IN THE MATTER OF THE GENERIC INVESTIGATION INTO U S WEST COMMUNICATIONS, INC.'S COMPLIANCE WITH CERTAIN WHOLESALE PRICING REQUIREMENTS FOR UNBUNDLED NETWORK ELEMENTS AND RE SALE DISCOUNTS

DOCKET NO. T-00000A-00-0194

NOTICE OF FILING REBUTTAL TESTIMONY

The Arizona Corporation Commission Staff ("Staff") hereby files the Rebuttal Testimony of William Dunkel, in the above-referenced matter.

RESPECTFULLY SUBMITTED this 12th day of May 2003.

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BEFORE THE
ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE GENERIC INVESTIGATION INTO U S WEST COMMUNICATIONS, INC.'S NKA QWEST CORPORATION, COMPLIANCE WITH CERTAIN WHOLESALE PRICING REQUIREMENTS FOR UNBUNDLED NETWORK ELEMENTS AND RESALE DISCOUNTS

DOCKET NO. T-00000A-00-0194

REBUTTAL TESTIMONY AND SCHEDULES

OF

WILLIAM DUNKEL

ON BEHALF OF

THE STAFF OF THE ARIZONA CORPORATION COMMISSION

MAY 12, 2003
Q. ARE YOU THE SAME WILLIAM DUNKEL WHO PREVIOUSLY FILED DIRECT TESTIMONY IN THIS PROCEEDING ON BEHALF OF THE STAFF?

A. Yes.

Q. WHAT IS THE PURPOSE OF THIS REBUTTAL TESTIMONY?

A. The purpose of this Rebuttal Testimony is to respond to the Direct Testimonies filed by other parties in this proceeding.

I. THE SWITCHING EQUIPMENT IS NOT 100% "PORT"

Q. IN THE GILLAN-CHANDLER TESTIMONY, MCI AND AT&T PROPOSE THAT THE SWITCHING EQUIPMENT BE CONSIDERED 100% PORT. DO YOU AGREE WITH THIS RECOMMENDATION?

A. No. A portion of the switch investment has the function of switching usage. Therefore, a portion of the switch costs is usage cost, not port cost.

Q. DOES THE GILLAN-CHANDLER TESTIMONY ACKNOWLEDGE THAT A PORTION OF THE SWITCHING EQUIPMENT HAS THE FUNCTION OF SWITCHING TRAFFIC?

A. Yes. On page 11 of their Direct Testimony, Gillan-Chandler properly state:

The switch fabric provides connection paths between ports; it connects lines to lines, lines to trunks, trunks to lines, and trunks to trunks.

On page 13 of their Testimony regarding the “switch fabric”, Gillan-Chandler state:
Its capacity limit is thus affected by traffic and is usually expressed in traffic terms, either Erlangs or CCS.

On page 18 of their Direct, Gillan-Chandler state:

An ILEC will obviously not install switches with maximum capacity in all wire centers.

Therefore, Gillan-Chandler acknowledge that an ILEC will size the switch based upon the expected usage in that wire center.

On Page 20 of their Direct, Gillan-Chandler state:

...that review demonstrates that Qwest purchases switching by paying a flat-rate, albeit a flat-rate that may increase as the capability of the switch increases.

Q. WHAT DO THE ABOVE STATEMENTS INDICATE?

A. The above statements indicate that: (1) a portion of the switch investment, including the "switch fabric" is for the purpose of switching usage, and (2) the Qwest investment in the switch does depend on the level of usage the switch is designed to handle. In short, part of the investment in the switch is investment that is made for the purpose of switching usage. The costs associated with this portion of the switch are usage-related costs. They are not "port" or a line related costs.

Q. WHAT DOES THE GILLAN-CHANDLER TESTIMONY ARGUE PERTAINING TO THE COSTS OF THE "SWITCH FABRIC" THAT IS USED TO SWITCH USAGE?

A. On pages 16, 17, 18 and 20 of their Testimony, Gillan and Chandler argue that switches are initially installed with enough usage capacity so that usage capacity is seldom
exceeded. Then they argue that since the initial usage investment is made at a high
enough level to handle the expected usage, that usage investment is no longer a usage-
related cost. For example, on page 17 of their testimony they state:

Forward-looking switches contain very robust control and switch fabric
capacities that are not exhausted by realistic subscriber usage.

On page 20, they state:

The fact that Qwest pays more (on a flat rate basis) for a switch with more
capability than another switch, however, is not a reasonable basis to impose a
usage cost on CLECs sharing those same switches each and every time their
subscriber makes (or receives) a call.

“Capability” means capacity to switch usage.

Q. IS THIS ARGUMENT VALID?

A. No. Proper cost recovery is on the basis of "cost causation". Costs that are incurred for
the purpose of switching usage are “usage” related costs, and should be recovered in
“usage” rates. The fact that the company installs a high level of usage switching capacity
at the time of initial switch installation does not change the fact that this usage investment
is made for the purpose of switching usage. The fact that the investment is made at the
time of initial installation does not make the costs of that usage-related investment zero.
The investors that funded the switching fabric¹ investment expect a return on their
investment. Since that investment is being used to switch usage, rates that are based on
usage are the appropriate source for that return on investment. In addition, the
investment used to switch usage depreciates over time. The depreciation expense of the
usage switching equipment is properly recovered from usage rates. Likewise,

¹ "Switch fabric" is not the only investment that is for usage. For example, certain trunk investments
depend upon the level of usage and therefore are usage related investments.
maintenance expense and other expenses of the equipment that is used to switch usage are also properly recovered from usage rates.

Q. PLEASE SUMMARIZE YOUR POSITION ON THIS ISSUE.

A. A portion of the switching equipment investment is related to the lines. This investment is generally called the "port". The port costs are reasonably recovered in “per month, per line” fixed charges. However, other parts of the switch investments are used to switch usage. These costs are usage-related, and should be recovered in usage charges. The MCI/AT&T proposal to consider the switch as 100 percent “port” and zero percent “usage” is incorrect and does not reflect actual cost causation.

At this point, I have not seen any evidence that would cause a change in the allocation contained in the Commission Order, which is 60 percent port, 40 percent usage.

Q. DOES THE “PER MINUTE” USAGE RATE PLACE AT&T AND MCI AT ANY IMPROPER DISADVANTAGE?

A. No. It would take over 1600 minutes of average usage per line, per month for the per-minute charges to exceed the additional port rate that AT&T and MCI are proposing. This is shown on Schedule WDA-2. This number is the same as the average per line usage in the HAI model. Therefore, unless AT&T and/or MCI are planning to sign up a disproportionate share of high-volume customers (such as telemarketers), paying the “per minute’ rate should not place them at any disadvantage.
Of course, if AT&T and/or MCI are planning to signing up a disproportionate share of high-volume customers (such as telemarketers) then the average usage per line they would generate would be above average, and the usage costs they would be causing would be above average. Under those conditions it would be appropriate for them to support the associated higher than average usage costs.

Q. ON PAGE 12 OF THE MILLION DIRECT, QWEST ADDRESSES THE ALLEGED SOURCE OF THE $1.61 PORT RATE. WHAT IS THE ACTUAL SOURCE OF THE $1.61 PORT RATE?

A. $1.61 was the port rate that was previously in effect. As was stated on page 16 of the Commission Phase IIA Order, the Commission decided to continue to use the existing port rate, because it was within the range established by the parties. However, Qwest later demonstrated that the sum of the $1.61 port rate plus the usage rates did not cover 100% of the switching equipment costs (“costs” as determined by the HAI).

As discussed in my Direct Testimony, Staff supports recovering 100% of the properly calculated switching equipment costs.

II. THE UNE LOOP RATES SHOULD NOT BE CHANGED BY $0.12

Q. THE DIRECT TESTIMONY OF MR. DENNEY STATES THAT 12 CENTS PER LINE OF THE “NETWORK OPERATION” EXPENSE WAS TRANSFERRED FROM “LOOPS” TO “SWITCHING” IN THE PHASE IIA RUNS. MR. DENNEY
RECOMMENDS THAT THE AVERAGE UNE LOOP RATE BE REDUCED FROM $12.11 TO $11.99 TO CORRECT THIS PROBLEM, AS SHOWN ON SCHEDULE WDA-1. DO YOU AGREE WITH THAT RECOMMENDATION?

A. No. The UNE loop rates were previously set, and there is no reason to revisit them now.

The April 11, 2003 Procedural Order which established this proceeding makes no reference to addressing the UNE loop rates in this proceeding. According to that Order, the only rates to be addressed in this proceeding are (1) the DS1 and DS3 transport/entrance facility rates and (2) the port and usage rates.

If $0.12 per line of overhead that were previously included in the “Loop” runs are also included in the new “Switching” runs, the obvious way to solve that problem is to not include that $0.12 in the new “Switching” runs. Instead of reopening the loop rates, I recommend that this $0.12 per line per month of the network operations expense that is already recovered in the UNE loop rates not be recovered in the “switch” rates (port and usage rates).

The $2.44 per line per month “port” rate and the $0.00097 per minute usage rates² include this $0.12 per line of overhead cost that is already included in the UNE loop rates. If these rates are recalculated without including this double recovery, the revised rates are $2.36 per line “port” and $0.00094 per minute, as shown on the attached Schedule WDA-3. These are the rates I recommend.

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² Qwest Notice of Filing in Compliance with Decision No. 65451, Exhibit A, page 1. These are the rates at 60% port, 40% usage, which is the split established in the Commission Order.
1 Q. Does this conclude your Rebuttal Testimony?
2 A. Yes.
### QWEST ARIZONA UNE LOOP RATES

<table>
<thead>
<tr>
<th></th>
<th>(A) Current UNE Loop Rate (1)</th>
<th>(B) AT&amp;T Proposed UNE Loop Rate (2)</th>
<th>(C = A-B)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Statewide Average</td>
<td>$12.11</td>
<td>$11.99</td>
<td>$0.12</td>
</tr>
<tr>
<td>Zone 1</td>
<td>$9.05</td>
<td>$8.97</td>
<td>$0.08</td>
</tr>
<tr>
<td>Zone 2</td>
<td>$14.84</td>
<td>$14.72</td>
<td>$0.12</td>
</tr>
<tr>
<td>Zone 3</td>
<td>$36.44</td>
<td>$36.14</td>
<td>$0.30</td>
</tr>
</tbody>
</table>


### CALCULATION OF THE AVERAGE USAGE NEEDED TO MAKE UP THE DIFFERENCE BETWEEN QWEST'S AND AT&T'S PROPOSED PORT RATES

<table>
<thead>
<tr>
<th>Monthly Port Rate</th>
<th>Per Minute Usage Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>AT&amp;T Proposal (1) $4.06</td>
<td>$</td>
</tr>
<tr>
<td>Qwest Proposal (2) $2.44</td>
<td>$0.00097</td>
</tr>
<tr>
<td>Difference $1.62 divided by $0.00097 = 1,670 = Average Usage Needed To Make Up Difference Between Qwest and AT&amp;T Proposed Rates (in minutes).</td>
<td></td>
</tr>
</tbody>
</table>

(1) Direct Testimony of Douglas Denney on Behalf of AT&T, Page 7.

(2) Qwest Corporation's Notice of Filing in Compliance with Decision No. 65451, Exhibit A, Page 1, January 10, 2003.
# CALCULATION OF SWITCHING RATES
CALCULATED TO ADJUST FOR OVER RECOVERY OF NETWORK OPERATIONS EXPENSES

<table>
<thead>
<tr>
<th>Annual Cost</th>
<th>% Assignment</th>
<th>Units</th>
<th>Cost</th>
</tr>
</thead>
<tbody>
<tr>
<td>(a)</td>
<td>(b)</td>
<td>(c) = (a)/(b)</td>
<td></td>
</tr>
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</table>

## HAI MODEL OUTPUT

<p>| | | | | |</p>
<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>End office switching</td>
<td>144,259,313</td>
<td>100%</td>
<td>2,959,791</td>
<td>2.44 per line/month</td>
</tr>
<tr>
<td>Line Port</td>
<td>86,555,588</td>
<td>60%</td>
<td>switched lines</td>
<td>0.00093 per actual minute</td>
</tr>
<tr>
<td>Non-Line Port</td>
<td>57,703,725</td>
<td>40%</td>
<td>62,141,633,323</td>
<td>0.00097 using 1.044 DEM to Billed MOU Ratio</td>
</tr>
</tbody>
</table>

## DEDUCT 12 CENTS PER SWITCHED LINE PER MONTH

<p>| | | | | |</p>
<table>
<thead>
<tr>
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</thead>
<tbody>
<tr>
<td>End office switching (1)</td>
<td>(4,262,099)</td>
<td>100%</td>
<td>2,959,791</td>
<td>(0.07) per line/month</td>
</tr>
<tr>
<td>Line Port</td>
<td>(2,557,259)</td>
<td>60%</td>
<td>switched lines</td>
<td>(0.00003) per actual minute</td>
</tr>
<tr>
<td>Non-Line Port</td>
<td>(1,704,840)</td>
<td>40%</td>
<td>62,141,633,323</td>
<td>(0.00003) using 1.044 DEM to Billed MOU Ratio</td>
</tr>
</tbody>
</table>

## PROPOSED SWITCHING RATES

<p>| | | | | |</p>
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</tr>
</thead>
<tbody>
<tr>
<td>End office switching (2)</td>
<td>139,997,214</td>
<td>100%</td>
<td>2,959,791</td>
<td>2.36 per line/month</td>
</tr>
<tr>
<td>Line Port</td>
<td>83,998,328</td>
<td>60%</td>
<td>switched lines</td>
<td>0.00090 per actual minute</td>
</tr>
<tr>
<td>Non-Line Port</td>
<td>55,998,886</td>
<td>40%</td>
<td>62,141,633,323</td>
<td>0.00094 using 1.044 DEM to Billed MOU Ratio</td>
</tr>
</tbody>
</table>

Notes:
1. $0.12 \times 2,959,791 \text{ lines} \times 12 \text{ months} = $4,262,099
2. HAI Model output minus $0.12 \text{ cents per switched line per month}

Sources:
HAI Model output Annual Cost and Units from Attachment DKD-01 of Doug Denney's Direct Testimony