

TRANSMITTAL NO. 302

QWEST CORPORATION

TARIFF F.C.C. NO. 1

ACCESS SERVICE

DESCRIPTION AND JUSTIFICATION

METRO OPTICAL ETHERNET (MOE) 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 2, General Regulations, and Section 8, Advanced Communications Networks, to add a 24 month rate term to Metro Optical Ethernet (MOE). Qwest is also adding Quality of Service, Protect Routing and Multiple Ethernet Virtual Circuits (ECVs) applications to MOE.

Quality of Service will allow MOE customers to prioritize their traffic in four classes of service. The four different levels of service are Priority 1, Priority 2, Priority 3 and Priority 4. Together, these priorities will allow customers to match the correct Priority Level to their desired application.

Protect Routing provides a separate facility path for the protection system between the Serving Wire Center and the Qwest Point of Termination. In the event that the working facility or the service performance becomes impaired the facility automatically switches to the service protect path in order to maintain a near continuous flow of information between locations.

Each MOE port provided by Qwest will come standard with the capability to provide one Ethernet Virtual Circuit (ECV) at no additional charge. Customers may order more than one EVC per port, but for each additional EVC, Qwest will bill a monthly EVC charge.

MOE Service is a flexible, easy-to-use, transport service that uses established Ethernet transport technology. MOE allows customers to connect multiple enterprise locations within a service area using native Ethernet protocol. MOE supports transmission speeds as low as 5 Mbps and up to 1 Gbps in increments of 10 Mbps from 10 to 100 Mbps and 100 Mbps from 100 to 1,000 Mbps.

2. Rate Development

The new MOE rates were developed using a combination of internal analysis and external competitive factors. The new monthly rates, nonrecurring charges and the associated costs are as follows:

24 Month Term Rates

- 5 Bandwidth Per 10/100 Mbps Port

	Monthly Rate	Cost
24 Months	\$725.00	\$331.31

- 10 Bandwidth Per 10/100/1000 Mbps Port

	Monthly Rate	Cost
24 Months	\$815.00	\$337.56

- 20 Bandwidth Per 10/100/1000 Mbps Port

	Monthly Rate	Cost
24 Months	\$875.00	\$350.06

24 Month Term Rates

- 30 Bandwidth Per 10/100/1000 Mbps Port

	Monthly Rate	Cost
24 Months	\$935.00	\$362.56

- 40 Bandwidth Per 10/100/1000 Mbps Port

	Monthly Rate	Cost
24 Months	\$995.00	\$375.06

- 50 Bandwidth Per 10/100/1000 Mbps Port

	Monthly Rate	Cost
24 Months	\$1,055.00	\$387.56

- 60 Bandwidth Per 10/100/1000 Mbps Port

	Monthly Rate	Cost
24 Months	\$1,115.00	\$400.06

- 70 Bandwidth Per 10/100/1000 Mbps Port

	Monthly Rate	Cost
24 Months	\$1,175.00	\$412.56

24 Month Term Rates

- 80 Bandwidth Per 10/100/1000 Mbps Port

	Monthly Rate	Cost
24 Months	\$1,235.00	\$425.06

- 90 Bandwidth Per 10/100/1000 Mbps Port

	Monthly Rate	Cost
24 Months	\$1,295.00	\$437.56

- 100 Bandwidth Per 10/100/1000 Mbps Port

	Monthly Rate	Cost
24 Months	\$1,355.00	\$450.06

- 100 Bandwidth Per 1000 Mbps Port

	Monthly Rate	Cost
24 Months	\$1,355.00	\$450.06

- 200 Bandwidth Per 1000 Mbps Port

	Monthly Rate	Cost
24 Months	\$1,885.00	\$575.06

24 Month Term Rates

- 300 Bandwidth Per 1000 Mbps Port

	Monthly Rate	Cost
24 Months	\$2,415.00	\$700.06

- 400 Bandwidth Per 1000 Mbps Port

	Monthly Rate	Cost
24 Months	\$2,945.00	\$825.06

- 500 Bandwidth Per 1000 Mbps Port

	Monthly Rate	Cost
24 Months	\$3,475.00	\$950.06

- 600 Bandwidth Per 1000 Mbps Port

	Monthly Rate	Cost
24 Months	\$4,005.00	\$1,075.06

- 700 Bandwidth Per 1000 Mbps Port

	Monthly Rate	Cost
24 Months	\$4,535.00	\$1,200.06

24 Month Term Rates

- 800 Bandwidth Per 1000 Mbps Port

	Monthly Rate	Cost
24 Months	\$5,065.00	\$1,325.06

- 900 Bandwidth Per 1000 Mbps Port

	Monthly Rate	Cost
24 Months	\$5,595.00	\$1,450.06

- 1,000 Bandwidth Per 1000 Mbps Port

	Monthly Rate	Cost
24 Months	\$6,125.00	\$1,575.06

- 10/100 Mbps Per MOE Port

	Rate	Cost
Nonrecurring Charge	\$600.00	\$525.86

- 1,000 Mbps Per MOE Port

	Rate	Cost
Nonrecurring Charge	\$1,200.00	\$525.86

- **Ethernet Virtual Circuit (EVC)**

	Monthly Rate	Cost
Monthly	\$50.00	\$27.07

- **Quality of Service** – Per 5 Mbps of Priority 1 Traffic; per EVC

	Monthly Rate	Cost
Monthly	\$65.00	\$6.45
12 Months	\$55.00	\$6.45
24 Months	\$50.00	\$6.45
36 Months	\$40.00	\$6.45
60 Months	\$35.00	\$6.45

- **Quality of Service** – Per Change to an Existing Template: per Template

	Rate	Cost
Nonrecurring Charge	\$175.00	\$60.45

- **Protect Routing** - 10/100 Mbps MOE Port

	Monthly Rate	Cost
Monthly	\$1,200.00	\$821.90
12 Months	\$1,100.00	\$821.90
24 Months	\$1,050.00	\$821.90
36 Months	\$ 950.00	\$821.90
60 Months	\$ 900.00	\$821.90

- **Protect Routing** - 1000 Mbps MOE Port

	Monthly Rate	Cost
Monthly	\$1,500.00	\$821.90
12 Months	\$1,400.00	\$821.90
24 Months	\$1,350.00	\$821.90
36 Months	\$1,250.00	\$821.90
60 Months	\$1,200.00	\$821.90

3. Demand And Revenue Impacts

3.1 Demand Impacts

Qwest expects to add the following units: 11 24 month rate term units; 1,091 Quality of Service units, 27 Protect Routing units; and 1,403 Multiple Ethernet Virtual Circuits. 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 \$1,941,500 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 MOE 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 a combination of 2003 and 2006 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.

Recurring costs for 24 Month Term Rates were calculated in two parts. The first set of costs, displayed on Workpaper 1, contains costs that have been identified as fixed and do not vary with the bandwidth speed. The second set of costs, displayed on Workpaper 2, contains costs that vary with speed and as such have been used to develop a cost per Mbps. Accordingly, the cost of each speed contained in the tariff consists of the fixed cost of \$325.06 and the associated speed multiplied by the

variable cost of \$1.25. For example, the cost for 5 Bandwidth would be \$325.06 plus 5 times \$1.25.

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 MOE Service are listed below along with their associated work functions: (1) Service Center - The Service Center performs activities associated with order negotiation and processing for the end user; (2) Provisioning Assignment Center – The Provisioning Assignment Center has

responsibility for assigning NC and NCI codes; (3) Design Service Center – The Design Service Center handles the actual circuit design and dispatches the fiber technician.; (4) Fiber Technician - The Fiber Technician is responsible for service implementation; (5) BGS Regional Order Center (BROC) - The BROC manually enters service installation or termination orders into the Service order process System; (6) .Center/Service Delivery Coordinator – Provides end to end order coordination from request through order completion; (7) NROC – NROC has the responsibility for Administering switching machines.

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 Workpapers 1 - 5. These Workpapers display 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 Workpapers 6 - 7. These Workpapers 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. Workpapers 1 - 5 - Recurring Unit Costs
Workpapers 6 - 7 - Nonrecurring Costs

RECURRING UNIT COSTS

Jurisdiction: QWEST

Rate Element: Per Port Fixed Costs

RECURRING COST

Costs

A. Total Unit Investment	\$10,738.53
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B. Capital Costs

Depreciation	\$1,001.95
Cost Of Money	\$529.32
Income Tax Expense	\$217.66

C. Operating Expenses

Expense	\$495.95
Maintenance	\$161.35
Property Taxes	\$72.88
Administrative	\$1,410.68
Business Fees	\$10.98

D. Total Annual Direct Unit Cost (B + C)	\$3,900.77
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E. Total Monthly Direct Unit Cost (D / 12)	\$325.06
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RECURRING UNIT COSTS

Jurisdiction: QWEST

Rate Element: Variable Costs Per Megabit

RECURRING COST

Costs

A. Total Unit Investment	\$56.52
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B. Capital Costs

Depreciation	\$3.75
Cost Of Money	\$3.28
Income Tax Expense	\$1.35

C. Operating Expenses

Maintenance	\$0.78
Property Taxes	\$0.40
Administrative	\$5.44
Business Fees	\$0.04

D. Total Annual Direct Unit Cost (B + C)	\$15.04
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E. Total Monthly Direct Unit Cost (D / 12)	\$1.25
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RECURRING UNIT COSTS

Jurisdiction: Qwest

Rate Element: Ethernet Virtual Circuit (EVC)

RECURRING COST

Costs

A. Total Unit Investment	\$1,687.34
 <u>B. Capital Costs</u>	
Depreciation	\$126.41
Cost Of Money	\$92.57
Income Tax Expense	\$38.09
 <u>C. Operating Expenses</u>	
Expense	\$0.00
Maintenance	\$13.70
Other Operating Taxes	\$17.04
Administrative	\$37.05
 D. Total Annual Direct Unit Cost (B + C)	 \$324.87
E. Total Monthly Direct Unit Cost (D / 12)	\$27.07

RECURRING UNIT COSTS

Jurisdiction: Qwest

Rate Element: Quality of Service – Per 5 Mbps of Priority 1 Traffic; per EVC

RECURRING COST

Costs

A. Total Unit Investment	\$362.45
 <u>B. Capital Costs</u>	
Depreciation	\$37.15
Cost Of Money	\$16.55
Income Tax Expense	\$6.80
 <u>C. Operating Expenses</u>	
Expense	\$0.00
Maintenance	\$3.85
Other Operating Taxes	\$4.05
Administrative	\$8.80
 D. Total Annual Direct Unit Cost (B + C)	 \$77.15
E. Total Monthly Direct Unit Cost (D / 12)	\$6.45

RECURRING UNIT COSTS

Jurisdiction: Qwest

Rate Element: Protect Routing 10/100 and 1000 Mbps MOE Port

RECURRING COST

Costs

A. Total Unit Investment	\$55,571.83
 <u>B. Capital Costs</u>	
Depreciation	\$2,959.16
Cost Of Money	\$3,504.15
Income Tax Expense	\$1,441.65
 <u>C. Operating Expenses</u>	
Expense	\$0.00
Maintenance	\$315.64
Other Operating Taxes	\$517.19
Administrative	\$1,124.96
 D. Total Annual Direct Unit Cost (B + C)	 \$9,862.73
 E. Total Monthly Direct Unit Cost (D / 12)	 \$821.90

NONRECURRING COST GROUP SUMMARY

Qwest

Labor Group	Time In Minutes	Labor Rate Per Hour	Costs
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MOE PORT

Inward Costs

Service Center	28.50	\$88.11	\$41.85
Provisioning Assignment Center	9.00	\$88.11	\$13.22
Design Service Center	88.00	\$82.30	\$120.71
Fiber Technician	125.00	\$89.43	\$186.31

Subtotal - Inward	250.50		\$362.09
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Outward Costs

Service Center	17.00	\$88.11	\$24.96
Design Service Center	36.00	\$82.30	\$49.38
Fiber Technician	60.00	\$89.43	\$89.43

Subtotal - Outward	113.00		\$163.77
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Total Inward & Outward	363.50		\$525.86
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NONRECURRING COST GROUP SUMMARY

Qwest

Labor Group	Time In Minutes	Labor Rate Per Hour	Costs
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METRO OPTICAL ETHERNET - TEMPLATE CHANGE PER REQUEST

Inward Costs

Business Government Service Center (BGS)	17.60	\$46.95	\$12.92
BGS Regional Order Center/BROC	17.60	\$46.95	\$12.92
Carrier Service Center/Service Delivery Coordinator	20.41	\$44.77	\$14.28
NROC – Advanced Broadband Services	25.00	\$52.04	\$20.33
Subtotal - Inward	80.61		\$60.45

Outward Costs

Subtotal - Outward	0.00		\$0.00
Total Inward & Outward	80.61		\$60.45