

TRANSMITTAL NO. 182
QWEST CORPORATION
TARIFF F.C.C. NO. 1
ACCESS SERVICE
DESCRIPTION AND JUSTIFICATION
QWEST DSL SERVICE

TABLE OF CONTENTS

<u>Section</u>		<u>Page</u>
1.	Introduction And Description	1
2.	Rate Development	2
3.	Demand And Revenue Impacts	3
3.1	Demand Impacts	3
3.2	Revenue Impacts	3
4.	Unit Costs	3
4.1	Overview	3
4.2	Development Of Recurring Unit Costs	4
4.3	Description Of Cost Workpaper	5
5.	Workpaper	5

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 introduce a new Volume Commitment Option IV plan for DSL. Volume Commitment Option IV will provide existing *QWEST DSL* Volume Plan customers or former *QWEST DSL* Volume Plan Customers, with a minimum of 5,000 DSL subscribers, discounted rates and a maximum period of time to terminate *QWEST DSL* Service.

This filing is being made to accommodate Volume Commitment customers who wish to exit the DSL business but need a plan that will accommodate an orderly exit. Option IV will allow the volume plan customer time to move their end user customers to another service without unduly impacting them by price increases or service impacts.

As part of this filing Qwest also changed language under “Obligations of customers who subscribe to *QWEST DSL* Volume Plans.” With this change the customer is no longer is required to purchase *QWEST DSL HOST* Service in all LATAs where the customer subscribes to *QWEST DSL* Service. Customers now have the option to satisfy this requirement by purchasing other broadband access aggregation services to establish DSL Host Service.

2. Rate Development

Discount percentages for Volume Commitment Option IV were developed using a combination of internal analysis and external competitive factors. As the following data shows, even with these new discount rates, the service is above cost.

DSL Service Option IV	% Discount	New Rate	Cost
Qwest Choice DSL			
0 – 4,999	1%	\$14.85	\$11.80
5,000 – 9,999	2.5%	\$14.62	\$11.80
10,000 – 14,999	5%	\$14.25	\$11.80
15,000 – 24,999	10%	\$13.50	\$11.80
25,000 +	19.65%	\$12.05	\$11.80
Qwest Choice DSL Deluxe			
0 – 4,999	1%	\$27.72	\$11.80
5,000 – 9,999	2.5%	\$27.30	\$11.80
10,000 – 14,999	5%	\$26.60	\$11.80
15,000 – 24,999	10%	\$25.20	\$11.80
25,000 +	9.65%	\$22.50	\$11.80

3. Demand And Revenue Impacts

3.1 Demand Impacts

Qwest expects one customer to take advantage of this new option within the next twelve months. A migration of 39,250 ports will occur over the next 24 months.

3.2 Revenue Impacts

Qwest estimates \$4,108,000 will be billed under this new option in the first 12 months. However, \$10,657,500 in revenue will be lost from other DSL Volume Commitment Options.

4. Unit Cost

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 unit costs and provides a description of the cost Workpaper.

The recurring 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 Description Of Cost Workpaper

The recurring 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.

5. Workpaper

Workpaper 1 - Recurring Unit 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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