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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF DETERMINING PRICES)
FOR UNBUNDLED NETWORK ELEMENTS (UNEs)) CASE NO.
IN QWEST CORPORATION'S STATEMENT OF) QWE-T-01-11
GENERALLY AVAILABLE TERMS (SGAT))

SUPPLEMENTAL TESTIMONY
IN SUPPORT OF QWEST'S
MOTION FOR APPROVAL
OF NEGOTIATED RATES

Teresa K. Million

QWEST CORPORATION

November 12, 2003

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I. IDENTIFICATION OF WITNESS

1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS AND
2 POSITION WITH QWEST CORPORATION.

3 A. My name is Teresa K. (Terri) Million. My
4 business address is 1801 California Street, Room 2050,
5 Denver, Colorado 80202. I am employed by Qwest Services
6 Corporation as a Staff Director in the Public Policy
7 organization. In this position, I am responsible for
8 preparing testimony and testifying about Qwest
9 Corporation's cost studies in a variety of regulatory
10 proceedings.

11 Q. ARE YOU THE SAME TERESA MILLION WHO FILED DIRECT
12 TESTIMONY IN THIS PROCEEDING?

13 A. Yes, I am.

II. PURPOSE OF TESTIMONY

14 Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

15 A. The purpose of my testimony is to provide support
16 for the rates contained in Attachment A to Qwest's Motion
17 for Approval of Negotiated Rates ("Motion for Approval")

1 filed in this proceeding. Attachment A is also attached to
2 this supplemental testimony as Exhibit No. 30.

3 **Q. ARE YOU PRESENTING COST STUDIES IN SUPPORT OF THE**
4 **RATES INCLUDED IN ATTACHMENT A?**

5 A. No. I have filed cost studies for Commission
6 review in support of my direct testimony in this
7 proceeding. Qwest believes, as explained in my direct
8 testimony, that its cost studies produce appropriate Total
9 Element Long Run Incremental Cost ("TELRIC") results under
10 the FCC's pricing rules. However, Qwest recognizes that in
11 many cases the FCC and state commissions have adopted a
12 range of prices for unbundled elements that have been
13 deemed reasonable for purposes of TELRIC. Thus, for
14 purposes of this testimony, I present an attachment that
15 contains a list of unbundled network element ("UNE") prices
16 that have been agreed upon as a result of negotiations with
17 Commission Staff.

18 **Q. ARE OTHER QWEST WITNESSES PROVIDING TESTIMONY IN**
19 **SUPPORT OF THE MOTION FOR APPROVAL?**

20 A. No. However, I understand that the Staff intends
21 to file comments in support of the Motion.

III. NEGOTIATED RATES

1 **Q. HAVE QWEST AND COMMISSION STAFF NEGOTIATED RATES**
2 **FOR ALL OF THE UNBUNDLED NETWORK ELEMENTS REPRESENTED IN**
3 **QWEST'S STATEMENT OF GENERALLY AVAILABLE TERMS ("SGAT")?**

4 A. No. Although Attachment A to the Motion for
5 Approval contains a large number of rates that Commission
6 Staff and Qwest were able to agree upon during
7 negotiations, it does not include rates for all UNEs. In
8 fact, for many of the rates that have been agreed to there
9 has been little interest expressed by the competitive local
10 exchange carriers ("CLECs") in Idaho in purchasing those
11 UNEs. For those UNEs that the CLECs are purchasing in
12 Idaho, such as loops, switching, and shared transport (the
13 elements that make up UNE-P), Qwest and Commission Staff
14 have been unable to reach agreement thus far.

15 **Q. WHY IS QWEST SEEKING APPROVAL FOR THE NEGOTIATED**
16 **RATES AT THIS TIME?**

17 A. Qwest, with the agreement of Staff, believes that
18 it is important to have permanent rates established for as
19 many UNEs as possible. While the parties have been unable
20 to reach agreement on all of the rates, it seemed

1 appropriate to seek approval for those rates that were
2 agreed to in order to limit the scope of disputed issues
3 going forward. Approval of the rates that have been agreed
4 upon would allow Qwest and Commission Staff to focus their
5 efforts on fewer elements with the intention of limiting
6 the number of elements that might be required to be brought
7 before the Commission for a fully contested hearing.

8 **Q. SHOULD THE COMMISSION CONSIDER THE QWEST TELRIC**
9 **STUDIES FILED WITH YOUR DIRECT TESTIMONY IN THIS PROCEEDING**
10 **FOR PURPOSES OF EVALUATING THE NEGOTIATED RATES?**

11 A. Yes. The Commission should use the TELRIC data
12 presented in my testimony as a data point for approving the
13 negotiated prices for UNEs, collocation and interconnection
14 services. That is, the price list included as Exhibit No.
15 1, as well as the cost studies and models filed with my
16 direct testimony provide the Commission with the
17 appropriate TELRIC basis for determining the prices that
18 will, when approved, become the prices contained in Qwest's
19 SGAT Exhibit A.

20 While Qwest believes that its cost data provide a firm
21 foundation for appropriate TELRIC prices for every UNE,

1 Qwest recognizes that a range of UNE prices have been
2 deemed reasonable for purposes of TELRIC. Thus, Qwest and
3 the Commission Staff have reached agreement on a large
4 number of UNE prices that both parties believe represent
5 UNE rates within a range of TELRIC as determined in other
6 states where TELRIC principles have been examined. The UNE
7 prices for these elements were agreed upon by the parties
8 through negotiations and are reflected in Attachment A to
9 the Motion for Approval.

10 **Q. HAS THE FCC RECENTLY PROVIDED FURTHER GUIDANCE**
11 **WITH RESPECT TO THE TELRIC RULES?**

12 A. Yes. In its Triennial Review Order ("TRO")¹ the
13 FCC, in addition to addressing unbundling requirements for
14 UNES, reiterates that "TELRIC equates the *current market*
15 *value of the existing network* that could provide all the
16 services its current network provides..." The FCC also
17 provides clarification of the TELRIC rules with respect to
18 two issues; cost of capital and depreciation.

¹ *In the Matter of Review of the Section 251 Unbundling Obligations of Incumbent Local Exchange Carriers, Implementation of the Local Competition Provisions of the Telecommunications Act of 1996, Deployment of Wireline Services Offering Advanced Telecommunications Capability*, CC Docket Nos. 01-338, 96-98, 98-147, Triennial Review Order at ¶ 669, (Rel. August 21, 2003). [Emphasis added]

1 First, with regard to the cost of capital the FCC clarifies
2 that "states should establish a cost of capital that
3 reflects the competitive risks associated with the risks of
4 participating"² in the competitive market assumed by TELRIC.
5 The FCC further clarified that the risk of losing customers
6 to other facilities-based carriers should be reflected in
7 TELRIC prices, and specifically rejected AT&T's claim that
8 states are limited to considering only the actual
9 competitive risk the ILEC currently faces in providing
10 UNEs. In rejecting AT&T's claim the FCC stated that such
11 an approach would "reduce artificially the value of the
12 ILEC network and send improper pricing signals to
13 competitors."³

14 Second, with regard to depreciation, the FCC clarified that
15 "[t]he rate of depreciation over the useful life should
16 reflect the actual decline in value that would be
17 anticipated in the competitive market TELRIC assumes."⁴
18 This allows an ILEC to use economic depreciation rates to
19 calculate its TELRIC costs and accelerate recovery of
20 initial capital outlay for an asset over its life to

² *Id.* at 681.

³ *Id.* at 682.

⁴ *Id.* at 689.

1 reflect any anticipated decline in the asset's value.

2 Q. WHAT DOES THE FCC'S DISCUSSION OF TELRIC IN THE
3 TRIENNIAL REVIEW ORDER MEAN WITH RESPECT TO THE NEGOTIATED
4 RATES?

5 A. Some of the agreed upon rates reflected in
6 Attachment A to the Motion for Approval have resulted from
7 cost study runs that Qwest produced at Staff's request
8 solely for purposes of these negotiations. To the extent
9 that cost study runs with costs of capital or depreciation
10 lives that underestimate the appropriate level of risk
11 based on the FCC's recent guidance affected the rate levels
12 on Attachment A, Qwest believes those rates to be at the
13 very lowest end of the TELRIC range. Thus, while Qwest has
14 agreed to accept those rates if the Commission chooses to
15 approve them in the interest of moving forward and
16 narrowing the issues that will require contested
17 proceedings, Qwest believes that the current FCC rules
18 would lead to the adoption of higher rates if these
19 elements were actually litigated.

20 Q. DID THE FCC'S TRIENNIAL REVIEW ORDER PROVIDE ANY
21 OTHER GUIDANCE WITH RESPECT TO THE PROVISION OF UNES?

1 A. Yes. The TRO, issued on August 21, 2003,
2 discusses at length the standard to be used to determine
3 whether CLECs are impaired without access to certain UNEs.
4 In some cases the FCC has directed the state commissions to
5 conduct reviews to make such determinations at a local
6 level. These reviews will be conducted in proceedings that
7 are separate from the cost docket. For other elements, the
8 FCC determined that CLECs are not impaired without access
9 to those elements. Thus, the FCC effectively eliminated
10 the obligation for ILECs to provide certain network
11 elements at TELRIC rates pursuant to section 251 of the Act
12 of 1934, as amended.

13 **Q. IS QWEST REMOVING THOSE ELEMENTS FROM ITS SGAT**
14 **EXHIBIT A IN THE CONTEXT OF THE CURRENT COST DOCKET?**

15 A. No. Attachment A to the Motion for Approval
16 includes agreed upon rates for a large number of UNEs for
17 which Qwest filed cost data in its original filing in this
18 cost docket. Among the elements listed in this document
19 are rates that have been agreed upon for elements such as
20 OCn transport and OCn loops that were removed from the list
21 of elements that Qwest has an obligation to provide under
22 section 251. The components of the network that Qwest is

1 no longer obligated to provide as UNEs under the Act is not
2 limited to those identified above. However, Qwest is in
3 the process of identifying all the impacts of the TRO and
4 is beginning the process of renegotiating its
5 interconnection agreements to implement the change of law
6 created by the TRO. While Qwest is not removing any
7 elements from those listed in Attachment A at this time,
8 Qwest wants to be clear that the rates it is agreeing to in
9 this proceeding for those elements that are no longer UNEs
10 are for the sole purpose of pricing them until the rates
11 change or become effective under the renegotiated
12 agreements. Thus, with regard to prices for network
13 elements that the FCC has found are no longer subject to
14 the provisions of section 251, a CLEC will be able to
15 obtain those elements only until its interconnection
16 agreement is amended to eliminate those elements as UNEs.

17 Q. DID QWEST AND COMMISSION STAFF AGREE UPON
18 RECURRING RATES FOR POLE AND CONDUIT ATTACHMENTS?

19 A. Yes.

20 Q. DID YOU FILE TELRIC STUDIES FOR THESE RATES WITH
21 YOUR DIRECT TESTIMONY?

1 A. No. The Pole and Conduit Attachment costs are
2 developed using a formula that was defined by the FCC.⁵ The
3 FCC's required methodology for poles and conduit is not
4 based on a forward-looking TELRIC costing approach; rather
5 it is based on historical book costs.

6 **Q. IS THE FCC METHODOLOGY THE BASIS FOR THE**
7 **RECURRING POLE AND CONDUIT ATTACHMENT RATES CONTAINED IN**
8 **ATTACHMENT A TO THE MOTION FOR APPROVAL?**

9 A. No. Idaho is one of a handful of states that has
10 determined to retain jurisdiction over the rates for pole
11 and conduit attachments. Thus, the rates reflected in
12 Attachment A to the Motion for Approval for pole and
13 conduit attachments are rates that were agreed upon by
14 Qwest and Commission Staff as part of the negotiations
15 conducted earlier in this docket.

IV. CONCLUSION

16 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

⁵ *In the Matter of Amendment of Rules and Policies Governing Pole Attachments*, CC Docket No. 97-98 (Rel. April 3, 2000).

1 A. Qwest has a right under the Act to seek recovery
2 of the costs for the UNEs that it is required to provide to
3 the CLECs. Qwest's TELRIC studies properly apply the FCC's
4 TELRIC principles. For the UNEs and interconnection
5 services included in this docket, I have submitted
6 recurring and nonrecurring TELRIC cost studies with my
7 direct testimony. Nevertheless, Qwest requests that the
8 Commission accept the prices that have been agreed upon by
9 Qwest and Commission Staff in negotiations conducted during
10 the course of this cost docket, as discussed in the Motion
11 for Approval, and reflected in Attachment A.

12 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

13 A. Yes, it does.

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<u>GENERALLY AVAILABLE TERMS (SGAT)</u>)	

EXHIBITS OF

Teresa K. Million
QWEST CORPORATION

November 12, 2003

INDEX OF EXHIBITS

DESCRIPTION

EXHIBIT

Agreed UNE rates

No. 30

CERTIFICATE OF SERVICE

I hereby certify that on this 12th day of November, 2003, I served the **SUPPLEMENTAL TESTIMONY IN SUPPORT OF QWEST'S MOTION FOR APPROVAL OF NEGOTIATED RATES (TERESA K. MILLION)** as follows:

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