Qwest

EXECUTIVE SUMMARY

WASHINGTON

BATCH
HOT
CUT

NONRECURRING
COST
STUDY

Study ID #8161

2004

JANUARY 2004

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A. PURPOSE, SCOPE, AND APPLICATION

This study estimates forward-looking nonrecurring total element long run incremental costs Qwest will incur to provide Batch Hot Cut of Unbundled Analog Loops. Nonrecurring costs represent the one-time costs that are incurred in order to establish and disconnect the service. The study identifies the costs for various work activities involved in providing the service. The study results represent fully allocated 2004 costs and may be used for pricing and other management decisions.

B. DESCRIPTION OF SERVICE

Batch Hot Cut is an installation option available for "batches" of at least 25 loops per CLEC located in the same CO, and up to 100 existing analog loops per CO per day, which do not require the dispatch of a Qwest outside field technician. The Batch Hot Cut process is for the conversion of the embedded base of UNE-P customers and for the conversion and migration of existing analog (voice) service to unbundled analog loops. The cost is per loop.

C. STUDY METHODOLOGY

The Nonrecurring Cost Program (NRC) performs mechanized cost calculations associated with the one time labor expense resulting from a customer request for service. Inputs to the calculations include: labor time, probability of occurrence, labor rate, and expense factors. Formatting commands performed by the program generate Total Element Long Run Increment Cost (TELRIC) results.

Following is a description of the required data inputs:

Time Estimates:
The time estimate is the average amount of time required to perform a particular work function. Time estimates are obtained from subject matter experts who represent the groups doing the work.

Probabilities:
A probability is the percentage of time Qwest performs a particular work function in the provision of a particular service offering. Probabilities are developed from reports and from the input of Subject Matter Experts.

Labor Rates:
Labor rates are based on incurred expense data from the general ledger journal file. The labor rates consist of costs that can be attributed to the function being performed and are forward looking based on the wage/salary index and the consumer price index. Components that make up labor rates include: basic wages, management/supervision/clerical support, benefits, other miscellaneous costs and as appropriate, motor vehicle and general purpose tools.

Expense Factors:
The program applies expense factors to the direct cost. The factors include Commercial Marketing, Network Support, Directly Attributable, and Common.

C. STUDY METHODOLOGY (Cont'd)

Once the service provisioning process has been identified, the appropriate times, Probabilities, and labor rate/work group identifies are formatted into NRC Program input data sheets. The process specific input files are then inserted into the NRC Program. The program user selects run options on a menu, and the NRC program then accesses the appropriate input from the NRC program workbook spreadsheets to calculate cost results.

The cost calculations consist of Labor Time times Probability of Occurrence times Labor Rate equals Direct Cost. Added to the Direct cost are appropriate Expense Factors that calculate and display **Total Direct (TELRIC)** Total Element Long Run Incremental Cost, **Direct *plus* Network Support, Direct *plus* Network Support *plus* Attributable**, and **Fully Allocated Costs**. (See *Section D, Description of Total Element Long Run Incremental Costs* for detailed description of the various cost levels).

D. DESCRIPTION OF TOTAL ELEMENT LONG RUN INCREMENTAL COSTS

Qwest performs Total Element Long Run Incremental Cost (TELRIC) studies to estimate the economic cost of providing network elements. The Qwest TELRIC studies identify the forward-looking costs associated with the provision of the total quantity of a network element in the long run. The *forward-looking* Qwest TELRIC studies identify the costs that are likely to be incurred in the future, and consider the latest forward-looking technologies and methods of operation that are currently available. These studies are *not* embedded or historical, and do not measure the impact of prior investment decisions by the corporation. The Qwest TELRIC studies also identify the *long run* costs associated with providing a network element—reflecting a time period over which all inputs (including changes in the size of facilities, levels of investment, etc.) can be adjusted.

The Qwest cost study format disaggregates the cost results, on a unitized basis, into the following components:

Investment-Based Costs and Element-Specific Expenses are direct costs. Investment Based Costs are associated with recurring cost elements and include the capital costs (e.g., depreciation, return, and taxes) property taxes, and maintenance costs associated with the investment required for provisioning a network element. Element-specific Expenses are other network element costs such as billing and for non-recurring costs, the labor-related expenses associated with the provision of a network element.

Marketing is a direct product group cost. Marketing costs include product management and sales expenses that Qwest's accounting records typically allow tracking down to a particular product or service group.

Support Assets and Expenses include various administrative costs such as the cost of general-purpose computers and business fees. These costs are not directly associated with a specific network element. However, these costs vary with the provision of all network elements, and are not common to the entire firm.

D. DESCRIPTION OF TOTAL ELEMENT LONG RUN INCREMENTAL COSTS (Cont'd)

Total Element Long Run Incremental Costs (TELRIC) represent the sum of all direct and directly assigned / allocated costs (e.g., Investment-Based Costs and Element-Specific Expenses, Marketing, Network Support Assets and Expenses. This measure of costs includes the forward-looking costs incurred in the provision of a network element. This measure of costs is consistent with TELRIC as defined by the FCC.

Indirect and Common Costs are associated with the enterprise as a whole. These costs do vary based on the total size of the firm, but may not vary with the provisioning of individual network elements. These costs are avoidable only with the elimination of the entire firm, and are sometimes referred to as *general overhead costs.*

Fully Allocated Costs represent the sum of Total Element Long Run Incremental Cost plus Common Costs (TELRIC + CC).

E. STUDY ASSUMPTIONS

The cost factors used in this study are based on 13.07% cost of money.

F. STUDY SUMMARY

Study Summary

Study Name	WASHINGTON BATCH HOT CUT		
Study Requester	*Bob Brigham*		
Type of Study	*Total Element Long Run Incremental Costs (TELRIC)*		
Study ID	#8161		
Completion Date	*January 21, 2004*		
Cost Analyst	*Dan Deffley*		
Cost Models Used	**Model**	**Version**	
	ENRC	*2.29*	
	Cost Factors	*2001WA03E*	
Cost Factors Used	**Factor**		**Effective Date**
	Directly Assigned		*9/03*
	Directly Attributable		*9/03*
	Common		*9/03*
Cost of Money	*13.07%*		
Major Cost Drivers			