TRANSMITTAL NO. 167

QWEST CORPORATION

TARIFF F.C.C. NO. 1

ACCESS SERVICE

DESCRIPTION AND JUSTIFICATION

QWEST DSL SERVICE CHANGES

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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 8, Advanced Communications Networks (ACN) to make the following four changes to its *QWEST DSL* Service: First, Qwest is adding an additional bandwidth speed of 622 Mbps under *QWEST DSL Host* Service. This change in product specifications allows the current service to operate with broader bandwidth and is being made at the request of customers. Under current tariff terms an OC3 is the largest transport allowed with DSL Host Bandwidth. This change will permit DSL Host Bandwidth to be provisioned on OC12 ATM transport.

Second, Qwest is changing how the nonrecurring charge associated with Volume Plan Basic Discount Option *Qwest DSL* lines will be assessed. Qwest is proposing that the nonrecurring charge not be assessed when service is connected. However, for each *QWEST DSL* that disconnects without being in service for at least 12 months, the nonrecurring charge will be assessed. Qwest hopes that this change will reduce line churn and provide an incentive for customers to remain with *QWEST DSL* Service.

Third, Qwest is changing language under the Volume Commitment Option II Plan to replace the phrase “If the customer has paid the Company for 4 million months of service” with “If the Company has billed the customer for 4 million months of service”. Customers of the Volume Plan Commitment Option II have requested this change in order to increase the effectiveness and accuracy of tracking their progress in meeting target purchase commitments.

Fourth, Qwest is inserting the “Basic Discount Option” under Volume Commitment pricing plans in order to clarify that the Basic Discount Option is indeed subject to these same terms. Since this option was not specifically mentioned in the tariff there has been some confusion as to what terms would apply.

2. Rate Development

Only one of the four changes Qwest is proposing impacts the application of current rates. And in that one, Qwest is not changing the current monthly rate for Basic Option *Qwest DSL* lines however it is proposing that the nonrecurring charge not be assessed for customers who maintain service for at least 12 months.

Qwest calculates that it will break even at 9.28 months when the monthly rate is also forced to recover the cost associated with the nonrecurring charge. The cost associated with the nonrecurring charge is $56.86 (see Workpaper 2). The cost associated with the monthly rate is $13.41 (see Workpaper 1). The monthly rate is $19.54 with the 11% standard offering discount of 11%. Accordingly, a $6.13 margin is being generated each month and if the nonrecurring charge of $56.86 is divided by the $6.13 margin the break even point is 9.28 months.

3. Demand And Revenue Impacts

3.1 Demand Impacts

As a result of waiving the nonrecurring charge, Qwest expects to add and or retain an additional 37,560 lines. There are no cross-elastic or complementary demand impacts expected as a result of this filing.

3.2 Revenue Impacts

As a result of this filing, Qwest expects a total interstate revenue increase of approximately $5,159,700 for the first twelve months following the effective date of this filing. There are no cross-elastic or complementary revenue impacts expected as a result of this filing.

4. Unit Costs

4.1 Overview

This section describes how Qwest developed regional unit costs in support of its *Qwest DSL* Service. This unit cost section describes the process used to develop the recurring and nonrecurring unit costs and provides a description of the cost Workpapers.

The recurring unit costs developed in this study reflect May, 2003 cost levels. The nonrecurring unit costs developed in this study reflect 2001 cost levels. 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 Development Of Nonrecurring Unit Costs

When a customer requests the service a one-time cost to provision the service is incurred. The nonrecurring provisioning rate element recovers this cost as well as the associated cost to disconnect the service at some later date.

The first step taken in developing the nonrecurring one time labor cost was to identify the various work groups and tasks required to install and disconnect the service. Next, Qwest estimates were used to develop average labor times per task. Once identified, the average labor times were multiplied by the appropriate labor rates to produce the cost per work group. The sum of all the work group costs produces the total cost.

The labor rates used in this study were developed by applying additional factors to cover administrative expense and business fees that are incurred with the new offering. Administrative expenses include the costs associated with the line and staff operations, which support the new service. Business fees include state level franchise taxes, municipal license fees and occupation taxes.

The work groups involved in providing *Qwest DSL* Service are listed below along with their associated work functions: (1) Consumer Residential Marketing - The Consumer Residential Marketing group is responsible for meeting the needs of the residential customers across all fourteen Qwest states. This center takes calls from customers, inputs customer information into the system and notifies the customer when service will be available. (2) Home Office Consulting Center - The Home Office Consulting Center primarily deals with the special needs of customers who work out of their homes, or otherwise have small business. It provides the customer a single point of contact when working with Qwest. This center takes calls from Home office and small business customers, inputs customer information into the system and notifies the complex small business customer when service will be available. (3) Global/Communications Consulting Center (CCC) - Global is the large business sales channel. It handles large business customers needing more sophisticated telecommunications services. The Communications Consulting Center is one part of Global that is primarily designed as a proactive small business customer contact channel, which provides the customer a single point of contact when working with Qwest. Typically, the customers assigned to the CCC are customers with more complex telecom requirements. This center takes calls from complex small business customers, inputs customer information into the system and notifies the complex small business customer when service will be available; (4) Small Business Consulting Center primarily deals with the special needs of small business customers. It provides the customer a single point of contact when working with Qwest. This center takes calls from small business customers, inputs customer information into the system and notifies the complex small business customer when service will be available. (4) Regional Markets Support Center (RMSC) is responsible for the formatting and issuance of Special Services Orders. They are also responsible for Special Services Order completion. (5) Loop Provisioning Center (LPC) - The primary responsibility for the LPC is the establishment and maintenance of the Network Loop Assignments inventories. This includes the assignment of all network loop facilities (outside plant and central office) to service orders relating to the installation, movement, and disconnection of all customer services. (6) Enterprise - Network Operations Center (NOC) - Translations at the NOC consist of remotely entering DSL service elements to change software addressable parameters to allow connectivity. The devices are accessed remotely through devices located at the Serving Wire Center and at the ATM Switch Wire Center. Service activation will be initiated by the NOC and worked in conjunction with the Local Network Operations (LNO) group. The LNO is responsible for the placement of the Network Elements at the DSL service subscriber location. The NOC is responsible for the placement of the equipment at the DSL locations. The Enterprise Network Operations Center tasks associated with Service Activation are: 1. Loop Testing. 2. DSL Service Loop Installation (LNO working with the NOC technicians). 3. Central Office work at both Serving Wire Center and ATM Wire Center. 4. Fiber Installation past the Fiber Optic Termination at the DSL. 5. Testing at the DSL location. 6. Service Acceptance at DSL service locations. (7) Central Office Frames - The Central Office Frame group is responsible for service connections in the central office and the associated testing and administrative functions of Special Service and Message Trunk circuits. (8) Local Resource

Administration Center (LRAC) Using Work Force Administrator/Dispatch Out (WFA/DO), builds installation technician daily service order logs, monitors service order progress, logs service order completion in WFA/DO. (9) Installation & Maintenance (I&M Technician) performs necessary fieldwork on new orders, changes to existing service, and repair orders. (10) Digital Subscriber Line Center (DSLC) is a part of Channel Operations and serves as a specialist desk in all customer DSL matters. DSLC provides order status, advanced customer help in DSL matters, and performs various administrative tasks dealing with DSL.

4.4 Description Of Cost Workpapers

The recurring and nonrecurring unit costs were developed at a regional level. The recurring unit costs are displayed in Workpaper 1. 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.

The nonrecurring unit costs are displayed in Workpaper 2. This Workpaper provides a detailed summary of the work groups, work times in minutes, hourly labor rates for each work group and the calculated inward and outward costs.

5. Workpaper 1 - Recurring Unit Costs
   Workpaper 2 - Nonrecurring Costs

Workpaper 1

Jurisdiction: Qwest
Rate Element: DSL Pro 1.5 Mbps

	Recurring Unit Costs
	Costs
A. Total Unit Investment	**$532.29**
B. Capital Costs	
Depreciation	**$60.04**
Cost Of Money	**$23.18**
Income Tax Expense	**$12.38**
C. Operating Expenses	
Expense	**$29.03**
Maintenance	**$9.48**
Ad Valorem	**$3.53**
Administrative	**$22.71**
Business Fees	**$0.57**
D. Total Annual Direct Unit Cost (B + C)	**$160.92**
E. Total Monthly Direct Unit Cost (D / 12)	**$13.41**

Workpaper 2

NONRECURRING COST GROUP SUMMARY

Workpaper 2

Study Area: Qwest

Labor Group	Time In Minutes	Labor Rate Per Hour	Costs
DMT DSL SERVICE ALL SPEEDS			
Inward Costs			
CONSUMER RESIDENTIAL MARKETING	11.70	$39.16	$10.91
HOME OFFICE CONSULTING CENTER (HOCC)	1.46	$39.16	$1.36
GLOBAL/COMM. CONSULTING CENTER (CCC)	0.81	$39.16	$0.76
SMALL BUSINESS CONSULTING CENTER (SBCC)	0.73	$39.16	$0.68
RMSC (Regional Mktng Support Ctr)	3.85	$39.16	$3.59
LOOP PROVISIONING CENTER (LPC)	1.69	$37.78	$1.52
ENTERPRISE - NOC (NETWORK OPERATIONS CENTER)	3.50	$43.81	$3.65
CENTRAL OFFICE FRAMES	9.08	$43.81	$9.48
LRAC (Local Resource Admin Center)	0.58	$37.78	$0.52
INSTALLATION & MAINT.	2.37	$42.68	$2.41
Subtotal – Inward	**35.77**		**$34.89**
Outward Costs			
RESIDENTIAL MARKETING TEAM (RMT)	8.00	$39.16	$7.46
HOME OFFICE CONSULTING CENTER (HOCC)	1.00	$39.16	$0.93
GLOBAL/COMM. CONSULTING CENTER (CCC)	0.50	$39.16	$0.47
SMALL BUSINESS CONSULTING CENTER (SBCC)	0.50	$39.16	$0.47
DIGITAL SUBSCRIBER LINE CENTER (DSLC)	3.85	$39.16	$3.59
ENTERPRISE - NOC (NETWORK OPERATIONS CENTER) (TRANSLATIONS)	2.50	$43.81	$2.61
CENTRAL OFFICE FRAMES	5.00	$43.81	$5.21
INSTALLATION & MAINT.	1.22	$42.68	$1.24
Subtotal – Outward	**22.56**		**$21.98**
Total Inward & Outward	**58.34**		**$56.86**