The purpose of this Memorandum is to respond to questions raised by the Administrative
Law Judge during the hearing in this matter on January 25, 2002, regarding unresolved issues.
For the most part, AT&T Communications of the Mountain States, Inc. ("AT&T") and Arizona,
Inc. XO ("XO") have provided argument regarding remaining unresolved issues in their
Exceptions filed December 12, 2001 and in the List Of Citations To Record And Unresolved
Rates And Issues by AT&T and XO filed January 23, 2002. Where AT&T and XO have
previously provided a response, this Memorandum will reference that response rather than
burden the record with repetition.
1. Have rates for unbundled, direct trunked, and EEL transport been established by the Recommended Opinion and Order ("RO&O")? What model should the Commission adopt to determine transport rates?

As AT&T and XO argued in their Exceptions, the decision by the RO&O to adopt the HAI Model for use in calculating unbundled loop prices is not a determination that the Model should be used for calculating transport pricing. AT&T, XO and WorldCom (collectively the "Joint Intervenors") did not submit the Model for that purpose and never proposed that it be adopted for that purpose. Rather, the Joint Intervenors proposed adjusting the Qwest Transport Model for calculating transport pricing. See Exhibit AT&T/WorldCom 6 (Weiss Direct) at 71-74; see also Post-Hearing Brief of AT&T and XO at 25-27.

There is a compelling reason why the Joint Intervenors did not submit the HAI Model to calculate transport rates. Transport is typically priced on a fixed and per mile basis. The reason for calculating transport on a per mile basis is to prevent discrimination in pricing. Calculation of transport prices on a single, fixed-average basis discriminates against new entrants who order shorter than average transport facilities.

This discriminatory effect is contrary to the Telecommunications Act of 1996. As the Colorado Commission has recognized, network element prices “must recover costs in a manner that reflects the way they are incurred.” In the Matter of the Investigation Into US WEST Communications, Inc.’s Compliance with Section 271(c) of the Telecommunications Act of 1996, Docket No. 971-19ATT, Decision No. R01-846, Vol. 4A Impasse Issues Order, (mailed August 16, 2001) at 77 (quoting Local Competition Order at ¶ 440). Transport costs vary based on distance. Recovery of those costs using a fixed price, therefore, is contrary to this requirement of the Act. Id.
The HAI Model calculates transport prices only a fixed basis because the calculations required to determine mileage-sensitive pricing are difficult to estimate without wire center specific traffic flow data available only from Qwest. Moreover, because ILEC confidentiality concerns make it difficult to obtain accurate information regarding the cost of optical-digital equipment, the equipment prices used within the HAI Model for calculating transport rates actually exceed those used by Qwest in its model. For these reasons, the Joint Intervenors determined that the most expedient way to calculate transport costs was to adjust the Qwest Transport Model to bring it more into line with TELRIC assumptions.

Qwest never questioned the Joint Intervenors' use of the Qwest model to calculate transport rates and never proposed itself that the HAI Model should be used in its place. Not until it filed a response to other parties' exceptions, a pleading not even permitted under the Commission's rules, did Qwest ever argue that the HAI Model's fixed transport prices should be adopted by the Commission.

Qwest's failure to raise this issue until after the RO&O is reason enough to disregard Qwest's position. If Qwest had raised this matter during the course of the hearing, the Joint Intervenors and other parties could have presented evidence regarding how the HAI Model results could be adjusted to develop in distant sensitive rates. In addition, the equipment pricing available to Qwest could have been used within the Model, resulting in a decrease in the calculated rates.\(^1\) Qwest should not be permitted to raise an argument here for the first time which would result in the adoption of inaccurate and discriminatory pricing.

Qwest argues that the Commission has no alternative but to adopt the HAI Model for use in calculating transport because the Model assigns some expenses based upon investment.

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\(^1\) In fact, the evidence presented in this case is that Qwest has actually received lower prices than those used within its Model in more recent contracts.
Qwest contends, therefore, that using a different model for transport would “fail to account for an enormous percentage of the cost underlying the expense factors.” See Qwest Response to Other Parties’ Exceptions at 5. This argument is simply incorrect. As indicated in Attachment A, there is no significant shifting of expenses that occurs with the HAI Model such that using Qwest’s model for transport pricing would unfairly burden other network elements. In fact, even if all of the expenses assigned to transport based on its relative investment level were placed upon other network elements, the increase in the loop cost would be only 8.6 cents.

Qwest’s argument, therefore, makes a mountain out of a molehill and should be disregarded.

2. **Does the AT&T/WorldCom Nonrecurring Cost Model provide rates for all necessary nonrecurring cost elements?**

The Exceptions filed by AT&T and XO in this matter provide an initial response to this question. The AT&T/WorldCom Nonrecurring Cost Model (“NRCM”) does calculate the costs that an efficient carrier would incur on a forward-looking basis to provide access to unbundled network elements. Qwest’s arguments to the contrary are based upon the presumption that the Commission should look at Qwest’s current systems in determining nonrecurring costs. This is not correct. In fact, it would be error for the Commission to determine nonrecurring charges based upon Qwest’s current systems. See Bell Atlantic-Delaware, Inc. v. McMahon, 80 F. Supp. 2d 218, 250-51 (D. Del. 2000); see also 47 CFR § 51.505(b)(1).

Qwest contends that the AT&T/WorldCom NRCM does not provide pricing for labor-intensive activities required for certain loop installations. Qwest contends, for example, that a “hot cut” may require “comprehensive field activities associated with testing.” As evidence presented in the course of this proceeding demonstrates, in a forward-looking network, manual processes of the type described by Qwest would be kept to a minimum. Moreover, in a forward-looking network, CLECs would be able to provide their own testing without assistance from
Qwest. See., e.g., Exhibit AT&T/WorldCom 6 (Weiss Direct) as Exhibit 13, pp. 37, 41, 47, 64-65.

It is possible that a CLEC could request that Qwest perform testing procedures or other activities that might require the “labor intensive” work described by Qwest. AT&T and XO do not contend that Qwest should go uncompensated in the limited circumstances where Qwest must, at the request of a CLEC, perform such activities consistent with a forward-looking network. The problem with Qwest’s cost studies, however, is they assume extensive manual work will be required in every instance. See, e.g. Ex. AT&T/XO 35 at pp. 75-76. The Joint Intervenors presented evidence that this is not an appropriate assumption in a forward-looking cost model.

The AT&T/WorldCom NRCM does develop non-recurring charges for certain manual activities that may be requested by a CLEC. For example, Qwest’s cost assumptions for loop testing assumes that Qwest will be required to send a technician to the customer premises a substantial portion of the time, rather than completing the work at the Qwest central office as would be done under forward-looking assumptions. See Exhibit AT&T/XO 35 at pp.79-80. Nevertheless, the AT&T/XO NRCM does provide pricing appropriate for use in those rare circumstances when a CLEC actually requests Qwest to perform work requiring field work at a customer premise. The AT&T/WorldCom NRCM assumes that a site visit will be required for such activities as installation of a network interface device. The NRCM, on a forward-looking basis, calculates that a site visit for these purposes would cost $38.68. See AT&T Exhibit 15 (Hydock Summary) at Ex. MH-1R. In those cases where a CLEC requires Qwest to perform a site visit, therefore, this would be an appropriate rate for that activity.
3. **How should the Commission determine appropriate rates for high capacity loops?**

AT&T and XO have addressed this issue in full in their post-hearing brief at pp. 19-24.

4. **How should the rate for a four-wire loop be calculated?**

AT&T and XO have addressed this issue in their Exceptions at p. 10. The four-wire loop cost proposed in this proceeding by the Joint Interveners is based upon running the HAI Model using an assumption that all of the loops in the Model are four-wire loops. This calculation results in a four-wire loop price that is 1.3 times that of a two-wire loop. This cost is appropriate because investments like fiber and certain digital loop carrier costs are not demand sensitive and would not increase for a four-wire loop.

5. **What should be the basis for determining costs for access to poles, ducts, conduits and rights of way not addressed by the RO&O?**

The Joint Interveners proposed in this proceeding that Qwest should not be entitled to recover for field verification activities because Qwest should be able to review its own records to determine whether space is available without conducting field verification. See Ex. AT&T/XO 12 (Knowles Direct) at 16-18. The RO&O considered this issue for manhole field verification, but not for per pole field verification, planner verification or manhole verification inspector per man-hole.

Qwest argues that its charges for access to poles, ducts, conduits and rights of way is not to be determined under a TELRIC-based analysis. It is correct that pole attachment fees are determined on a basis different from TELRIC. This alternative basis for pole attachment fee determination, however, does not extend to the other fees Qwest proposes to charge for access to these elements. Qwest has calculated its field verification and other fees in its non-recurring cost
model. That model suffers all of the infirmities when used for these purposes as when used for calculating non-recurring charges for access to other elements.

6. **Multiplexing, SS 7 LIDB, and other miscellaneous elements.**

Because of the overwhelming number of rate elements proposed by Qwest in this proceeding, no party could specifically analyze each proposed cost study and model. For those elements where the Joint Intervenors and other parties have been unable to present specific evidence regarding the Qwest proposals, AT&T and XO join with Staff’s request that the rate for those elements be established on an interim basis, using a default calculation. See Staff Exceptions at 10. At the very least, the Commission should adjust the rates proposed by Qwest to recognize that those rates are based upon excessive overhead calculations as determined by the RO&O.

Dated this ___ day of February, 2002.

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CERTIFICATE OF SERVICE

I hereby certify that the original and 10 copies of the Response of AT&T and XO to Questions Raised During January 25, 2002 Hearing, regarding Docket No. T-00000A-00-0194, were hand delivered this 1st day of February, 2002, to:

Arizona Corporation Commission
Docket Control – Utilities Division
1200 West Washington Street
Phoenix, AZ 85007

and that a copy of the foregoing was hand-delivered this 1st day of February, 2002 to the following:

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ATTACHMENT A
Monthly Expense/Investment ("E/I") ratios from Qwest ICM and the HAI Model

<table>
<thead>
<tr>
<th></th>
<th>ICM</th>
<th>HAI (compliance filing)</th>
<th>HAI (compliance filing @ 50% dedicated transport)</th>
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<tbody>
<tr>
<td>Loop</td>
<td>2.93%</td>
<td>2.49%</td>
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<tr>
<td>Dedicated Transport Fixed</td>
<td>2.45%</td>
<td>2.23%</td>
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<tr>
<td>Dedicated Transport Variable</td>
<td>2.08%</td>
<td>1.96%</td>
<td>1.97%</td>
</tr>
</tbody>
</table>

E/I ratios are calculated by taking the total monthly expense for a particular element divided by the total investment for that element.

Qwest values are calculated from the file Arizona Interconnection Recurring Cost, filed by Qwest on the CD ROM containing the Qwest cost studies. The Dedicated transport value was determined using the DS1 0 – 8 miles values. The DS3 0 – 8 miles produces similar numbers (2.44% for fixed and 2.10% for variable).

The HAI values were calculated from the Compliance filing supplied by AT&T in this case.

The values for “compliance filing @ 50% dedicated transport” took the compliance run of the model and reduced the dedicated transport investments by 50%.

The results show that:

1) The HAI Model does not significantly shift expenses between elements when the investment in a particular element changes. In fact, cutting the dedicated transport interoffice investment in half would lead to a 4.2 cent increase in loop costs. Eliminating the dedicated transport interoffice investment completely would increase loop costs by only 8.6 cents. While it is an accurate statement that some expenses are assigned based on relative investment levels, this is not a significant cost issue.

2) While the HAI Model assigns less expense than Qwest to unbundled network elements (which shouldn’t be surprising given testimony in the record regarding Qwest’s inappropriate assignment of expenses) the model is more balanced in its expense assignment across elements. Qwest’s E/I ratio for Dedicated transport fixed is 83.6% of the E/I ratio for the loop. The similar value for HAI is 89.6%. E/I ratios can vary due to depreciation and maintenance on the particular elements being compared.

3) The appropriate conclusion is that the difference interoffice costs between the HAI Model and Qwest’s transport model is not due to expense assignments, but rather due to differences in the level of investment between the models.