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5
6 IN THE MATTER OF THE APPLICATION
7 OF U S WEST COMMUNICATIONS, INC.,
8 A COLORADO CORPORATION, FOR A
9 HEARING TO DETERMINE THE
10 EARNINGS OF THE COMPANY, THE
11 FAIR VALUE OF THE COMPANY FOR
12 RATEMAKING PURPOSES, TO FIX A
13 JUST AND REASONABLE RATE OF
14 RETURN THEREON AND TO APPROVE
15 RATE SCHEDULES DESIGNED TO
16 DEVELOP SUCH RETURN.

Docket No. T-01051B-99-0105

Arizona Corporation Commission

DOCKETED

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NOTICE OF FILING

13 The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the
14 Testimony Summary of Ralph Smith, in the above-referenced matter.

15 RESPECTFULLY SUBMITTED this 1st day of December, 2000

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18 Scott S. Wakefield
19 Chief Counsel, RUCO

20 AN ORIGINAL AND TEN COPIES
21 of the foregoing filed this 1st day of
22 December, 2000 with:

23 Docket Control
24 Arizona Corporation Commission
1200 West Washington
Phoenix, Arizona 85007

1 COPIES of the foregoing hand delivered/
mailed this 1st day of December, 2000 to:

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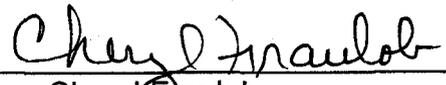
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**SUMMARY OF THE SUPPLEMENTAL TESTIMONY
OF
RALPH C. SMITH
ON BEHALF OF THE RESIDENTIAL UTILITY CONSUMER
OFFICE
CONCERNING THE PROPOSED SETTLEMENT**

My supplemental testimony presents some of the concerns that RUCO has concerning the proposed Settlement Agreement between Staff and Qwest. One concern is that the \$42.9 million revenue increase is too high. Another concern is that the Settlement contains a provision precluding refunds if the Price Cap Plan or the Settlement is found to be unlawful, which is contrary to the public interest.

Revenue Requirement. The proposed Settlement would provide Qwest with a \$42.9 million intrastate revenue increase, which, in my opinion, is not warranted. As is evidenced by the filings of Staff, RUCO, DOD/FEA and AT&T witnesses in this proceeding, Staff is the only party (other than Qwest) who had recommended that Qwest be granted an increase in Arizona intrastate revenue:

Party	Calculated Intrastate Revenue Requirement Increase (Decrease) (\$000)	Reference
Staff	\$ 7,242	Utilitech Schedule A, Staff Direct filing
RUCO	\$ (34,101)	Exhibit ____ (L&A-2), Schedule A Revised, RUCO Surrebuttal filing
DOD/FEA	\$ (51,972)	Surrebuttal testimony of Richard B. Lee, Attachment 6, Summary
AT&T [1]	\$ (45,000)	Susan M. Gately, Direct Testimony, p.40, fn. 25 (note [1])
AT&T [2]	\$ (308,849)	Susan M. Gately, Direct Testimony, p.40 and Exhibit SMG-1

[1] reflects the \$43 million directory revenue imputation from prior case.

[2] reflects AT&T's recommended directory revenue imputation and 9.75% ROR from prior case

The previously filed Direct and Surrebuttal Testimony in this proceeding of the other parties (RUCO, DOD/FEA and AT&T) each identified a revenue excess and recommended that Qwest's Arizona intrastate revenues be reduced.

As recently as September 7, 2000 when Staff's Surrebuttal Testimony was filed, Staff revenue requirement witnesses Brosch (and Carver) continued to advocate a revenue increase for Qwest of no more than approximately \$7.2 million. It is surprising and disturbing that Staff witness Brosch is now advocating a revenue increase for Qwest of \$42.9 million that is almost five times greater than the previous Staff recommendation of \$7.2 million. ($\$42.9 / \$7.2M = 5.96x$) The \$42.9 million revenue increase is excessive and not warranted based on the evidence presented by the parties in this case, including the Staff witnesses.

On page 2 of his November 20 rebuttal, Mr. Brosch states that he did not "factor in" two RUCO adjustments (E-22 and part of E-1) into his settlement recommendation because in his opinion they "are simply inappropriate and should have been disapproved if formally presented in a contested case." I disagree with Mr. Brosch with respect to both items.

Concerning RUCO Adjustment E-22, I was asked by RUCO to reflect in the instant rate case the impact of RUCO's position in the concurrent proceeding, Docket No. T-01051B-99-0737, that the gain on the sale of the 38 Arizona exchanges, with traffic, be shared between shareholders and ratepayers. I reflected this RUCO position on Schedule E-22, which was filed with my direct testimony. This treatment, including the sharing of the gain over a three-year period, is similar to and consistent with the Company's reflection of the sharing with ratepayers of 50% of the gain it realized upon the sale of its

interest in Bellcore. It is also consistent with prior Commission precedent, as discussed at length in RUCO's testimony in Docket No. T-01051B-99-0737.

Concerning the portion of RUCO Adjustment E-1 criticized by Mr. Brosch, intrastate toll revenues were not annualized in RUCO's presentation because such revenues have generally not been annualized in prior proceedings. These revenues are volatile from month to month, and the methodology for annualizing toll revenues used by US West (now Qwest) in this proceeding of multiplying December 1999 times 12 is inherently unreliable.

Pages 3-4 of Mr. Brosch's November 20, 2000 rebuttal testimony mentions approximately \$44.9 million of RUCO adjustments that he indicates "were implicitly compromised in Staff's negotiations with Qwest." In each instance, the RUCO adjustments cited by Mr. Brosch were calculated differently than comparable Staff adjustments. RUCO's adjustments should receive a full hearing on the merits rather than being "implicitly compromised" in a proposed settlement that RUCO does not endorse.

The "No Refund" provision. The provisions of paragraph 13 of the proposed settlement are objectionable. That paragraph provides, among other things, that "... Qwest shall have no obligation to refund revenues collected during the period of time the Price Cap Plan is in effect" if the Arizona courts should ultimately find that the Price Cap Plan is unlawful. If the Price Cap Plan or the Settlement is found to be unlawful, Qwest should be required refund amounts that it collected. Removing Qwest's obligation to refund revenues collected under a Plan found to be unlawful appears to be contrary to the public interest.