

TRANSMITTAL NO. 150  
QWEST CORPORATION  
TARIFF F.C.C. NO. 1  
ACCESS SERVICE  
DESCRIPTION AND JUSTIFICATION  
*QWEST DSL* MARKET TRIAL

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## 1. Introduction And Description

This filing is being made by Qwest Corporation (Qwest) in its Tariff F.C.C. No. 1, Access Service, Section 19, Trial Services or Arrangements to introduce a Market Trial for Qwest's DSL Service. This Market Trial is designed to test customer acceptance of affordably priced higher bandwidth DSL Services and evaluate the effectiveness of segment specific market messages linked to differentiated bandwidth offers. Based on the results of this trial, Qwest may develop additional DSL Services more in tune with the needs of the residential market. Qwest will also target marketing messages to specific consumer groups to increase market effectiveness. DSL Service is a Packet Switched type service and is excluded from price caps.<sup>1</sup>

### Program Detail

Qwest plans to offer significantly discounted rates for higher bandwidth DSL Services (*DMT QWEST DSL PRO DELUXE*, *DMT QWEST DSL PRO 1 MBPS*, *DMT QWEST DSL PRO 4 MBPS*, *DMT QWEST DSL PRO 7 MBPS*) in the Denver Metropolitan Area. The Nonrecurring Charge will also be waived for customers who subscribe to this trial.

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<sup>1</sup> CC Docket No. 87-313, Second Report And Order, Released October 4, 1990, Par.195 "Air-ground service and packet-switched service were not subject to scrutiny as part of our investigation of LEC productivity, and should therefore be excluded [from price cap regulation]."

This trial targets DSL capable Qwest residential customers. The target customers have a high potential to be current online users with dial up service to an ISP. The target market will include segments such as families (adults with teenage kids) and young singles (men and women) that tend to be in upper income ranges. Marketing message components will address the specific price and speed offered as well as differentiated messaging based on bandwidth-centric capabilities such as online gaming, downloading large graphics files, music and streaming video.

Eligible customers will be contacted by direct mail and telemarketing and allowed to subscribe to this trial from January 28, 2003 through March 14, 2003. Discounted prices will be in effect until March 31, 2004 and at the end of this period customers will be given the option to convert to the existing tariffed rates for Qwest DSL Service or cancel their service at no charge. Depending on the results of Qwest's market trial, it is possible that Qwest may have new DSL Services available in addition to those currently tariffed and customers will also be given the option to convert to these newly tariffed services at no charge.

The rates offered during this trial will be available to eligible residential customers and resellers in the Denver Metropolitan Area for new DSL Service only. Other restrictions as specified in the tariff also apply.

As part of this Market Trial new DSL customers and those that chose not to buy will be contacted by a market research firm and asked to share their reasons for buying or not buying. Direct marketing response to the specific direct marketing messages will also be measured for effectiveness.

The Discounted rates for the DSL Services are as follows:

DMT QWEST DSL PRO DELUXE	\$26.99
DMT QWEST DSL PRO 1 MBPS	\$31.99
DMT QWEST DSL PRO 4 MBPS	\$41.99
DMT QWEST DSL PRO 7 MBPS	\$51.99

## 2. Rate Development

The QWEST DSL Market Trial rates were set in an effort to probe customer demand for higher speed DSL Services when prices are less than currently tariffed. These Market Trial rates are above cost.

### 3. Demand And Revenue Impacts

#### 3.1 Demand Impacts

Since the purpose of this Market Trial is to test the demand for higher speed DSL at considerably lower prices, Qwest can only speculate at the demand impact. Qwest plans to contact approximately 80,000 customers and estimates that between 200 and 400 customers will purchase service under this Market Trial.

#### 3.2 Revenue Impacts

As a result of this Market Trial, Qwest expects a total interstate revenue increase to Qwest's DSL Service of between \$81,576 and \$163,152 for the first twelve months following the effective date of this filing.

### 4. Unit Costs

#### 4.1 Overview

This section describes how Qwest developed regional unit costs in support of the Qwest DSL Services affected by this filing. This unit cost section describes the process used to develop the recurring (investment) unit costs and provides a description of the Cost Workpaper.

The unit costs developed in this study reflect 2001 cost levels. This study is the same one used by Qwest in its Transmittal No. 86 filed July 23, 2001. They were developed using an incremental or "bottoms-up" cost methodology. Under this methodology, costs are determined by adding together all of the necessary equipment and/or labor expenses associated with providing the service on a forward looking basis. These costs depict the economic unit cost of offering the service.

#### 4.2 Development Of Recurring Unit Costs

Recurring unit costs are ongoing costs associated with the provisioning of a service. Recurring costs are directly related to the amount of the investment in equipment required to provide a service as well as the amount of labor and administrative time required to install, maintain, repair, monitor and track a service. The installed investment costs include, the price of the equipment, initial engineering labor costs, installation labor costs and miscellaneous minor material costs associated with the equipment installation.

Capital costs are covered through the use of factors which, when applied to investment, produce the annual costs associated with depreciation, earnings and income tax. Depreciation is applied by account code, reflecting the different account lives of the various types of equipment and plant used to provide services. The earnings or "cost of money" factor represents the return that Qwest must pay its investors for the use of their capital. Finally, income tax is the expense associated with taxes that will be incurred on the income earned on the new service.

Cost factors are applied to the unit investments of a service in order to develop annual capital and operating costs. The annual capital costs reflect the annual costs associated with recovery of an investment in equipment needed to provide a service. The factor used, and the amount of the annual capital costs, is based on their estimated economic life of the equipment. Capital costs include items such as depreciation, income tax and "cost of money" (the earnings Qwest must receive in order to pay stockholders a return on their investment in the company). The annual operating costs provide for the recovery of annual administrative, maintenance and other associated costs, caused by the existence and use of a service. The annual capital and operating costs are divided by twelve to produce a monthly cost for the service.

#### 4.3 Description Of Cost Workpaper

The recurring unit costs were developed at a regional level and displayed on the following Workpaper. This Workpaper displays the total unit investment, the capital costs and operating expenses, the total annual direct unit cost, the total monthly direct unit cost and the total direct unit cost divided by the total unit investment.

#### 5. Workpaper

Recurring Unit Costs for DMT DSL Dedicated Connection - *QWEST DSL PRO DELUXE, QWEST DSL PRO 1 MBPS, QWEST DSL PRO 4 MBPS, QWEST DSL PRO 7 MBPS.*



		Workpaper	
Jurisdiction:	QWEST/FCC		
Rate Element:	DMT DSL Dedicated Connection - QWEST DSL PRO DELUXE, QWEST DSL PRO 1 MBPS, QWEST DSL PRO 4 MBPS, QWEST DSL PRO 7 MBPS.		
		RECURRING COST	
		Costs	
A. Total Unit Investment		\$500.43	
<u>B. Capital Costs</u>			
Depreciation		\$58.41	
Cost Of Money		\$27.54	
Income Tax Expense		\$15.27	
<u>C. Operating Expenses</u>			
Expense		\$29.03	
Maintenance		\$11.43	
Ad Valorem		\$3.11	
Administrative		\$22.59	
Business Fees		\$2.05	
D. Total Annual Direct Unit Cost (B + C)		\$169.43	
E. Total Monthly Direct Unit Cost (D / 12)		\$14.12	
F. Total Annual Direct Unit Cost / Total Unit Investment (D / A)		0.339	