

BEFORE THE SOUTH DAKOTA PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF DETERMINING)
PRICES FOR UNBUNDLED NETWORK)
ELEMENTS (UNEs) IN QWEST)
CORPORATION'S STATEMENT OF)
GENERALLY AVAILABLE TERMS (SGAT))**

DOCKET NO. TC01-098

QWEST CORPORATION

REBUTTAL TESTIMONY

OF

E. CRAIG MORRIS

July 28, 2003

TESTIMONY INDEX

	<u>Page</u>
EXECUTIVE SUMMARY	i
I. IDENTIFICATION OF WITNESS	1
II. PURPOSE OF TESTIMONY	2
III. BASES FOR THE INCLUSION OF PRODUCT MANAGEMENT AND SALES COST IN DETERMINING UNE PRICING	3
IV. CONCLUSION	8

EXECUTIVE SUMMARY

E. Craig Morris is employed by Qwest as a Senior Staff Advocate – Qwest Wholesale Division. In this position, he is responsible for various regulatory and management compliance and witnessing functions. During the course of his 29 years of employment with the Company, Mr. Morris' responsibilities have included product development and support, sales and marketing, and development of organizational strategies, processes and systems Qwest has in place and uses for CLEC support. Mr. Morris rebuts the direct testimony of Mr. Peter J. Gose, provided as a Consultant to the Staff, regarding the proper handling of wholesale Product Management and Sales expenses in the development of UNE pricing in this proceeding. His testimony addresses and explains:

- the functions of Qwest's wholesale Product Management and Sales organizations,
- why these functions and their associated costs are necessary to the conduct of successful CLEC market operations, and
- why Qwest wholesale-related Product Management and Sales costs should be included in setting UNE prices in this proceeding

1 **I. IDENTIFICATION OF WITNESS**

2
3 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

4
5 **A.** My name is Elmer Craig Morris. I am employed by Qwest as a Senior Staff Advocate. My
6 business address is 301 West 65th Street, Richfield, Minnesota,

7
8 **Q. PLEASE DESCRIBE YOUR PROFESSIONAL QUALIFICATIONS.**

9
10 **A.** I have been employed by Qwest Corporation ("Qwest"), formerly Northwestern Bell
11 Telephone Company and U S WEST Communications, for 29 years. During this time, I have
12 worked in the Network, Carrier, Finance and IT organizations, as well as Qwest's Retail and
13 Wholesale product and marketing organizations. The scope of my current work assignment
14 includes providing testimony and information regarding Qwest's wholesale products and
15 services in these and similar proceedings. I also serve as an Adjunct faculty member at Brown
16 College, where I instruct courses on marketing, marketing strategies and economics. I have a
17 Bachelor of Arts degree in Economics and Public Administration from the University of St.
18 Thomas in Minneapolis, Minnesota, and a Master of Science degree in Management from
19 Stritch University, Milwaukee, Wisconsin.

20

1 **Q. WHAT SPECIFIC WORK ACTIVITIES HAVE YOU BEEN ASSOCIATED WITH**
2 **THAT QUALIFY YOU TO TESTIFY IN THIS AREA?**

3
4 **A.** In 1994, I worked in the Network organization. The focus of my assignments in that
5 organization included, not only assessing and understanding the Federal Telecommunications
6 Act (the Act), but also defining the organizational structures that would be required of Qwest
7 in the support and delivery of wholesale services to CLECs. That work determined that
8 functions such as Product Management and Sales are required for the provision of wholesale
9 services and that they needed to be performed within a separate organizational entity within
10 Qwest. It was further determined that these functions should be performed separate and apart
11 from those of Qwest's Retail organizations. Thus, the decision was made to create the
12 Wholesale Market organization. Prior to 1996, Qwest's predecessor created a Wholesale
13 division. In 1996 my work transitioned to this new wholesale organization.

14
15 **Q. HAVE YOU PREVIOUSLY PROVIDED TESTIMONY IN THIS PROCEEDING?**

16
17 **A.** No.

18

19 **II. PURPOSE OF TESTIMONY**

20

21 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

1 A. My testimony rebuts the position of Mr. Gose and demonstrates why it is appropriate and
2 correct to include Product Marketing and Sales expenses associated with the conduct of
3 “wholesale” operations in the pricing of Unbundled Network Elements (UNEs) under review in
4 this proceeding. I am providing this testimony in addition to that of Ms. Marti Gude, who
5 addresses this subject in her testimony in the context of the marketing cost factors used in
6 Qwest’s ICM cost study. Without actually making an adjustment to exclude such costs, Mr.
7 Gose nevertheless suggests that it might be appropriate to exclude such expenses in pricing
8 UNEs because he characterizes such costs as being “Retail” functions-- functions he construes
9 as unnecessary and redundant, or as not applicable or required by CLECs. His brief and
10 unsupported statements are flawed and cannot be substantiated given the obligations imposed on
11 Qwest to ensure that CLECS have a meaningful opportunity to compete within the marketplace,
12 not only with other CLECs, but with Qwest as well.

13
14 **III. BASES FOR THE INCLUSION OF PRODUCT MANAGEMENT**
15 **AND SALES COSTS IN DETERMINING UNE PRICING**
16

17 **Q. WHY DID QWEST BELIEVE THAT WHOLESALE PRODUCT MANAGEMENT**
18 **AND SALES BUSINESS FUNCTIONS NEEDED TO BE PLACED IN A SEPARATE**
19 **ENTITY?**

20
21 A. The ability for Qwest to demonstrate its commitment to CLECs and to ensure that CLEC
22 operations and information were kept separate and apart from Qwest’s retail resources, were

1 two of the compelling reasons Qwest decided to form a separate Wholesale organization with
2 unique marketing (i.e., product management and sales) functions.

3
4 **Q. DO CLECS REQUIRE SEPARATE AND DEDICATED SALES AND PRODUCT**
5 **SUPPORT FROM QWEST?**

6
7 **A.** Yes, they do. CLECs have unique and separate needs from retail customers. I have included
8 in my Exhibit ECM - 1, a chart that discerns the unique attributes of the customer
9 segmentation between end users and CLECs. From this table you can see that the needs of
10 each group are quite different. It is this very market segmentation that Qwest has used to
11 determine the structure that is in place today. Qwest retail operations have a mission that is
12 specific to retail "end user" purchasers of Qwest products. Retail customers typically purchase
13 "finished" products and services. Wholesale customers on the other hand, typically purchase
14 portions (UNEs) of finished services. Therefore, the manner of ordering, provisioning and
15 billing is separate and distinct from that of a retail customer.

16
17 **Q. ARE THERE ANY OTHER REASONS WHY QWEST DECIDED TO SEPARATE**
18 **OUT ITS WHOLESALE ENTITY TO PERFORM WHOLESALE SALES AND**
19 **PRODUCT FUNCTIONS?**

20
21 **A.** Yes. In a wholesale environment, and under the provisions of the Act, Qwest can best meet
22 the needs, and provide the services required by CLECs, if a separate entity is employed. If

1 Qwest failed to provide these dedicated resources, CLECs would likely argue that Qwest
2 could advantage itself by only deploying its resources to support Qwest's retail functions, thus
3 providing no CLEC-specific dedicated resources, or that its retail organization could avail
4 itself to CLEC data.

5
6 **Q. WHAT SPECIFIC FUNCTIONS ARE PERFORMED WITHIN QWEST THAT ARE**
7 **REQUIRED TO SUPPORT THE NEEDS OF CLEC IDENTIFIED IN THIS**
8 **PROCEEDING?**

9
10 **A.** Within the Qwest Wholesale division the following functions are performed:

- 11 • Sales (Account Management)

12 Qwest also has a Product organization outside of the Wholesale division employing dedicated
13 Wholesale and Retail product personnel.

14
15 **Q. WHAT FUNCTIONS ARE TYPICALLY PERFORMED BY PRODUCT**
16 **MANAGERS?**

17
18 **A.** Companies producing a variety of products and brands typically establish a product
19 management organization. Such an organization makes particular sense if the company's
20 products are quite different, or if the sheer number of products is beyond the ability of a
21 functional marketing organization to handle -- such as is the case with Qwest. Product
22 Managers at Qwest perform the following tasks for their specific products / product groups:

- 1 • Developing a long-range strategy for the product.
- 2 • Preparing an annual marketing plan and sales forecast.
- 3 • Stimulating support of the product among the sales force and distributors.
- 4 • Gathering continuous intelligence on the product's performance.
- 5 • Initiating product improvements to meet changing market needs or regulatory
- 6 requirements.

7 In general, these tasks are common to both consumer (Retail) and industrial (Wholesale)

8 operations. However, consumer product managers typically manage fewer products and spend

9 more time on advertising and sales promotion. Industrial product managers spend more time

10 with customers and laboratory and engineering personnel since they're more concerned about

11 the technical aspects of their product and with possible design improvements. They also work

12 much more closely with the sales force and key buyers. The product management organization

13 introduces several advantages. The product manager can concentrate on developing a cost-

14 effective marketing mix for the product. The product manager can also react more quickly to

15 product changes that are necessary in responding to the marketplace.

16

17 **Q. WHAT SPECIFIC TASKS ARE PERFORMED ON BEHALF OF CLECS BY THE**

18 **QWEST PRODUCT TEAMS?**

19

20 **A.** Wholesale Product management is dedicated solely to product life cycle and management of

21 CLEC products. This includes but it not limited to the pre-order, order, provisioning billing,

22 and support processes associated with each assigned product. Often this requires leadership to

1 understand the needed refinements or improvement for the processes that support each
2 product. From my personal experience product managers are routinely involved in customer
3 meetings to discuss product attributes, performance or applications. Product managers are
4 responsible for the information and updates provided to CLEC's on the Qwest Wholesale
5 Website and through other media that describe how to order and service products found in the
6 Qwest Product Catalogue. Product managers spend a good portion of their time working
7 internally on specific customers requests with our Sales, Engineering, or System development
8 personnel. Finally, Qwest product managers spend a portion other time reviewing and
9 analyzing rate information to ensure correct charges for the products are correctly applied in
10 rate information, our systems and contracts as changes to this documentation take place.

11
12 **Q. WHAT FUNCTIONS ARE PERFORMED BY SALES MANAGERS (ACCOUNT**
13 **EXECUTIVES)?**

14
15 **A.** Qwest Account teams (Sales Personnel) are typically the first point of contact for CLECs who
16 wish to discuss or resolve questions, concerns or issues that have a direct impact on a CLEC's
17 ability to procure service from Qwest. In addition to making CLECs aware of products and
18 processes available to them, the Sales personnel are often the "go to" person if the CLEC has
19 a problem or needs a point of escalation for provisioning or repair issues. These personnel are
20 required to provide pager or cell phone information and for all intents and purposes, are on
21 call 24/7 should the need arise for their assistance. Sales personnel also are responsible for
22 ensuring that contract negotiations and amendments are executed in a timely and efficient

1 manner. Finally, the Sales personnel develop performance improvement plans with CLECs
2 and often participate in the Change Management Process (CMP) meetings or perform
3 leadership advocacy on behalf of the CLEC, for service improvements. Thus, contrary to Mr.
4 Gose's characterization, these executives do far more than "answer an occasional phone call."
5 Again from my personal experience, a majority of the daily activities of Qwest's Wholesale
6 sales personnel is spent meeting face to face, and or, communicating via phone, fax or email,
7 with the customer. Qwest sales personnel are rarely in offices just taking "an occasional call."
8 Customer contacts are the "norm" for communicating about the existing base of services
9 provided to customers and also communicating to customer's enhancements, changes to our
10 processes, new systems or access information. These same personal are also dedicated to
11 servicing each account such as providing information about how Qwest can better assist our
12 customers in their operations, answering billing questions or disputes, resolving contract
13 issues, as well as promoting products to new and potential customers.

1
2
3 **IV. CONCLUSION**

4
5 **Q. PLEASE SUMMARIZE YOUR TESTIMONY.**

6 **A.** Qwest has assessed the needs of its CLEC customers and has built an organization, and
7 structured its business, to meet both the needs and expectations of its CLEC customers. It is
8 disingenuous for Mr. Gose to suggest here, just as he did as a CLEC advocate for WorldCom
9 in Washington, that wholesale-related product management and sales costs are insignificant
10 and that such costs should be excluded in the pricing of UNE services. CLECs have ever-
11 growing needs for the assistance and support provided by Qwest in their delivery of service to
12 their customers. Qwest plays a significant role in assisting and often enabling CLECs to
13 succeed. Therefore, it is appropriate and correct for this Commission to include Qwest's
14 wholesale-related Product and Sales expense in the pricing of UNEs in this proceeding.

15 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**

16
17 **A.** Yes.

RETAIL

CUSTOMER	PRODUCT	ATTRIBUTES	NEEDS FOR SUPPORT
End User	Dial Tone Features	Permits calling Call enhancement Finished Service	Ordering, billing, repair " " "

WHOLESALE

CUSTOMER	PRODUCT	ATTRIBUTES	NEEDS FOR SUPPORT
CLEC	Resold Services	Permits access to all Retail services	Unique Ordering, billing, repair
Facility based	Access to Switching Trunking OSS's	Dial tone/Call routing Transport Database information	Unique Ordering, billing, repair
UNE Purchaser	Unbundled Switching	Must be designed and Combined with other elements to provide a finished service to an end user	Unique Ordering, billing, repair
	POTS Centrex ISDN DSS PBX PAL		