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BEFORE THE ARIZONA CORPORATION COMMISSION

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MARC SPITZER
Chairman

WILLIAM MUNDELL
Commissioner

JEFF HATCH-MILLER
Commissioner

MIKE GLEASON
Commissioner

KRISTIN MAYES
Commissioner

IN THE MATTER OF QWEST
CORPORATION'S FILING AMENDED
RENEWED PRICE REGULATION PLAN

DOCKET NO. T-01051B-03-0454

NOTICE OF FILING ORIGINAL
UPDATED AFFIDAVIT OF PHILIP E.
GRATE AND UPDATED
PRODUCTIVITY ANALYSIS

On March 5, 2004 Qwest Corporation ("Qwest") filed an Updated Productivity Analysis and a copy of the Affidavit of Philip E. Grate. Qwest hereby files the **original** updated Affidavit of Philip E. Grate and updated Productivity Analysis in the above referenced matter.

RESPECTFULLY SUBMITTED this 15th day of March, 2004.

FENNEMORE CRAIG

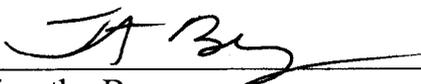
Arizona Corporation Commission

DOCKETED

MAR 15 2004

DOCKETED BY 

By:



Timothy Berg
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Phoenix, Arizona 85012-2913
(602) 916-5421

ORIGINAL and 13 copies delivered this 15th day of March, 2004 to:

Docket Control
ARIZONA CORPORATION COMMISSION
1200 W. Washington St.
Phoenix, AZ 85007

1 this 15th day of March, 2004 to:

2 Jane Rodda
3 Administrative Law Judge
4 ARIZONA CORPORATION COMMISSION
5 1200 W. Washington St.
6 Phoenix, AZ 85007

7 Maureen A. Scott
8 Legal Division
9 ARIZONA CORPORATION COMMISSION
10 1200 W. Washington St.
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12 Ernest G. Johnson, Director
13 Utilities Division
14 ARIZONA CORPORATION COMMISSION
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16 Phoenix, AZ 85007

17 COPY of the foregoing mailed
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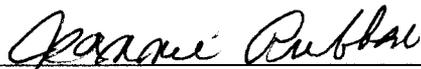
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21 
22 _____
23 1523940/67817.336

a 4.2 percent productivity factor based on Qwest's historic Arizona productivity during a four-year period from 1995 to 1998.² The 4.2 percent annual productivity factor was incorporated into the Settlement Agreement as a compromise to the respective positions of the parties, and included 0.5 percent consumer dividend.³ The calculation of the 4.2 percent annual productivity factor based on Qwest's 1995 to 1998 MR intrastate data, plus a 0.5 percent consumer dividend, can be found in Attachment A to this affidavit.

5. A calculation of Qwest's annual productivity from 1999 through 2002 can be found in Attachment B. The calculation yields an average annual productivity factor, excluding any consumer dividend, of negative 1.2 percent. The algorithms and data sources used in Attachment B are the same as in Attachment A except that the data used in Attachment A is for the four-year period 1995 through 1998 while the data used in Attachment B is for the four-year period 1999 through 2002. Arizona MR intrastate data for 2003 is not yet available.

6. The annual financial data used in Attachment B reflect the effect of the restatement of Qwest's financial statements for the years 2000, 2001 and 2002. The data and algorithms in Attachment B are the same as the data and algorithms in the revised Exhibit B (filed with the ACC January 9, 2004) to Qwest's Notice of Renewed Price Regulation Plan filed with the ACC July 1, 2003.

² Decision No. 63487, page 10, lines 9 and 10.

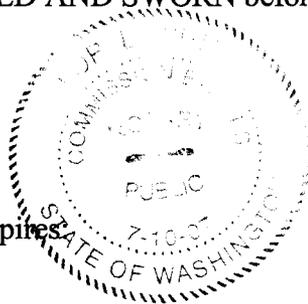
³ Settlement Agreement, pages 5 and 6.

Affiant has read the foregoing Affidavit, knows the contents thereof, and states that the foregoing is true according to his best knowledge, information and belief.

DATED this 4th day of March, 2004


Philip E. Grate

SUBSCRIBED AND SWORN before me this 4th day of March, 2004




Notary Public

My Commission Expires

7/10/07

Arizona Productivity Analysis - 1995 to 1998
MR Intrastate
(\$000's)

Affidavit of Philip E. Grate
Attachment A

Line No.	Item	Source	1994	1995	1996	1997	1998*
INPUTS							
1	Intrastate Expenses						
2	Maintenance	1990's Report	179,310	187,774	205,041	200,848	206,061
3	Engineering/Network/Access/Other	1990's Report	68,910	71,773	65,179	48,964	52,927
4	Customer Operations	1990's Report	140,269	153,528	161,304	172,445	164,816
5	Corporate Operations	1990's Report	120,992	116,446	127,985	143,530	155,888
6	TOTAL EXPENSE		509,481	529,521	559,509	565,787	579,692
7	DEFLATED EXPENSE (1988 \$)	L6/L28*100	418,431	423,614	438,271	433,366	439,729
8	YEAR OVER YEAR GROWTH	(L7 Curr. Yr./Prev. Yr.)-1		1.2%	3.5%	-1.1%	1.5%
CAPITAL - Intrastate Investment							
9	Average Gross Plant In Service	1990's Report	2,748,270	2,896,085	3,075,298	3,249,626	3,351,980
10	Year over Year Additions	L9 Curr. Yr. - Prev. Yr.		147,815	179,213	174,328	102,354
11	Deflated Additions (1988 \$)	L10/L28*100		118,251	140,380	133,527	77,641
12	Plant in Service Without Inflation	L11+Prev. Yr. L12	2,639,976	2,758,228	2,898,609	3,032,137	3,109,778
13	Auth Rate of Return	Input	9.75%	9.75%	9.75%	9.75%	9.75%
14	TOTAL CAPITAL EXPENSE	L12*L13	257,398	268,927	282,614	295,633	303,203
15	YEAR OVER YEAR GROWTH	(L14 Curr. Yr./Prev. Yr.)-1		4.5%	5.1%	4.6%	2.6%
16	TOTAL EXPENSE	L7+L14	675,828	692,541	720,885	728,999	742,932
17	YEAR OVER YEAR GROWTH	(L16 Curr. Yr./Prev. Yr.)-1		2.5%	4.1%	1.1%	1.9%
OUTPUTS							
18	REVENUES						
19	Operating Revenues	1990's Report	813,423	884,920	961,388	1,017,826	1,072,695
20A	Rate Adjustments	Notes	-15,153	-31,579	-34,308	-40,795	-61,575
20B	Intentionally Blank						
20C	Intentionally Blank						
21	TOTAL ADJUSTED REVENUES		798,270	853,341	927,080	977,031	1,011,120
22	YEAR OVER YEAR GROWTH	L19+L20		6.9%	8.6%	5.4%	3.5%
23	Growth in Outputs (Revenues)	L22		6.9%	8.6%	5.4%	3.5%
24	Growth in Inputs (Expenses)	L17		2.5%	4.1%	1.1%	1.9%
25	Productivity	L23-L24		4.4%	4.5%	4.3%	1.6%
26	Inflation Data (GDPPI)	Bureau of Economic Analysis	105.2	108	110.3	112.8	113.9
27	Growth	(L26 Curr. Yr./Prev. Yr.)-1		2.66%	2.13%	2.27%	0.98%
28	Indexed (1988=100)	L28 Prev. Yr.*(1+L27)	121.76	125.00	127.66	130.56	131.83

AVERAGE PRODUCTIVITY 1995-1998	3.7%
CONSUMER DIVIDEND	0.5%
TOTAL PRODUCTIVITY FACTOR	4.2%

Notes: 1998 based on September 1998 YTD results annualized.
Rate Adjustments as provided in response to data request SPI 3-001 in Docket No. T-01051B-99-0105.

Arizona Productivity Analysis 1999 to 2002
MR Intrastate
(\$000's)

Affidavit of Philip E. Grate
Attachment B

Line No.	Item	Source	1998	1999	2000	2001	2002
INPUTS							
1	Intrastate Expenses						
2	Maintenance	1990's Report	215,125	228,263	280,085	260,126	213,146
3	Engineering/Network/Access/Other	1990's Report	51,807	68,020	82,190	70,715	72,580
4	Customer Operations	1990's Report	167,342	175,807	171,174	169,831	180,074
5	Corporate Operations	1990's Report	158,192	134,887	173,799	147,192	127,136
6	TOTAL EXPENSE		592,466	606,977	707,248	647,864	592,936
7	DEFLATED EXPENSE (1998 \$)	L6/L28*100	592,466	598,338	682,833	611,036	552,964
8	YEAR OVER YEAR GROWTH	(L7 Curr. Yr./Prev. Yr.)-1		1.0%	14.1%	-10.5%	-9.5%
CAPITAL - Intrastate Investment							
9	Average Gross Plant In Service	1990's Report	3,360,035	3,520,055	3,876,721	4,305,946	4,656,015
10	Year over Year Additions	L9 Curr. Yr. - Prev. Yr.	160,020	160,020	356,666	429,225	350,069
11	Deflated Additions (1998 \$)	L10/L28*100	157,743	157,743	344,353	404,826	326,470
12	Plant in Service Without Inflation	L11+Prev. Yr. L12	3,360,035	3,517,778	3,862,131	4,266,957	4,593,426
13	Auth Rate of Return	Input	9.75%	9.75%	9.75%	9.61%	9.61%
14	TOTAL CAPITAL EXPENSE	L12*L13	327,603	342,983	376,558	410,055	441,428
15	YEAR OVER YEAR GROWTH	(L14 Curr. Yr./Prev. Yr.)-1		4.7%	9.8%	8.9%	7.7%
16	TOTAL EXPENSE	L7+L14	920,069	941,322	1,059,391	1,021,091	994,392
17	YEAR OVER YEAR GROWTH	(L16 Curr. Yr./Prev. Yr.)-1		2.3%	12.5%	-3.6%	-2.6%
OUTPUTS							
18	REVENUES						
19	Operating Revenues	1990's Report	1,088,033	1,163,288	1,210,058	1,223,921	1,115,427
20A	Surcharge	Notes	-18,402	-14,255		-17,475	-21,329
20B	2001 Rate Increase	Notes					10,800
20C	2002 Rate Decrease	Notes					1,104,898
21	TOTAL ADJUSTED REVENUES	L19+L20	1,069,631	1,149,033	1,210,058	1,206,446	1,104,898
22	YEAR OVER YEAR GROWTH			7.4%	5.3%	-0.3%	-8.4%
23	Growth in Outputs (Revenues)	L22		7.4%	5.3%	-0.3%	-8.4%
24	Growth in Inputs (Expenses)	L17		2.3%	12.5%	-3.6%	-2.6%
25	Productivity	L23-L24		5.1%	-7.2%	3.3%	-5.8%
26	Inflation Data (Chain Weighted GDPPI)	Bureau of Economic Analysis	103.2	104.69	106.89	109.42	110.66
27	Growth	(L26 Curr. Yr./Prev. Yr.)-1		1.44%	2.10%	2.37%	1.13%
28	Indexed (1998=100)	L28 Prev. Yr.*(1+L27)	100.00	101.44	103.58	106.03	107.23

AVERAGE PRODUCTIVITY 1999-2002	-1.2%
CONSUMER DIVIDEND	0.0%
TOTAL PRODUCTIVITY FACTOR	-1.2%

Notes: Surcharge per Docket E-1051-93-183 Decision No. 60381

2001 removes 9 months of the \$23.3M Rate Increase from Decision No. 63487 Docket No. T-01051B-00-0369

2002 removes 12 months of \$23.3M Rate Increase adjusted for negative growth plus 9 months of \$14.6M Decrease from 2002 Price Cap Rate Filing.

Line No.	Item	Source	1988	1989	1990	1991	1992	1993
INPUTS								
1	Intrastate Expenses							
2	Maintenance	1990's Report	138,385	140,901	143,255	141,875	156,370	165,577
3	Engineering/Network/Access/Other	1990's Report	39,510	53,348	57,164	56,224	60,702	64,212
4	Customer Operations	1990's Report	93,974	103,582	98,790	97,066	120,156	128,013
5	Corporate Operations	1990's Report	85,645	97,555	91,983	126,804	113,849	117,402
6	TOTAL EXPENSE		357,514	395,386	391,192	421,969	451,077	475,204
7	DEFLATED EXPENSE (1988 \$)		357,514	379,571	360,330	374,313	389,731	399,782
8	YEAR OVER YEAR GROWTH	(L7 Curr. Yr./Prev. Yr.)-1		6.2%	-5.1%	3.9%	4.1%	2.6%
9	CAPITAL - Intrastate Investment							
10	Average Gross Plant in Service	1990's Report	1,842,444	1,941,350	2,104,562	2,326,946	2,472,103	2,609,547
11	Year over Year Additions	L9 Curr. Yr. - Prev. Yr.		98,906	163,212	222,384	145,157	137,444
12	Deflated Additions (1988 \$)	L10/L28*100		94,950	150,336	197,269	125,416	115,630
13	Plant in Service Without Inflation	L11+Prev. Yr. L12	1,842,444	1,937,394	2,087,730	2,284,999	2,410,414	2,526,044
14	Auth Rate of Return	Input	9.75%	9.75%	9.75%	9.75%	9.75%	9.75%
15	TOTAL CAPITAL EXPENSE	L12*L13	179,638	188,896	203,554	222,787	235,015	246,289
16	YEAR OVER YEAR GROWTH	(L14 Curr. Yr./Prev. Yr.)-1		5.2%	7.8%	9.4%	5.5%	4.8%
17	TOTAL EXPENSE	L7+L14	537,152	568,466	563,884	597,101	624,746	646,071
	YEAR OVER YEAR GROWTH	(L16 Curr. Yr./Prev. Yr.)-1		5.8%	-0.8%	5.9%	4.6%	3.4%
OUTPUTS								
18	REVENUES							
19	Operating Revenues	1990's Report	673,757	670,789	669,591	698,835	742,749	758,234
20	Rate Adjustments	Input	4,260	30,108	37,300	4,666	-26,500	-14,125
21	TOTAL ADJUSTED REVENUES	L19+L20	678,017	700,897	706,891	703,501	716,249	744,109
22	YEAR OVER YEAR GROWTH			3.4%	0.9%	-0.5%	1.8%	3.9%
23	Growth in Outputs (Revenues)	L22		3.4%	0.9%	-0.5%	1.8%	3.9%
24	Growth in Inputs (Expenses)	L17		5.8%	-0.8%	5.9%	4.6%	3.4%
25	Productivity	L23-L24		-2.5%	1.7%	-6.4%	-2.8%	0.5%
*1998 based on September 1998 YTD results annualized								
	Inflation Data (GDPPI)		86.4	90	93.8	97.4	100	102.7
	Growth	(L26 Curr. Yr./Prev. Yr.)-1		4.17%	4.22%	3.84%	2.67%	2.70%
	Indexed (1988=100)	L28 Prev. Yr.-(1+L27)	100	104.17	108.56	112.73	115.74	118.87

Line No.	Item	Source	1994	1995	1996	1997	1998*
INPUTS							
1	Intrastate Expenses						
2	Maintenance		179,310	187,774	205,041	200,848	206,061
3	Engineering/Network/Access/Other		68,910	71,773	65,179	48,964	52,927
4	Customer Operations		140,269	153,528	161,304	172,445	164,816
5	Corporate Operations		120,992	116,446	127,985	143,530	155,888
6	TOTAL EXPENSE		509,481	529,521	559,509	565,787	579,692
7	DEFLATED EXPENSE (1988 \$)		418,433	423,617	438,274	433,369	439,731
8	YEAR OVER YEAR GROWTH	(L7 Curr. Yr./Prev. Yr.)-1	4.7%	1.2%	3.5%	-1.1%	1.5%
CAPITAL - Intrastate Investment							
9	Average Gross Plant In Service		2,748,270	2,896,085	3,075,298	3,249,626	3,351,980
10	Year over Year Additions		138,723	147,815	179,213	174,328	102,354
11	Deflated Additions (1988 \$)		113,932	118,252	140,361	133,528	77,642
12	Plant in Service Without Inflation		2,639,976	2,758,228	2,898,609	3,032,137	3,109,778
13	Auth Rate of Return		9.75%	9.75%	9.75%	9.75%	9.75%
14	TOTAL CAPITAL EXPENSE		257,398	268,927	282,614	295,633	303,203
15	YEAR OVER YEAR GROWTH	(L14 Curr. Yr./Prev. Yr.)-1	4.5%	4.5%	5.1%	4.6%	2.6%
16	TOTAL EXPENSE		675,831	692,544	720,888	729,002	742,935
17	YEAR OVER YEAR GROWTH	(L16 Curr. Yr./Prev. Yr.)-1	4.6%	2.5%	4.1%	1.1%	1.9%
OUTPUTS							
18	REVENUES						
19	Operating Revenues		813,423	884,920	961,388	1,017,826	1,072,695
20	Rate Adjustments		-15,153	-31,579	-34,308	-40,795	-61,575
21	TOTAL ADJUSTED REVENUES		798,270	853,341	927,080	977,031	1,011,120
22	YEAR OVER YEAR GROWTH		7.3%	6.9%	8.6%	5.4%	3.5%
23	Growth in Outputs (Revenues)		7.3%	6.9%	8.6%	5.4%	3.5%
24	Growth in Inputs (Expenses)		4.6%	2.5%	4.1%	1.1%	1.9%
25	Productivity		2.7%	4.4%	4.5%	4.3%	1.6%
AVERAGE PRODUCTIVITY 1989-1998							
			105.2	108	110.3	112.8	113.9
Bureau of Economic Analysis			2.43%	2.66%	2.13%	2.27%	0.96%
(L26 Curr. Yr./Prev. Yr.)-1			121.76	125.00	127.66	130.56	131.83
L28 Prev. Yr. ² /(1+L27)							

*1998 based on September 1998 YTD results annualized

Inflation Data (GDPII)
Growth Indexed (1988=100)