewed Price Regulation Plan filed in Docket No. T-01051B-03-0454 on September 26, 2003.\(^2\) In the last Qwest rate case, Qwest and Staff agreed as part of the settlement of that case (and the adoption of

\(^1\) See Notice of Filing Amended Renewed Price Regulation Plan, in Docket No. T-01051B-03-0454, entitled In the Matter of Qwest Corporation’s Filing Amended Renewed Price Regulation Plan, at p. 1.

\(^2\) Id.
a price cap plan) that further reductions to access would take place during any subsequent term of the price cap plan “with the objective of obtaining parity with interstate switched access rates.” Settlement Agreement, Attachment A, Section 3(d), page 3 (Docket No. T-01051B-99-0105).

MCI supports this goal, although it would rather see access charges be reduced to “economic cost.” However, setting Qwest’s switched access rates for transport and switching at the same rates it charges for interstate switched access services is a step in the right direction and furthers the goal of the Settlement Agreement. While this interstate parity goal for Qwest access charges has specifically been agreed to by Qwest and the Staff, it has never been a stated goal for other ILECs’ or CLECs’ access charges and provides further reason for bifurcation. To MCI’s knowledge, no other ILEC or CLEC in Arizona is operating under a price regulation plan similar to that under which Qwest is presently operating. Thus, the existence of Qwest’s price regulation plan, and its request to extend the plan with certain modifications, is a factor that mandates bifurcation. Qwest is allowed to flexibly price certain competitive services and provides certain wholesale services under a price cap regime that is not authorized for other ILECs or CLECs.

Qwest’s present price regulation plan in Arizona expires in April 2004. Because Qwest has requested that its price regulation plan be extended with certain modifications, it is appropriate to consider access reform as part of the review of its proposed price regulation plan since some of the modifications of the proposed plan allow Qwest to earn more revenue by authorizing 1.) a revenue cap and eliminating the current indexed cap and the productivity/inflation adjustment

3 Qwest uses the percentage of interstate usage (“PIU”) to allocate switched access traffic between its interstate and intrastate services. Qwest uses this same PIU to allocate special access transport for traffic that is transported on direct office trunks (“DEOTs”). Therefore, true parity would require an adjustment of both switched access rates and special access transport rates.
mechanism, for basket 1 services, 2.) the elimination of a revenue cap for Basket 3 services, and
3.) Qwest to create a competitive sub-basket for basket 2 wholesale services wherein Qwest could
charge higher market rates rather than TELRIC rates for the same services.4

Finally, in Iowa on October 14, 2003, Qwest filed “Additional Comments of Qwest
Corporation” in a docket relating to “Intrastate Access Service Charges” wherein Qwest stated:

Qwest believes the FCC is headed toward a bill and keep regime for the
exchange of most, if not all, intercarrier traffic, including switched access. To the
degree that Iowa lags behind this progress, the Iowa consumers will lag behind the
benefits available from fair and balance competition.

***

Qwest generally believes that intrastate access rates should be reduced to the levels
of their interstate counterparts on a revenue neutral basis.5

Qwest has clearly stated in Arizona and Iowa that its goal is to reduce intrastate access
rates to levels of their interstate counterparts to ensure the fair and balanced competition that will
benefit consumers, albeit on a revenue neutral basis. MCI is unaware of any such commitment
from other ILECs or CLECs operating in Arizona. Therefore, for other ILECs and CLECs, the
issue of whether to reduce their intrastate access charges to their interstate counterparts, even on a
revenue neutral basis, is likely a contested issue that would broaden the scope of Phase 1;
whereas for Qwest, this threshold issue should be uncontested.

II. Schedule

The AT&T/Staff proposed schedule is acceptable.

4 Compare, for example, Qwest’s proposed market-based rates to the ordered TELRIC
rates for services found in the various versions of Exhibit A to Qwest’s Arizona SGAT
filed with this Commission.

5 See Additional Comments of Qwest Corporation filed in Docket No. RU-03-11 entitled
“Intrastate Access Service Charges” (199-IAC 22.14(2) “(D”) (a)) before the Iowa Utilitied
Board, at pp. 1 and 3.
III. Rate Case Questions

Implementation of reduced access charges could be done as part of a revenue neutral rate adjustment. As noted above, the Qwest renewed price regulation plan (Docket No: T-01051B-03-0454) may be the appropriate docket to approve such a revenue neutral plan. The current Qwest price regulation plan includes an annual access charge reduction that is offset by an increased revenue cap for competitive services (i.e. basket 3). Those access reductions have been completed. Qwest has proposed no further access reductions in its renewed price regulation plan. Moreover, there is no indication that Qwest would voluntarily reduce access rates if its renewed price regulation plan were adopted. The same structure established in its initial price regulation plan should be used for additional access charge reductions resulting from this proceeding. This access charge proceeding could determine the new access charge rate then that new rate should be factored in as part of the renewed price regulation plan. However, in order to complete such an assessment, this proceeding would have to be completed by the end of 2003 in order to allow Qwest to factor a new access charge rate into its renewed price regulation plan or its current price regulation plan. Such an accelerated determination of access rates is not required for other ILECs or CLECs since they do not have a price regulation plan that is set to expire in April 2004.

The question of whether a rate case is needed will depend on a review of all rate changes proposed by Qwest in the renewed price regulation plan case. US West II confirms that fair value must be considered in rate cases, but gives the ACC broad discretion in how much weight to give fair value in setting rates for competitive services. See US West Comm. v. Ariz. Corp. Comm., 201 Ariz. 242, 34 P.3d 351 (2001). Rate of return analysis is still proper in setting rates for monopoly services. Id. at 246, 34 P.3d at 355.
Whether a rate case is needed and the nature of such a case will depend on the answers to these questions:

Is the fair value determination in the original price regulation plan still valid?

Are the particular rate design adjustments proposed by Qwest in its renewed price regulation plan for competitive or monopoly services?

What is the total potential impact of all the rate design changes (i.e. will Qwest likely realize increased revenues)?

What assurances does the Commission have that individual rate changes for competitive services are fair and reasonable?

If a new fair value determination is deemed necessary, Qwest should file fair value materials promptly so that the renewed price regulation plan or other price regulation plan can be adopted by the April expiration of the current price regulation plan.

Respectfully submitted this 3rd day of November, 2003.

LEWIS AND ROCA LLP

[Signature]

Thomas H. Campbell
40 N. Central Avenue
Phoenix, Arizona 85004
(602) 262-5723
Attorneys for WorldCom, Inc.

Thomas F. Dixon
WorldCom, Inc.
707 17th Street
Suite 4200
Denver, Colorado 80202
ORIGINAL AND thirteen (13) copies of the foregoing hand-delivered this 3\textsuperscript{rd} day of November, 2003, to:

Arizona Corporation Commission
Utilities Division – Docket Control
1200 W. Washington Street
Phoenix, Arizona 85007

COPY of the foregoing hand-delivered this 3\textsuperscript{rd} day of November, 2003, to:

Dwight Nodes
ALJ, Hearing Division
Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

Maureen Scott
Legal Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

Ernest Johnson
Director, Utilities Division
Arizona Corporation Commission
1200 West Washington Street
Phoenix, Arizona 85007

COPIES of the foregoing mailed this 3\textsuperscript{rd} day of November, 2003, to:

Scott Wakefield, Chief Counsel
RUCO
2828 N. Central Avenue
Suite 1200
Phoenix, AZ 85004-1022

Timothy Berg
Theresa Dwyer
Fennemore Craig
3003 N. Central Avenue
Suite 2600
Phoenix, AZ 85012
1 Richard S. Wolters  
   AT&T  
   1875 Lawrence Street  
   Suite 1503  
   Denver, CO 80202

2 Michael Patten  
   Roshka Heyman & DeWulf  
   400 E. Van Buren Street  
   Suite 800  
   Phoenix, Arizona 85004

3 Brian Thomas  
   Time Warner Telecom, Inc.  
   520 S W 6th Avenue  
   Suite 300  
   Portland, OR 97204

4 Eric Heath  
   Sprint Communications  
   100 Spear Street  
   Suite 930  
   San Francisco, CA 94105

5 Curt Huttsell  
   Citizens Communications  
   4 Triad Center, Suite 200  
   Salt Lake City, Utah 84180

6 Steven J. Duffy  
   Ridge & Isaacson P.C.  
   3101 N. Central Avenue  
   Suite 1090  
   Phoenix, Arizona 85012-1638

7 Jeffrey Crockett  
   Snell & Wilmer  
   One Arizona Center  
   400 E. Van Buren Street  
   Phoenix, Arizona 85004-2202

24 Betty J. Griffin

26