IN THE MATTER OF INVESTIGATION )
INTO QWEST CORPORATIONS' )
COMPLIANCE WITH CERTAIN WHOLESALE )
PRICING REQUIREMENTS FOR )
UNBUNDLED NETWORK ELEMENTS )
AND RESALE DISCOUNTS )

PUBLIC VERSION

THE STAFF OF THE ARIZONA CORPORATION COMMISSION'S RESPONSE TO QWEST CORPORATION'S EXCEPTIONS TO THE ADMINISTRATIVE LAW JUDGE'S (ALJ'S) RECOMMENDED OPINION AND ORDER (ROO)

I. QWEST'S EXCEPTION TO THE ALJ'S RECOMMENDED UNE LOOP PLACEMENT COSTS HAS NO MERIT.

Qwest takes exception to the ROO because it adopts the concept that Qwest generally installs distribution and other cable facilities prior to the existence of major surface obstructions (e.g. streets, sidewalks, flower beds and gardens, etc.). (Qwest Exceptions, p. 2 and 4) Qwest’s exception has no merit. Quite simply, Qwest is asking the ALJ to base Qwest’s unbundled loop rates upon fictional and inflated placement costs.

In this proceeding, Qwest admitted that in the real world its own practice was to generally place the buried cables prior to the time that the streets, and other surface obstructions were in place. In its response to a Staff data request, Qwest stated:

“Yes. In new subdivisions where the developer coordinates with utilities, outside plant facilities are generally placed prior to the placement of streets and landscaping.”

However, in the cost study Qwest pretended it would generally place those cables after the surface obstructions were in place. Qwest’s witness Ms. Torrence indicated that Qwest’s loop cost study assumed that **PROPRIETARY** of the total length of distribution cables

1 Qwest’s response to ACC Request WD 09-187(d); Page 70, Dunkel Direct, Exhibit S-30.
would have to be replaced either by cutting and restoring concrete, cutting and restoring asphalt, cutting and restoring sod, or boring under such surface obstructions in standard residential subdivisions (DG-3 in Qwest's LoopMod study). (Tr. 910) On cross examination in this proceeding, Ms. Torrence admitted that these activities do not occur in the real world:

Q. Isn't it true that in the way a subdivision facilities are normally installed for a new subdivision that you do not cut and restore concrete, you do not cut and restore asphalt, or cut and restore sod and bore under the length because those obstructions are not there at the time you place the distribution cable? (Tr. 914-915)

A. Generally, that's the case. (Tr. 915)

Qwest indicated that the buried distribution cables in residential subdivisions are designed to last the life of the subdivision to prevent Qwest from having to come back later to add additional distribution cables. (Tr. pp. 916-918)

The record also shows that in the downtown business district, and for feeder cable, Qwest's real world practice is to generally bury conduit before the streets are paved. Later, Qwest can pull new cables through the conduit without having to dig up the paved street. (Tr. 920).

The ALJ properly rejected Qwest's attempt to use unrealistic and inflated placement costs.

II. STRUCTURE SHARING

Qwest also takes exception to the ALJ's recommendation that, on average, 50% of the trenching costs will be borne by Qwest and the other 50% will be borne by other entities. The ALJ's recommendation is reasonable.

On cross-examination, Qwest's witness Ms. Torrence indicated that Qwest's UNE loop cost model effectively assumes that Qwest will pay for **PROPRIETARY** of the costs of trenching for distribution cables in new standard residential subdivisions out of its own pocket. (Tr. 911-912) However, Qwest's assumption is not representative of what Qwest actually experiences in the real world. In the development of the standard residential subdivisions, the trench is generally provided by the developer at no cost to Qwest. In the real world, Qwest
would generally be paying nothing for the trench in new standard residential subdivisions. (Tr. 913) The standard residential subdivision (DG3) represents **PROPRIETARY** of the lines in the Qwest UNE loop cost model. (Exhibit Staff-5)

In this proceeding, Qwest's witness Mr. Fitzsimmons' indicated that Qwest's UNE loop cost model was designed to reflect less sharing than actually occurs in the real world. On cross examination, Mr. Fitzsimmons revealed Qwest's position on sharing:

Thus, the sharing that occurs in the real world overstates the degree of sharing that would be reflected in TELRIC estimates. (Tr. 1065)

A TELRIC cost model is required to assume the least-cost, most efficient provision of service. (Qwest Exhibit 29 (Fitzsimmons Rebuttal), p. 17) Qwest is violating this requirement by assuming the inefficient provision of service.

III. QWEST'S PROPOSED RATES ARE BASED ON OVERSTATED AND UNREPRESENTATIVE MATERIAL COSTS

Qwest's rates contained in Exhibit G attached to its Exceptions are overstated. Staff and other parties in this proceeding provided clear evidence that Qwest's cost studies overstate actual material costs and are not representative of the actual costs that Qwest incurs for materials. The material costs Qwest used in its cost studies for collocation rates, line sharing rates, and CLEC-to-CLEC rates were generally based on its material costs that Qwest calculated for 41 "actual" collocation jobs. In addition, the labor and engineering costs that Qwest assumed in its collocation cost studies were also based upon these 41 collocation jobs. (Exhibit Qwest-8 (Fleming Rebuttal), page 50 and 81)

Qwest witness Mr. Fleming specifically stated:

The Company used a multi-step process in developing the collocation model. The first step was to identify all the cageless jobs that were completed and booked at the time the study was commenced. This process led to the selection of the 41 jobs that were studied. The Company then proceeded to gather all material, labor, and engineering receipts for each job....The material prices for a majority of the items included in the study were based on these actual receipts.” (emphasis added) (Exhibit Qwest-8 (Fleming Rebuttal), p. 50, line 18 through p. 51 line 6)
Staff and other parties testified that it is not reasonable to base Qwest’s collocation costs on these 41 collocation jobs, because they are not representative of the collocation jobs that Qwest actually experiences in Arizona. All of those 41 jobs were performed by outside vendors (Exhibit Qwest-8, page 58), however, the vast majority (approximately 80%) of the actual Qwest collocation jobs are done by Qwest (QTI) personnel. Qwest is a very high volume purchaser of telecommunications material, and therefore pays discounted prices for the materials. The collocation jobs performed by Qwest personnel, which have material, labor and engineering costs that are dramatically lower than those performed by outside contractors, are the proper collocation jobs upon which to primarily base collocation costs. (Exhibit Staff-11, Tr. 471-475)

In the ROO, the Administrative Law Judge properly concluded that the 41 collocation jobs Qwest selected are not representative of the collocation jobs that Qwest actually experiences. The ROO specifically states:

We agree with Staff and the CLECs that Qwest’s allegedly “actual” collocation costs are not representative for purposes of establishing TELRIC-based costs in this proceeding.” (ROO, p. 37)

The ROO concluded that the labor costs used in these cost studies should be changed to properly represent the collocation jobs that Qwest experiences in Arizona. (ROO, p. 37) However, the ROO is silent on the issue of the material costs that Qwest used in the cost studies. Since the material costs are also based upon the 41 collocation jobs that are not representative of the collocation jobs that Qwest actually experiences, the material costs should also be changed to properly represent the collocation jobs that Qwest experiences in Arizona.

In addition, Qwest could not explain how it calculated the material prices it proposes. On cross examination of Qwest’s witness Ms. Million, AT&T revealed numerous examples where the material costs that Qwest used in its cost studies were higher than the costs found in Qwest’s contracts with its material vendors. (Tr. pp. 613-644) Ms. Million specifically admitted on cross examination that the material cost investments in Qwest’s cost studies do not match the material costs found in its vendor contracts. (Tr. p. 644, lines 1-2) Ms. Million admitted that she
could not explain why the material costs in Qwest’s cost studies do not match the material costs 
found in its vendor contracts. Ms. Million specifically stated:

   And I’m not saying that we don’t want to reflect what’s in our contracts. We do. 
   That is certainly our intent. And I don’t have a very good explanation for you as 
   to why there’s a difference.” (Tr. p. 643, lines 14-17)

Of course, one reason the material prices Qwest used do not match their contract prices is 
that Qwest’s cost study material prices were not based on the Qwest internal material contracts. 
Instead, they were based on the unrepresentative material prices paid in 41 jobs which were all 
done by outside contractors.

In summary, the Qwest proposed material prices are not supported by the record. Since 
Qwest could not support the material prices it proposes, Qwest has failed to meet the burden of 
showing its proposed material prices are appropriate.

Staff recommends that the material costs used in Qwest’s study be adjusted downward by 
to recognize the fact that the vast majority of the actual Qwest collocation jobs are done by 
Qwest (QTI) personnel using material costs that are dramatically lower than material costs 
incurred in jobs performed by outside contractors.

IV. NON-RECURRING CHARGES

In its Exceptions, Qwest claims that Staff proposed non-recurring loop installation 
charges of $58.18 (without testing) and $141.67 (with testing). (Qwest Exceptions, p. 43) 
However, these were Staff’s proposed rates prior to the ROO in this proceeding. (see Staff 
Rebuttal Exhibit WD-17) The ROO adopted the NRC model of the CLECs in this proceeding. 
Staff’s proposed rates in compliance with the ROO indicate that any NRCs not specifically 
addressed in the CLEC’s NRC model should be established consistent with the CLEC NRC 
model. (Staff’s ROO Compliance Run, page 5 and footnote 9, and Staff’s Exceptions, p. 7)

V. CONCLUSION

Staff recommends that in order to recognize the fact that the vast majority of the actual 
Qwest collocation jobs are done by Qwest (QTI) personnel using discounted material costs that 
are dramatically lower priced than the jobs performed by outside contractors, the material costs 
that are used in these studies should be 50% less than the unrepresentative material costs Qwest
assumed in its cost studies. (Staff Exhibit S-30 (Dunkel Direct Testimony), p. 18).

Qwest’s exception to the ALJ’s recommendation regarding placement cost and structure sharing assumptions to be used in the UNE loop cost model is invalid. Qwest wants its loop rates to be based upon fictional and inflated assumptions about the placement costs and structure sharing. Qwest is assuming the inefficient provision of service, which violates TELRIC requirements.

Since the ROO has adopted the CLEC’s NRC model, any NRC not specifically addressed in that model should be set consistent with the principles and rates from that model.

RESPECTFULLY SUBMITTED this 1st day of February 2002.

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