In the Matter of Investigation into
US West Communications, Inc.’s
Compliance with Certain Wholesale
Pricing Requirements for Unbundled
Network Elements and Resale
Discounts

Docket #T-00000A-00-0194

REPLY BRIEF OF
WORLDCOM, INC.

Qwest Corporation’s ("Qwest") collocation and information service database prices are not TELRIC-based and are discriminatory. Equally important, Qwest’s proposed prices will stifle competition in the Arizona local exchange market. Yet, in its post-hearing brief, Qwest simply tries to downplay the problems WorldCom raised with Qwest’s collocation cost study and virtually ignores all together Worldcom’s concerns with database and information services. At issue here is the credibility of Qwest’s costs studies and resultant prices.

I. Collocation

Qwest argues that the CLECs point out a few inaccuracies in the cost studies and then conclude that cost reductions for all components should be made. Qwest Post-
Hearing Brief, p. 87. Qwest misses the point. The CLECs identify numerous, not just a few, cost study inaccuracies. These inaccuracies cast doubt on the credibility and accuracy of the entire Qwest collocation cost study and support the adoption of the costs proposed by the CLECs.

A. The Central Office

Qwest uses the existing network and embedded costs and does not use the most efficient provision of services in its studies. It relies on historic, “actual” costs from cageless collocation jobs outside of Arizona even if those costs exceed industry standards or actual experience in Arizona. Qwest takes the position that while it must use existing central office locations, it does not have to use technologically efficient central offices. Qwest maintains that it can use costs incurred in current central offices, even though those offices may have been designed years ago for equipment that is now obsolete and without regard to providing CLEC collocation space. Qwest Post-Hearing Brief, p. 83.

On this point alone, the Arizona Corporation Commission (“Commission”) should reject Qwest’s collocation cost studies.

Qwest claims that the CLECs offered no evidence that Qwest’s use of historic collocation costs yielded higher costs than the use of a modern, efficient central office. Qwest Post-Hearing Brief, p. 83. To the contrary, WorldCom Hearing Exhibit 6, which is Qwest’s collocation rent study that uses a more idealized modern office, demonstrates that cable lengths, air conditioning costs and similar expenses would be less in a modern office, not to mention the fact that there would be no need for site preparation or demolition costs in a modern central office.
B. Non-Recurring vs. Recurring Charges

Qwest claims that it must recoup certain costs on a non-recurring basis because it is impossible to establish a minimum lease duration over which to amortize the costs. Qwest Post-Hearing Brief, p. 84. However, WorldCom proposed a five year, recurring cost structure that is a compromise between the CLECs’ and Qwest’s interest. Qwest totally fails to address this proposal in its post-hearing brief.

Qwest says that it includes in its non-recurring charges certain items that Qwest cannot reuse, such as cage construction and DC power equipment. Qwest Post-Hearing Brief, pp. 92-93. What Qwest fails to say is that the only reason Qwest might not be able to reuse these elements and share these costs is that Qwest imposes an artificial separation between its facilities and CLECs’ facilities. If Qwest located its facilities within the same space as the CLECs, it could reuse or share many of these facilities.

C. Entrance Facilities

Qwest states that it installs separate manholes only when congestion in its network absolutely requires an additional facility. Qwest Post-Hearing Brief, p. 86. However, in its collocation cost study, Qwest assumes that such a separate manhole will be required 10% of the time, but provides no support or evidence that 10% is a reasonable frequency for congestion “absolutely requiring” a new manhole. WorldCom’s proposal that such a manhole would never be required should be adopted.

D. Engineering Costs

Engineering costs are included in both the space construction fees and quote preparation fees. These engineering costs are inflated and are not supported by detailed documentation. Qwest says these costs are based on the estimates of experienced subject
matter experts and, therefore, should not be questioned. Qwest Post-Hearing Brief, p. 88. However, a review of WorldCom Hearing Exhibit 7 demonstrates that on their face these estimates are unreasonable. For instance, under the Commission Systems Planning Engineering Section, Qwest allocates 16 hours to prepare a spreadsheet for each collocation even though surely a form spreadsheet can be used. A new spreadsheet (especially one requiring 16 hours) should not be required for each collocation request, particularly requests for space in the same central office. Another example is found in the Transmission Engineering Section where eight hours of work are allocated for reviewing design work and preparing costs. How can it take eight hours each time to review a virtually identical collocation set up in the same central office?

E. Quote Preparation Fee

With respect to the quote preparation fee, Qwest reurges its point that the quote preparation fee is necessary to allow Qwest to be compensated for costs when a CLEC collocation request is cancelled. Qwest Post-Hearing Brief, p. 89. Yet, Qwest has not lost money on cancelled collocation requests while the current quote preparation fee of only $1,400 has been in place. Transcript, pp. 272-274. Why does that fee now need to be more than tripled to cover such cancellation costs?

F. Termination Blocks

Qwest persists in arguing that its actual expenditures are a better gauge of costs than standardized industry price lists. Qwest Post-Hearing Brief, p. 90. WorldCom simply disagrees. Qwest used termination block costs that not only exceeded industry averages, but also exceeded the prices reflected on Qwest’s termination block invoices produced in discovery.
G. Power Equipment

Qwest argues that BDFB costs should be averaged over all collocations even those that do not use BDFB. Qwest Post-Hearing Brief, p. 91. This statement in the brief is contrary to the commitment by Qwest witness Fleming who stated that Qwest is willing to provide a different rate structure that removes the BDFB investment from power demand in excess of 60 amps. Transcript, p. 370.

The model central office Qwest uses in its collocation rent study (WorldCom Hearing Exhibit 6) is a one-story, 8,000 square foot office, which would probably be 100 feet by 80 feet. Rather than use this model office for cable lengths, Qwest uses “actual” cable distances from current offices that approach 200 feet. Clearly, cable lengths would be substantially less if Qwest uses the one story model central office from its rent study.

In general, Qwest did not provide any detailed information on the source of its power plant investments.

H. Cable and Grounding Wire Costs

Qwest reiterates that the costs from its 41 collocation jobs should be used rather than standard industry prices. Qwest Post-Hearing Brief, p. 92. As discussed above, Qwest’s position is simply wrong. Industry price averages, that are markedly lower than what Qwest proposes, are an appropriate basis for such costs.

I. Collocation Issues that Qwest did not Address

Qwest did not respond to the following collocation cost issues identified during the hearing:

1. Tripling the quote preparation fee approved by this Commission in the prior wholesale price docket.
2. Identifying a separate quote preparation fee and engineering charge for collocation augments.

3. Providing detail to support its engineering charges.

4. Inflating floor space rental costs including excessive architectural fees, land costs and site work, double counting air conditioning and electrical costs, and artificially increasing the “extra” space calculation.

5. Proposing power charges that are substantially higher than Qwest’s FCC charges for Arizona or the charges of other ILECs.

6. Fencing costs that are overstated because Qwest uses an average that is higher than the Arizona specific costs included in the collocation study as well as the fencing costs contained in Qwest’s own rent study (WorldCom Hearing Exhibit 6).

7. Including a regeneration charge contrary to the Arizona 271 resolution of this issue recommended by Commission staff.

8. Filing to provide detailed installation invoices. For instance, Qwest could never explain why it takes over three hours to “set up” for cable splicing.

9. Including excessive cable racking costs due to its inaccurate assumption about the shared racking.

10. Applying power and land and building factors to cable racking and other investments even though such factors already are embedded in collocation costs because collocators are charged directly for power and space rental; thus leading to over recovery by Qwest.
11. Proposing numerous ICB charges that are hidden and not supported by cost studies. ICB charges also can be used to artificially increase the collocator’s costs by forcing CLECs to delay business plans by challenging such ICB charges.

II. Information Services and Databases

Qwest only responds to this issue raised by WorldCom as to operator services and directory assistance. Qwest continues to maintain that operator services and directory assistance can be offered at market-based prices because Qwest offers customized routing on an ICB basis and has developed a process whereby CLECs may request or receive this service. Qwest Post-Hearing Brief, pp. 116-117.

Customized routing cannot be resolved in this phase because on August 31, 2001, Qwest filed a cost study for customized routing that will be the subject of Phase 2(B). Until the Commission has reviewed that study and adopted prices, operator services and directory assistance must be offered at TELRIC prices. In addition, as will be discussed below, WorldCom disputes Qwest’s proposed market-based prices even if customized routing is provided to CLECs.

Remarkably, Qwest simply did not address the following concerns supported by WorldCom and other CLECs at the hearing.

1. Market pricing for numerous information services and database elements (including operator services and directory assistance) were never substantiated by Qwest through cost studies or any other explanation as to how they were derived. In fact, Qwest took the position that the Commission does not need to approve these rates and that they are included in this proceeding merely as a courtesy. Even if supported by cost studies,
there is no evidence that these market prices are imputed by Qwest. Such prices, therefore, are discriminatory. All market pricing should be denied.

2. Customized routing charges already may be included in switching services. This issue should be addressed in Phase 2(B).

3. Director assistance listing ("DAL") information should be provided at TELRIC-based, nondiscriminatory rates because it is an unbundled element and because Qwest remains the only reliable source for DAL information. Without such data, CLECs are put at a competitive disadvantage. Qwest proposes to price DAL at "market" prices that are substantially above the prices adopted in Texas and New York. Qwest also never explained the transport fee portion of the DAL pricing. On that basis alone, this transport fee should be rejected.

4. Qwest must price ICNAM on a "batch" basis. To do otherwise is discriminatory and anti-competitive. Both Michigan's and Georgia's public service commissions have ordered such batch pricing.

III. Conclusion

Qwest's post-hearing brief did not address the numerous problems with its collocation and database services pricing. Qwest's flawed collocation cost study and inappropriate and unsupported market pricing of database and information services should be rejected.
Respectfully submitted this 21st day of September, 2001.

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