# Staff Analysis

## of Qwest's "Washington Impact Response 3" of August 7, 2007

Qwest provided Staff a summary of the financial impacts of all the changes proposed in Qwest's Petition Exhibit 1 (Stipulation). After reviewing Qwest's informal data response "Washington Impact Response 3," submitted August 7, 2007, Staff prepared Table 1.[1] Staff provides the following discussion of the three most significant QPAP changes.

The One Allowable Miss for Benchmark and Non-interval Parity Measures proposal[2] reduces Qwest's payment liability by 19% for Tier 1 and 2% for Tier 2. It allows Qwest to avoid a payment if 100% performance would be required to meet its benchmark, or if 100% performance would be required to meet non-interval parity performance sub-measures when CLEC aggregate results do meet the standard. (See UT-073034 Qwest Petition Exhibit 2 ¶ 2.4 and 4.2)

The Modify Minimum Payment Provisions proposal[3] reduces Qwest's payment liability by 23% for Tier 1 payments to CLECs. It replaces the $2,000 minimum payment for each month in which at least one payment was made by Qwest that is currently in the QPAP with a tiered minimum payment approach that varies from $0 to $2,500 based on the actual amount paid by Qwest to CLECs. The payments in both cases are only made to CLECs with annual order volumes of no more than 1,200. (See UT-073034 Qwest Petition Exhibit 2 ¶ 6.4)

The Modify Tier 2 Payment Provisions proposal[4] reduces Qwest's payment liability by 56% for Tier 2 payments to the commission. Even if we assume that the removal of DSL, per the FCC's order,[5] had a cumulative effect on this provision, Qwest's payment liability would still be reduced by 55%. The proposal replaces the current requirement to make payments

[1] Qwest provided the information in columns 2 through 7. Staff computed the percentages in column 8 by dividing the dollar amounts in column 6 by the total annual Tier 1 payments to CLECs of $156,680. Staff computed the percentages in column 9 by dividing the dollar amounts in column 7 by the total annual Tier 2 payments to the Commission of $173,374. There may be insignificant differences between the annual amount directly related to the data in the informal response from Qwest and the annual amount used in Staff's analysis because the reporting month is two months before the payment month. (That is, the January payment is based on the November report.)

[2] See UT-073034 Qwest Petition Exhibit 1 ¶ 24, 25.

[3] Id. ¶ 26-28.

[4] Id. ¶ 31, 32.

[5] Id. Fn. 1.

when Qwest misses its performance standards in one month with a payment only when Qwest misses three consecutive months. (See UT-073034 Qwest Petition Exhibit 2 ¶ 7.1-7.5)

## Table 1 - Staff Analysis of Qwest's "Washington Impact Response 3" August 7, 2007

*Performance Period 7/06-6/07 unless otherwise noted
**Comparison to total payment percentages not additive – Revision impacts overlap

| *Revision** | Actual Tier 1 Payment* | Actual Tier 2 Payment* | Revised Tier 1 Payment* | Revised Tier 2 Payment* | Tier 1 Change | Tier 2 Change | **Comparison to Total Tier 1 Payment* $156,680 | **Comparison to Total Tier 2 Payment* $173,374 |
|---|---|---|---|---|---|---|---|---|
| **Remove resale DSL per FCC** | $6,113 | $2,100 | 0 | 0 | -$6,113 | -$2,100 | -4% | -1% |
| **Change DSL parity** | $2,503 | | Unknown | | Unknown | Not applicable | | Not applicable |
| **Reinstatement/ removal** | | | | | -$1,344 | No change | -1% | No change |
| **Exclude TOK & NKF** | $6,203 | 0 | Reduces | Reduces | Unknown | Unknown | | |
| **BI-3A** | $25,000 | Not applicable | $30,000 | Not applicable | +$5,000 | Not applicable | 3% | Not applicable |
| **One allowable miss** | | | | | -$29,631 | $-4,200 | -19% | -2% |
| **Minimum Payments – based on Dec. 2006** | $88,895 | Not applicable | $53,000 | Not applicable | -$35,895 | Not applicable | -23% | Not applicable |
| **Remove Low Volume products** | | | | | -$5,176 | -$4,200 | -3% | -2% |
| **Three month trigger** | Not applicable | $145,500 | Not applicable | $48,700 | Not applicable | -$96,800 | Not applicable | -56% |
| **Remove escalation cap** | | | | | No change | No change | No change | No change |

**Request:** *Provide state specific financial impacts on Tier 1 and Tier 2 for the last year as if the PAP had been operating under the proposed revisions, e.g., Reinstatement/Removal provisions.*

**Response:** Qwest provides the following estimates of financial impact from the various proposed changes on Tier 1 and/or Tier 2 as applicable for the performance period of July 2006 through June 2007 ("performance period"). Because some items would require extensive reruns of the reporting system as well as various source systems (e.g. WFAC and RSOR) to create new master files from which to reprocess raw data and then calculations outside of the production environment, those items have not been not calculated however, Qwest provides additional information that may be useful to evaluate the impact of the change.

Remove resale DSL and change retail comparatives currently using DSL
Qwest paid $6,113 in Tier 1 and $2,100 in Tier 2 payments for the resale DSL product. Qwest paid an additional $2,503 in Tier 1 payments for wholesale products currently compared to retail DSL service.

Had the proposed changes been in effect for the same time period both amounts, the $6,113 Tier 1 and the $2,100 Tier 2, would have been reduced to $0 because resale DSL would not have been subject to any payment. Qwest is unable to determine the increase or decrease in the additional $2,503 Tier 1 payments attributable to the other wholesale products without reprocessing the raw data for the 12 month period and applying the appropriate statistical tests to the results based on the new proposed retail analogue.

Modify MR-11 PID Title
There is no financial impact from the proposed change.

Update ISDN Capable Loop and 2W Non-Loaded Loop
There is no financial impact from the proposed change.

Update PO-20 to Reflect Fully Implemented
There is no financial impact from the proposed change.

Reinstatement/Removal Process
Had the reinstatement/removal process been in place beginning in July 2006, Tier 1 payments would have been reduced by $1,344 but Tier 2 would have incurred no impact because the measures included within the process did not generate any payments for the performance period.

Modify MR-6 PID to Exclude TOK/NTF

This change has been proposed to provide more of an apples-to-apples comparison in reporting the mean time to restore. Removing TOK/NTF tickets with a duration of one hour or less from both the retail and wholesale results provides a more accurate depiction of Qwest's interval to restore service when Qwest undertakes actual repair activity. While these short duration TOK/NTF tickets cause the mean time to restore to shorten for both retail and wholesale, the presence of these tickets also negatively impacts the comparison between UNEs and finished retail services. The impact is the result of the disparate number of TOK/NTF tickets between retail and wholesale. The wholesale maintenance and repair process calls for CLECs to first isolate trouble to the Qwest network before initiating trouble reports thereby significantly reducing the number of tickets that result in no trouble being found. Conversely, retail customers experiencing trouble have no network of their own to test before reporting a problem to their service provider, Qwest; the result being a much larger number of these short-duration TOK/NTF tickets reducing the overall retail mean time to restore.

Qwest does not have an estimated financial impact from this change. Estimating revised payment amounts would require considerable resource and additional time to allow systems to reprocess the raw data with the new exclusion applied and then apply the statistical tests and PAP payment calculations to the revised results.

Change BI-3A Standard and Payment Amounts

The proposed BI-3A changes would have increased the Tier 1 payment total from $25,000 to $30,000 for the performance period. Since BI-3A is not a Tier 2 measure there would be no impact to Tier 2 payments.

One Allowable Miss

The new one allowable miss provision alleviates payments made when 100% performance is required to avoid them. This change would have reduced Qwest's Tier 1 payments by an estimated $29,631. There would have been ~~no impact to~~a $4200 Tier 2 payment decrease from this proposal.

Minimum Payments

Because minimum payments are assessed in December of each year based on the prior 12 months of performance, Qwest is providing an estimate of the impact on the minimum payments that were paid in December 2006 for the prior 12 months. Had the revised minimum payment structure been in place, Qwest would have paid CLECs $53,000 rather than the $88,895 actually paid in minimum payments. Minimum payments have no impact on Tier 2 payments.

Remove Low Volume Products from the PAP
Had the agreed to products been removed from the PAP for the performance period, Tier 1 payments would have been reduced by an estimated $5,176 and Tier 2 payments would have reduced by an estimated $4,200.

Tier 2 Payment Trigger Change
When the performance period is assessed using the MT multiple month trigger for Tier 2 payments, the adjusted Tier 2 payment amount is estimated to be $48,700. Under the existing single month payment trigger, Tier 2 payments totaled $145,500.

Remove Tier 1 Escalation Cap
Because there were no measures that had consecutive misses exceeding the existing escalation cap in WA, there is no financial impact from this change.

The above amounts reflect Qwest's best estimate of how each proposed change would have impacted payments for the performance period (with the exception of Minimum payments which was assessed on the payments made in December 2006). Qwest is unable to provide an integrated estimate, i.e., one that accounts for the impact of multiple changes collectively, without actually coding all the proposed changes in the PAP system. This has not been completed and will not be completed unless and until the stipulated changes are made effective.. Simply adding the individual estimates will result in an overestimation of the financial impact because the individual estimates do not and cannot account for the overlapping impact of multiple changes on the same actual Tier 1 or Tier 2 payment amounts.