

TRANSMITTAL NO. 178
QWEST CORPORATION
TARIFF F.C.C. NO. 1
ACCESS SERVICE
DESCRIPTION AND JUSTIFICATION
QWEST DSL SERVICE

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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 changes to its *QWEST DSL* Service. First, Qwest is introducing a promotion to waive the nonrecurring charge for DMT *Qwest Choice DSL* and DMT *Qwest Choice Deluxe* Service. This promotion is scheduled to be in effect from December 13 through February 27, 2004 and is designed to encourage new customers to try Qwest's DSL service.

Second, Qwest is introducing a promotion for DMT *Qwest Choice DSL*, DMT *Qwest Choice DSL Deluxe* and CAP *Qwest Choice DSL Deluxe* customers who subscribe to 36 or 60 Month Pricing Plans to allow them to switch to a Monthly Pricing Plan with out incurring nonrecurring charges or Termination Liability. This promotion is scheduled to be effective from December 13, 2003 through March 11, 2004 and will allow existing customers to take advantage of the rate reductions proposed in this filing.

Third, Qwest is reducing Monthly and 12 Month Rates associated with DMT *Qwest Choice DSL*, DMT *Qwest Choice DSL Deluxe*, CAP *QWEST DSL SELECT* and CAP *Qwest Choice DSL Deluxe*. These rate changes are being made to attract additional customers and retain existing customers.

Fourth, Qwest is reducing the DMT *QWEST DSL* Change Charge from \$30.00 to \$9.99. This change is being made to benefit customers who wish to make a change in either the speed or destination of their service.

2. Rate Development

Revised rates were developed using a combination of internal analysis and external competitive factors. The new rates and associated costs are as follows:

DSL Service	Old Rate	New Rate	Cost
<i>DMT Qwest Choice DSL</i>	\$21.95	\$15.00	\$11.80
<i>DMT Qwest Choice DSL Deluxe</i>			
Monthly	\$31.95	\$28.00	\$11.80
12 Month	\$29.95	\$28.00	\$11.80
<i>CAP QWEST DSL SELECT</i>			
Monthly	\$21.95	\$15.00	\$11.80
12 Month	\$19.95	\$15.00	\$11.80
<i>CAP Qwest Choice DSL Deluxe</i>			
Monthly	\$31.95	\$28.00	\$11.80
12 Month	\$29.95	\$28.00	\$11.80
<i>DMT QWEST DSL Change Charge</i>			
Speed/Destination	\$30.00	\$9.99	\$ 7.14
<i>CAP QWEST DSL Change Charge</i>			
Destination Channel Change	\$30.00	\$9.99	\$ 7.14

3. Demand And Revenue Impacts

3.1 Demand Impacts

As a result of the promotion to waive the nonrecurring charge for DMT *Qwest Choice DSL* and DMT *Qwest Choice Deluxe Service*, Qwest expects to add 134 DMT *Qwest Choice DSL* customers and 134 DMT *Qwest Choice Deluxe Service* customers.

As a result of Qwest's other promotion and the rate reductions for both the Monthly Charges and the Change Charge, Qwest expects to add 200,702 DMT *Qwest Choice DSL* customers and 72,847 DMT *Qwest Choice Deluxe* customers. 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 entire filing, expects a total interstate revenue decrease of approximately \$57,655,000 for the first twelve months following the effective date of the 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 and nonrecurring unit costs developed in this study reflect 2003 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 DMT DSL Service are listed below along with their associated work functions (1) Consumer Service Center – This service center interfaces with the customer, gathering and processing customer specific information for establishing or terminating products and services; (2) Small Business/Global Service Center – This service center interfaces with the customer, gathering and processing customer specific information for establishing or terminating products and services; (3) 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. (4) DSL Operations/Network Operations Center – This center is responsible for all WFC-C and Integrator fallout for DSL provisioning installation, change and disconnect orders.

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: *DMT Choice DSL, DMT Choice DSL Deluxe, CAP DSL SELECT and CAP Choice DSL Deluxe*

Recurring Unit Costs

Costs

A. Total Unit Investment	\$546.89
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B. Capital Costs

Depreciation	\$60.12
Cost Of Money	\$24.47
Income Tax Expense	\$13.07

C. Operating Expenses

Expense	\$10.46
Maintenance	\$9.23
Ad Valorem	\$3.66
Administrative	\$20.05
Business Fees	\$0.50

D. Total Annual Direct Unit Cost (B + C)	\$141.57
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E. Total Monthly Direct Unit Cost (D / 12)	\$11.80
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NONRECURRING COST GROUP SUMMARY

Study Area: Qwest

<i>Labor Group</i>	<i>Time In Minutes</i>	<i>Labor Rate Per Hour</i>	<i>Costs</i>
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DSL Change Charge

Inward Costs

CONSUMER SERVICE CENTER	4.59	\$49.45	\$3.78
SMALL BUSINESS/GLOBAL SERVIC	1.31	\$49.45	\$1.08
RMSC (Regional Mktng Support Ctr)	2.75	\$49.45	\$2.27
DSL OPERATIONS/NETWORK OPERATIONS	0.02	\$54.50	\$0.02

<i>Subtotal – Inward</i>	8.67		\$7.14
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Outward Costs

<i>Subtotal – Outward</i>	0.00		\$0.00
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<i>Total Inward & Outward</i>	8.67		\$7.14
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