BEFORE THE PUBLIC SERVICE COMMISSION

OF UTAH

In the Matter of Qwest Corporation's	**)**	**Docket No. 03-049-62**
Land Development Agreements	**)**	
(LDA) Tariff Provisions	**)**	

DIRECT TESTIMONY OF

DICK BUCKLEY

QWEST CORPORATION

OCTOBER 04, 2004

TESTIMONY OF DICK BUCKLEY
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EXECUTIVE SUMMARY

My name is Dick Buckley and I am employed by Qwest Corporation as a Director in Policy and Law. In my testimony, I describe the development of the investments used in the current LDA cap amount. I explain the RLCAP model's distribution designs and which of those designs were utilized in the cap investment calculation. That amount was calculated in 1996. Since that time the Utah Public Service Commission has ordered the use of the Hatfield Model (HM5.2a) and ordered what inputs should be used in the model to develop the loop investments for wholesale pricing. I will provide an explanation of the investment cap amount that would result from using that model and the loop investments currently approved by the Commission.

I. INTRODUCTION

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Dick Buckley. I am employed by Qwest Corporation as a Director in Policy and Law. My business address is 1801 California St. #2040, Denver, Colorado.

Q. PLEASE DESCRIBE YOUR EDUCATION BACKGROUND AND EMPLOYMENT EXPERIENCE.

A. In 1978, I received a B.S. in Business Administration with an emphasis in Finance from the University of Northern Colorado. I joined Qwest (Mountain Bell) in 1980 in the Cost Rates and Regulatory Matters (CRRM) department as a Cost Analyst in the area of data and supplemental terminal products. In 1983, I assumed responsibility for non-recurring costing and for implementing the dual element non-recurring cost structure. In 1986, I moved into cost analysis of the local loop and assisted in the development of the Regional Loop Cost Analysis Program (RLCAP) and the current Qwest loop program, LoopMod. My present responsibilities include local loop cost modeling and analysis, as well as providing subject matter expert testimony on local loop costing in regulatory proceedings.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to describe the calculation of the distribution investment that was used in the development of the current LDA cap amount. I will also describe the calculations that would be involved in developing an updated cap amount using the

Hatfield Model (HM5.2a) and its inputs, as approved by the Commission in Docket No. 01-049-85[1]. I will show the current cap exceeds, by a sizable amount, the cap value that would be calculated using the currently approved Commission local loop investments.

II. GENERAL

Q. PLEASE PROVIDE A GENERAL DESCRIPTION OF THE MODEL USED TO CALCULATE THE CURRENT LDA CAP AMOUNT.

A. The current cap was developed using the Regional Loop Cost Analysis Program (RLCAP) in 1996. RLCAP developed both feeder and distribution investments for the average local loop in Utah. The model used five Density Group designs in calculating the local loop distribution investments. The designs represent varying levels of density, which has a direct impact on the cost of the loop plant per working line or per lot. The designs used by the model were DG1 – High Rise Buildings, DG2 – Multi-Tenant/Multi-Building Developments, DG3 – Single-Family Subdivision on Standard Sized Lots, DG4 – Single-Family Subdivision on Larger Lots, and DG5 – Rural. Descriptions of the designs and photographic examples of the distribution areas represented by the density groups are included in the PowerPoint file, "Exhibit RJB-1.ppt", attached to this testimony. DG1 has the highest density and the lowest per unit costs. DG5 has the lowest density and the highest per unit costs. The level of density affects the economies that can

[1] Procedural Order, *In the Matter of the Determination of the Unbundled Loop of Qwest Corporation*, Docket No. 01-048-85 (Utah PSC, June 11, 2002)

be achieved within the design and it affects the amount or length of cabling that will be required to serve all the locations within the development.

Q. PLEASE EXPLAIN HOW THOSE INVESTMENTS WERE USED TO CALCULATE THE CAP INVESTMENTS.

A. The study for the LDA cap amount was limited to Density Groups 3 and 4. These designs addressed sub-divisions of single family detached homes, the types of developments covered by the LDA tariff. The investments for each of the designs were calculated using the developer provided trench assumption. This limited the investments to the engineering, cable material and labor associated with placing and splicing the cable in the developer provided trench. The distribution investments from this run ($348.90) were then increased by 25%, as an accommodation to developers, to develop a cap equaling 125% of the average distribution loop investment (or $436.13) as the maximum Qwest investment under either Option 1 or Option 2 LDAs.

Q. HAS THE COMMISSION ORDERED NEW LOOP INVESTMENTS SINCE THE CAP WAS ESTABLISHED?

A. Yes. In Docket No. 01-049-85 the Commission established the rates that Qwest is allowed to charge for the use of unbundled loops. In doing so the Commission used the Hatfield Model (HM5.2a) and ordered specific input values. Based on that model and the ordered inputs, it was determined that the average loop (i.e. feeder, distribution and drop) has an investment of $591.

Q. IS IT POSSIBLE TO DEVELOP AN UPDATED LDA CAP FROM THAT DATA?

A. Yes. While the structure is different than the model (RLCAP) used in the earlier study, it is still possible to develop a comparable analysis. The HM5.2a results provide investment information by 9 Density Zones. These zones reflect an increasing level of lines per square mile. The results also detail the investments by feeder versus distribution and material versus placement. It is therefore entirely possible to use the HM5.2a results to provide an updated dollar value to the LDA tariff provision that limits Qwest's investment to "an amount that does not exceed, or is lesser than, the distribution portion of the average exchange loop investment, times 125%, times the number of lots in the development." (LDA Tariff § 4.4.B.6).

Q. PLEASE EXPLAIN WHAT STEPS YOU TOOK TO DEVELOP THE UPDATED CAP AMOUNT FROM THE HM5.2A INFORMATION.

A. I started with the distribution tab in the compliance run of HM5.2a from Docket No. 01-049-85. The total investment for distribution (including drop) is $374.51. This is the average for all density zones and includes all trenching and placing costs. To estimate the investments likely for suburban sub-divisions I limited my analysis to the middle zones (zones 5, 6 and 7.) These zones contain areas with densities greater than 650 lines per square mile and less than 5,000 lines per square mile. I then divided the total investment for zones 5, 6 and 7 by the total lines for zones 5, 6 and 7. This yields an average distribution investment of $284.37. I then removed the drop investment from the calculation which resulted in an average of $260.90. Next, to estimate the investment

with developer trench I reduced the placing costs by 67%. The remaining 33% of the placing is intended to provide a liberal estimate of the "lay cable" labor included in placing. This adjustment reduces the average investment to $227.16. The last step I took was to convert the investment to a "per lot" value rather than a "per line" value. To do this I added together the HM5.2a counts for Households and Firms. This reduced the investment divisor from 723,885 to 667,204. The "per lot" investment is $249.52. This result would be comparable to the $348.90 developed in the 1996 study. The above calculations are shown in my Exhibit RJB-2 attached to this testimony.

III. CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. The current LDA cap amount is based on a 1996 study of the distribution investments associated with single-family type distribution areas. The study result was further increased by 25% to develop the $436 value. Since that amount was established, the Utah PSC has ordered updated loop costs and investments. Using the model and inputs approved by the Commission would result in an updated cap amount of $249.52, which when multiplied by 125% would produce an amount of $311.90 as the maximum Qwest investment if its investment were to be limited to "an amount that does not exceed, or is lesser than, the distribution portion of the average exchange loop investment, times 125%, times the number of lots in the development." (LDA Tariff § 4.4.B.6).

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes it does.