- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Determination of the Cost of the Unbundled Loop of QWEST CORPORATION	)))	DOCKET NO. 01-049-85 FINAL ORDER

ISSUED: July 25, 2003

SYNOPSIS

The Commission issues clarifications regarding its May 5, 2003 Order. The Commission sets the weighted average total unbundled loop rate at $12.97, and the unbundled flat-rate switching rate at $3.56.

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APPEARANCES

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By The Commission:

PROCEDURAL HISTORY

This matter came before the Commission for hearing on December 16, 17 and 18, 2002, and January 9 and 10, 2003. Parties filed post-hearing briefs on February 24, 2003, and reply briefs on March 21 through 24, 2003. Qwest filed a Motion for Permission to File Limited Response to Reply of the Division, and its Limited Response to Reply Brief of the Division on April 1, 2003. The Commission issued its Order on May 5, 2003. All Parties filed Requests for Reconsideration and Clarification. The Commission granted reconsideration in an Order issued May 30, 2003. In that Order the Commission also requested that the Parties submit additional information regarding overhead calculations, the Parties did so on June 20, 2003.

CLARIFICATIONS

The Operational TELRIC Methodology

Qwest argued in its request for Clarification and Reconsideration that the Commission's operational definition of TELRIC was incorrect. The Commission rejects Qwest's characterization and provides the following clarification and information. TELRIC (Total Element Long-Run Incremental Cost) is an economic and legal concept that requires the calculation of a price for unbundled network elements that has the following characteristics. It reflects the best combination of resources and practices that result in the least-cost, most-efficient, forward-looking provision of unbundled network elements using the best technology and practices available to serve the current level of demand. By definition the long-run aspect of TELRIC allows the selection of the best practices. Long-run also implies that a firm can select that combination of resources and practices that results in a TELRIC compliant outcome at the most reasonable time. A near-instantaneous rebuilding of the entire network is inconsistent with the concept of long-run. Likewise, requiring the huge unrealized discounts of materials and labor that would be associated with a huge one-time project is inconsistent with the concept of finding the most-efficient combination of resources. If the discounts were never, and could never be, available then they are not a long-run choice.

The Commission's operational definition is simply a methodology that leads to the selection of the long-run, least-cost, most-efficient, forward-looking outcome. Simply stated, we assume that Qwest built the hypothetical TELRIC network as needed in a TELRIC compliant manner. The TELRIC network is different from the actual network primarily because the technology and current demand were unknown at the time of actual construction. However, by making this assumption the Commission can determine a reasonable estimate of what a fully-efficient provider would be doing to meet current demand.

At any given moment there are a large number of short-run cost curves that together define the long-run cost curve.[(1)] TELRIC requires that the Commission select the minimum per-unit price available, within the relevant range of output. The operational methodology put forth by the Commission leads to the selection of the minimum per-unit price. Requiring a one-time construction project would artificially raise placement costs, and artificially lower the cost of the necessary equipment, materials and supplies. Therefore the Commission rejected that approach and instead designed a methodology that restricts the possible choices to options and costs that are both possible and within the range likely to be experienced while still meeting current demand.

Structure Sharing, Plant Mix and Placement Methods

The Commission has reviewed the inputs contained in Qwest's June 20, 2003 filing concerning structuring sharing, plant mix and placement methods and concludes that they are acceptable. Specifically, in Appendix 2 of Qwest's June 20, 2003 filing, the Commission accepts the inputs in the "Distrib Fill", "Placement", and "Plant Mix" columns as reflecting the Commission's intent in its original Order. For all other input values the original values in the Commission's run of the HAI Model will continue to be used. We note that the specific percentages or values in many of these input fields could be many different sets of values and still result in the same overall targeted percentage distributions, but we accept Qwest's proposed values for these fields.

Overhead

All Parties agree that adopting the Division's method of setting the "Total Operations Support Allocator" at 100 percent, and the "Office Worker General Support Allocator" at 0 percent is the preferred approach. The Commission therefore accepts this approach. The fact that the Division has adjusted fields in various models to include or exclude certain types of expenses does mean that the Commission agrees or disagrees with those adjustments. The Commission's prior ruling in Docket No. 01-049-105 and here reaffirmed is that Qwest is entitled to a total overhead expense equal to 26.7 percent, and that this margin is sufficient to cover all "overhead type" expenses related to the provisioning of unbundled network elements.

Port Rate Features

Qwest requested that it be allowed to charge $0.66 in addition to the ordered Port rate to account for features. The Commission notes that the price for these features that was in effect at the time of the Order was $0.00. Nothing in the Order, nor record, suggests that the price for features should be additive to the Port rate set in this Docket. Indeed testimony by the Division and the Joint-CLECs shows that the Port rate includes these features. Therefore, the Commission denies Qwest's request.

De-Averaged Loop Rates

The Commissions accepts the AT&T de-averaging model presented in this Docket and orders that de-averaged loop rates be determined using the rate center classifications and methodology contained therein. We further clarify that the loop rates should be split into two component pieces. The piece associated with wholesale account management and billing should be separate from all other portions of the unbundled loop cost. In Qwest's reply filing in Docket 03-049-30 (referring to Colorado's HAI derived TELRIC rates) it states: "The carrier-to-carrier customer service expense included in the loop and port costs may be computed from the Expense by Service Tab, which is part of Appendix 2. These calculations, which have been added at the bottom of this tab and are highlighted, are $0.10 to the loop and $0.01 to the port." We direct the Division and Qwest to reference the same output report in the Utah HAI Model to determine the equivalent amounts for carrier-to-carrier customer service expense (i.e., the wholesale billing and account costs) and to split the de-averaged loop rates into an unbundled wholesale billing and account management rate, and a separate stand-alone loop rate. The total of these two statewide average rates must equal the statewide average of $12.97 for the total loop.

De-Averaged Tandem Switching Rates

The Commission accepts Qwest's Benchmark 271 FCC 271, Exhibit A rates for tandem switching as advocated by the Division.

Network Operations Expense

The Commission's initial run of the HAI Model produced a network operations expense amount of $37,388,950. No changes in the calculated network operations expense result from running the HAI Model with the corrected inputs, as detailed in this Order.

ORDER

1. The Division shall update its version of the HAI model with the Commission's changes discussed above and include all other changes detailed in our original Order in this Docket.

2. The Division shall submit the updated HAI model, and such materials as deemed necessary for all parties to this Docket to review and verify the Division's changes, to the Commission and other Parties to this Docket.

3. After verifying the Division's modifications to the HAI model, Qwest shall file revised de-averaged prices for the unbundled loop, wholesale account and billing expenses per loop, and for flat-rate switching that are consistent with the changes and rates adopted in our original Order as clarified by this Order.

4. All other Requests for Reconsideration raised by the various parties not addressed in this Order are denied.

DATED at Salt Lake City, Utah this 25th day of July, 2003.

/s/ Ric Campbell, Chairman

/s/ Constance B. White, Commissioner

Attest:

/s/ Julie Orchard,
Commission Secretary

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1. Where "cost curves" are defined in the standard economic sense of per-unit costs as output levels change. Such cost curves by definition include a return, or compensation, on all resources used, including a "normal profit."