

TRANSMITTAL NO. 309
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 8, Advanced Communications Networks to add Central Office Bandwidth Profile and Ethernet with Extended Transport (EwET) applications to Metro Optical Ethernet (MOE).

Central Office Bandwidth Profile is a MOE offering that originates and terminates in the same central office for use with Ethernet over SONET Ports used with SST, GeoMax and SHNS Services. This Bandwidth Profile can also be used for Co-location.

EwET will offer MOE outside the designated MOE service area. EwET supports transmission speeds as low as 5 Mbps and up to 40 Mbps.

Credit interruption language associated with MOE is also being revised to clearly state that MOE service will not be subject to a credit for an interruption of service except as specified for Quality of Service and Protect Routing.

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 MOE rate structure was developed using a combination of internal analysis and external competitive factors. The new rates and the associated costs are as follows:

Central Office MOE Bandwidth Profile for 1,000 Mbps Ports

- 100 Bandwidth Per 1000 Mbps Port

| | Monthly Rate | Cost |
|-----------|--------------|----------|
| Monthly | \$564.00 | \$262.61 |
| 12 Months | \$536.00 | \$262.61 |
| 24 Months | \$508.00 | \$262.61 |
| 36 Months | \$479.00 | \$262.61 |
| 60 Months | \$451.00 | \$262.61 |

- 600 Bandwidth Per 1000 Mbps Port

| | Monthly Rate | Cost |
|-----------|--------------|----------|
| Monthly | \$1,946.00 | \$907.61 |
| 12 Months | \$1,849.00 | \$907.61 |
| 24 Months | \$1,751.00 | \$907.61 |
| 36 Months | \$1,654.00 | \$907.61 |
| 60 Months | \$1,557.00 | \$907.61 |

Central Office MOE Bandwidth Profile for 1,000 Mbps Ports (Cont'd)

- 1,000 Bandwidth Per 1000 Mbps Port

| | Monthly Rate | Cost |
|-----------|--------------|------------|
| Monthly | \$3,052.00 | \$1,423.61 |
| 12 Months | \$2,899.00 | \$1,423.61 |
| 24 Months | \$2,747.00 | \$1,423.61 |
| 36 Months | \$2,594.00 | \$1,423.61 |
| 60 Months | \$2,441.00 | \$1,423.61 |

EwET MOE Bandwidth Profile

- 5 Bandwidth Per 10/100 Mbps Port

| | Monthly Rate | Cost |
|-----------|--------------|----------|
| Monthly | \$222.00 | \$139.00 |
| 12 Months | \$211.00 | \$139.00 |
| 24 Months | \$200.00 | \$139.00 |
| 36 Months | \$189.00 | \$139.00 |
| 60 Months | \$178.00 | \$139.00 |

EwET MOE Bandwidth Profile (Cont'd)

- 10 Bandwidth Per 10/100/1,000 Mbps Port

| | Monthly Rate | Cost |
|-----------|--------------|----------|
| Monthly | \$233.00 | \$145.45 |
| 12 Months | \$221.00 | \$145.45 |
| 24 Months | \$210.00 | \$145.45 |
| 36 Months | \$198.00 | \$145.45 |
| 60 Months | \$186.00 | \$145.45 |

- 20 Bandwidth Per 10/100/1,000 Mbps Port

| | Monthly Rate | Cost |
|-----------|--------------|----------|
| Monthly | \$253.00 | \$158.35 |
| 12 Months | \$240.00 | \$158.35 |
| 24 Months | \$228.00 | \$158.35 |
| 36 Months | \$215.00 | \$158.35 |
| 60 Months | \$202.00 | \$158.35 |

EwET MOE Bandwidth Profile (Cont'd)

- 30 Bandwidth Per 10/100/1,000 Mbps Port

| | Monthly Rate | Cost |
|-----------|--------------|----------|
| Monthly | \$274.00 | \$171.25 |
| 12 Months | \$260.00 | \$171.25 |
| 24 Months | \$247.00 | \$171.25 |
| 36 Months | \$233.00 | \$171.25 |
| 60 Months | \$219.00 | \$171.25 |

- 40 Bandwidth Per 10/100/1,000 Mbps Port

| | Monthly Rate | Cost |
|-----------|--------------|----------|
| Monthly | \$294.00 | \$184.15 |
| 12 Months | \$279.00 | \$184.15 |
| 24 Months | \$265.00 | \$184.15 |
| 36 Months | \$250.00 | \$184.15 |
| 60 Months | \$235.00 | \$184.15 |

EwET Customer Interface

| | Monthly Rate | Cost |
|-----------|--------------|---------|
| Monthly | \$120.00 | \$75.26 |
| 12 Months | \$114.00 | \$75.26 |
| 24 Months | \$108.00 | \$75.26 |
| 36 Months | \$102.00 | \$75.26 |
| 60 Months | \$96.00 | \$75.26 |

Central Office Connecting Channel (COCC)

| | Monthly Rate | Cost |
|---------|--------------|--------|
| Monthly | \$10.00 | \$1.65 |

As part of this filing Qwest is also introducing a Nonrecurring Charge for the Central Office Connecting Channel. The attached Nonrecurring Cost study shows this rate will recover costs.

3. Demand And Revenue Impacts

3.1 Demand Impacts

Qwest expects to add 16 new Central Office Bandwidth profile units and 36 EwET Bandwidth Profile units as a result of this filing. 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 \$199,534 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 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 includes 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 were calculated in two parts. The first set of costs, displayed on Workpapers 2, 3, 5, 6, 7, 8 and 9, contain costs that have been identified as fixed and do not vary with the bandwidth speed. The second set of costs, displayed on Workpapers 1 and 4, contain 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 costs and the associated speed multiplied by the variable cost of \$1.29. For example, the cost for Central Office MOE Bandwidth (100 Bandwidth) would be \$133.61 plus 100 times \$1.29 equaling a total cost of \$262.61.

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 Central Office work group is involved in providing Central Office Connecting Channel (COCC) Qwest MOE Service. This group is responsible for service in the central office and associated testing and administrative functions. They place cross-connects (jumpers), perform cross-office testing and provide support to field installation and control center for circuit testing as required.

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 - 9. 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 10. This Workpaper provides a detailed summary of the work group, work times in minutes, hourly labor rates for the work group and the calculated inward and outward costs.

- 5. Workpapers 1 - 9 - Recurring Unit Costs
Workpaper 10 - Nonrecurring Unit Costs

RECURRING UNIT COSTS

Jurisdiction: Qwest
 Rate Element: Central Office MOE Bandwidth Profile - Weighted Investment per MB (Including 6509s and Excluding Extended Loops)

| | RECURRING COST |
|---|-------------------|
| | Costs |
| A. Total Unit Investment | \$72.49 |
| | |
| <u>B. Capital Costs</u> | |
| Depreciation | \$7.43 |
| Cost Of Money | \$3.31 |
| Income Tax Expense | \$1.36 |
| | |
| <u>C. Operating Expenses</u> | |
| Expense | \$0.00 |
| Maintenance | \$0.77 |
| Other Operating Taxes | \$0.81 |
| Administrative | \$1.76 |
| | |
| D. Total Annual Direct Unit Cost (B + C) | \$15.43 |
| | |
| E. Total Monthly Direct Unit Cost (D / 12) | \$1.29 |

RECURRING UNIT COSTS

Jurisdiction: Qwest
 Rate Element: Central Office MOE Bandwidth Profile Loop

| | RECURRING COST |
|---|-------------------|
| | Costs |
| A. Total Unit Investment | \$34.99 |
| <u>B. Capital Costs</u> | |
| Depreciation | \$1.87 |
| Cost Of Money | \$2.26 |
| Income Tax Expense | \$0.93 |
| <u>C. Operating Expenses</u> | |
| Expense | \$0.00 |
| Maintenance | \$0.11 |
| Other Operating Taxes | \$0.33 |
| Administrative | \$0.71 |
| D. Total Annual Direct Unit Cost (B + C) | \$6.21 |
| E. Total Monthly Direct Unit Cost (D / 12) | \$0.52 |

RECURRING UNIT COSTS

Jurisdiction: Qwest

Rate Element: Central Office MOE Bandwidth Profile per Port

| | RECURRING COST |
|---|-------------------|
| | Costs |
| A. Total Unit Investment | \$7,384.85 |
| <u>B. Capital Costs</u> | |
| Depreciation | \$793.40 |
| Cost Of Money | \$322.96 |
| Income Tax Expense | \$132.87 |
| <u>C. Operating Expenses</u> | |
| Expense | \$0.00 |
| Maintenance | \$81.89 |
| Other Operating Taxes | \$83.75 |
| Administrative | \$182.16 |
| D. Total Annual Direct Unit Cost (B + C) | \$1,597.02 |
| E. Total Monthly Direct Unit Cost (D / 12) | \$133.09 |

RECURRING UNIT COSTS

Jurisdiction: Qwest

Rate Element: EwET MOE Bandwidth - Weighted Investment per MB (Including 6509s and Excluding Extended Loops)

| | RECURRING COST |
|---|-------------------|
| | Costs |
| A. Total Unit Investment | \$72.49 |
| <u>B. Capital Costs</u> | |
| Depreciation | \$7.43 |
| Cost Of Money | \$3.31 |
| Income Tax Expense | \$1.36 |
| <u>C. Operating Expenses</u> | |
| Expense | \$0.00 |
| Maintenance | \$0.77 |
| Other Operating Taxes | \$0.81 |
| Administrative | \$1.76 |
| D. Total Annual Direct Unit Cost (B + C) | \$15.43 |
| E. Total Monthly Direct Unit Cost (D / 12) | \$1.29 |

RECURRING UNIT COSTS

Jurisdiction: Qwest
Rate Element: EwET MOE Loop

| | RECURRING COST |
|---|-------------------|
| | Costs |
| A. Total Unit Investment | \$3.00 |
| | |
| <u>B. Capital Costs</u> | |
| Depreciation | \$0.16 |
| Cost Of Money | \$0.19 |
| Income Tax Expense | \$0.08 |
| | |
| <u>C. Operating Expenses</u> | |
| Expense | \$0.00 |
| Maintenance | \$0.01 |
| Other Operating Taxes | \$0.03 |
| Administrative | \$0.06 |
| | |
| D. Total Annual Direct Unit Cost (B + C) | \$0.53 |
| | |
| E. Total Monthly Direct Unit Cost (D / 12) | \$0.04 |

RECURRING UNIT COSTS

Jurisdiction: Qwest

Rate Element: EwET MOE Bandwidth per Port

| | RECURRING COST |
|---|-------------------|
| | Costs |
| A. Total Unit Investment | \$2,891.84 |
| | |
| <u>B. Capital Costs</u> | |
| Depreciation | \$310.69 |
| Cost Of Money | \$126.47 |
| Income Tax Expense | \$52.03 |
| | |
| <u>C. Operating Expenses</u> | |
| Expense | \$0.00 |
| Maintenance | \$32.07 |
| Other Operating Taxes | \$32.79 |
| Administrative | \$71.33 |
| | |
| D. Total Annual Direct Unit Cost (B + C) | \$625.38 |
| | |
| E. Total Monthly Direct Unit Cost (D / 12) | \$52.11 |

RECURRING UNIT COSTS

Jurisdiction: Qwest
 Rate Element: EwET MOE per Port/Central Office

| | RECURRING COST |
|---|-------------------|
| | Costs |
| A. Total Unit Investment | \$4,461.53 |
| | |
| <u>B. Capital Costs</u> | |
| Depreciation | \$479.33 |
| Cost Of Money | \$195.11 |
| Income Tax Expense | \$80.27 |
| | |
| <u>C. Operating Expenses</u> | |
| Expense | \$0.00 |
| Maintenance | \$49.48 |
| Other Operating Taxes | \$50.59 |
| Administrative | \$110.05 |
| | |
| D. Total Annual Direct Unit Cost (B + C) | \$964.83 |
| | |
| E. Total Monthly Direct Unit Cost (D / 12) | \$80.40 |

RECURRING UNIT COSTS

Jurisdiction: Qwest
 Rate Element: EwET Customer Interface

| | RECURRING COST |
|---|-------------------|
| | Costs |
| A. Total Unit Investment | \$4,176.01 |
| | |
| <u>B. Capital Costs</u> | |
| Depreciation | \$448.65 |
| Cost Of Money | \$182.63 |
| Income Tax Expense | \$75.13 |
| | |
| <u>C. Operating Expenses</u> | |
| Expense | \$0.00 |
| Maintenance | \$46.31 |
| Other Operating Taxes | \$47.36 |
| Administrative | \$103.01 |
| | |
| D. Total Annual Direct Unit Cost (B + C) | \$903.09 |
| | |
| E. Total Monthly Direct Unit Cost (D / 12) | \$75.26 |

RECURRING UNIT COSTS

Jurisdiction: Qwest

Rate Element: CENTRAL OFFICE CONNECTING CHANNEL (COCC)

| | RECURRING COST |
|---|-------------------|
| | Costs |
| A. Total Unit Investment | \$91.80 |
| <u>B. Capital Costs</u> | |
| Depreciation | \$9.86 |
| Cost Of Money | \$4.01 |
| Income Tax Expense | \$1.65 |
| <u>C. Operating Expenses</u> | |
| Expense | \$0.00 |
| Maintenance | \$0.93 |
| Other Operating Taxes | \$1.04 |
| Administrative | \$2.25 |
| D. Total Annual Direct Unit Cost (B + C) | \$19.75 |
| E. Total Monthly Direct Unit Cost (D / 12) | \$1.65 |

NONRECURRING UNIT COSTS

Qwest

METRO OPTICAL ETHERNET - CENTRAL OFFICE CONNECTING CHANNEL

| Labor Group | Time In Minutes | Labor Rate Per Hour | Costs |
|--|--------------------|------------------------|---------------|
| <i>Inward Costs</i> | | | |
| Central Office | 4.00 | \$49.67 | \$3.31 |
| <i>Subtotal - Inward</i> | | 4.00 | \$3.31 |
| <i>Outward Costs</i> | | | |
| Central Office | 2.30 | \$49.67 | \$1.90 |
| <i>Subtotal - Outward</i> | | 2.30 | \$1.90 |
| <i>Total Inward & Outward</i> | | 6.30 | \$5.22 |