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BEFORE THE ARIZONA CORPORATION COMMISSION RECEIVED

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IN THE MATTER OF QWEST COMMUNICATIONS INTERNATIONAL, INC.'S, QWEST SERVICES CORPORATION'S, AND QWEST CORPORATION'S NOTICE OF SALE, REQUEST FOR WAIVER, OR APPLICATION FOR APPROVAL OF THE SALE OF THE ARIZONA OPERATIONS OF QWEST DEX, INC.

Docket No. T-01051B-02-0666

Arizona Corporation Commission
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NOTICE OF FILING

The Residential Utility Consumer Office ("RUCO") hereby provides notice of filing the Rejoinder Testimony of Ben Johnson, Ph.D. in the above-referenced matter.

RESPECTFULLY SUBMITTED this 9th day of May, 2003.

Daniel W. Pozefsky
Staff Attorney

AN ORIGINAL AND THIRTEEN COPIES
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TESTIMONY

OF BEN JOHNSON, PH.D.

On Behalf of

THE STATE OF ARIZONA

RESIDENTIAL UTILITY CONSUMER OFFICE

Before the

ARIZONA CORPORATION COMMISSION

Docket No. T-01051B-02-0666

Q. Would you please state your name and address?

A. Ben Johnson, 2252 Killearn Center Boulevard, Tallahassee, Florida 32308.

Q. What is your purpose in submitting this testimony?

A. The primary purpose of this testimony is to address the proposed settlement agreement filed by Staff and Qwest in this proceeding. I am also briefly responding to a few portions of the Surrebuttal testimony filed by Qwest, particularly the testimony of Maureen Arnold, who focuses on the Stipulation, claiming that it is in the public interest. The fact that I do not directly respond to certain other positions taken by Qwest witnesses in their surrebuttal testimony should not be construed as agreement with such undiscussed positions.

Q. Can you explain why you have focused on the settlement agreement, rather than providing an extensive response to Qwest's surrebuttal?

A. Staff and Qwest have proposed a stipulation agreement ("Stipulation") which, if approved by the Commission, would replace the 1988 Settlement Agreement between Mountain States Telephone and Telegraph Company and Staff. Qwest contends that the focus at this point in the proceeding should be the Stipulation and whether or not it is in the public interest. I agree with this contention. Furthermore, time and resource constraints precluded me from providing both a detailed response to the Stipulation and a detailed response to Qwest's surrebuttal testimony. Therefore, I have concentrated on the proposed Stipulation, and Qwest's claim that the settlement is in the public interest.

Q. Can you begin by briefly summarizing the settlement agreement?

A. The Stipulation provides that in any price cap or rate proceeding, the annual amount of directory revenues imputed to Qwest shall be $72 million. Imputation under the Stipulation will continue for 15 years, beginning on the date Qwest submits its first Price Cap Review filing. These imputation provisions are contingent upon: 1) the Commission approving and adopting the Stipulation; 2) the Commission approving the Dex sale; and, 3) the sale being completed by December 31, 2003. [Stipulation, pp. 2-3.] Imputation will cease for any proceedings which commence after this 15 year period.

Q. Do you have any concerns with the proposed Stipulation?

A. Yes. The Stipulation results in a severe mismatch between the duration of imputation (15 years) and the duration of the services that will be provided by Qwest (up to 50 years). While I don't agree that $72 million per year is necessarily an adequate imputation amount, I recognize that the Settlement represents a compromise between the Staff (which advocated a much higher annual dollar amount) and Qwest (which sought to eliminate imputation). No justification has been offered for ending imputation after just 15 years when the underlying contract obligates Qwest for up to 50 years.

On Schedule 1, I compare the annual imputation amounts under the Stipulation with those that were discussed in my rebuttal testimony and the Staff's rebuttal testimony (filed prior to signing the Stipulation). Recall that I presented two illustrative imputation amounts, based upon the $43 million included in Mountain Bell's 1984 rate case and the 1988 Settlement Agreement. In the first example, I used growth in Qwest Arizona access lines to increase imputed directory revenues to the analogous amount applicable to 2001 (approximately $90 million). In the second example, I also considered the effects of inflation in arriving at the 2001 equivalent level of imputation. Applying a line-based growth factor and a GDP-based inflation factor to the $43 million figure, I developed a 2001 imputation amount of approximately $138 million. In Schedule 1 I use the same techniques, extending the calculations out to the years 2004 through 2048. For comparison purposes, I also develop analogous figures for the recommendations set forth in the Staff's rebuttal testimony.

Q. Can you explain the line growth and inflation factors used to develop the RUCO imputation amounts shown on this schedule?

A. It is not clear to what extent Qwest access lines will grow in the future. In fact, Qwest's access lines may decline somewhat in the near future, as they have during the past couple of years. In developing these calculations, I have used the 2002 line count and assumed the number of Qwest access lines remains constant in the future. I developed my annual inflation rate by taking the average change in the GDP Implicit Price Deflator (GDPD) from 1929 to 2002. Over this period the GDPD increased 3.1% per year, on average.

As shown on Schedule 1, under the Stipulation, imputation in the amount of $72 million will occur through 2018. This is less than the status quo level of imputation based upon either RUCO methodology (i.e., an imputation amount equivalent to $43 million adjusted for line growth, or an amount that is also adjusted for inflation). Although the $72 million figure is substantially less than the status quo level of imputation, the gap is much wider when one considers what happens after the 15th year. For example, in the 20th year (2023), under the Stipulation no directory income is imputed to Qwest's local exchange operations. However, the status quo level of imputation amounts to either $84 million or $247 million, depending upon whether or not inflation is considered.

Q. Can you explain the portion of Schedule 1 relating to the Staff calculations that were developed prior to reaching a settlement with Qwest?

A. Staff witness Michael Brosch recommended two alternatives, depending upon whether Qwest remains under price cap regulation, or reverts back to traditional regulation. If Qwest remains under price cap regulation, Mr. Brosch recommends imputation of $100 million, in perpetuity. If Qwest is subject to traditional rate of return regulation, Mr. Brosch recommends imputation of $121.3 million for a period of 20 years.

Q. Why is it inappropriate to end imputation after 15 years?

A. As I explained in my rebuttal testimony, telephone directories are subject to "economies of standardization."; a self-reinforcing bias in favor of the "standard" product which allows a dominant firm to earn enormous profits. The "official" yellow pages (whether published directly by the incumbent, through an affiliate, or by a designated third party) are inevitably the most universally accepted and profitable. The profits that can be generated by the "official" yellow pages are almost exclusively attributable to their association with the dominant carrier's local exchange operations. Simply put, incumbent carriers have a unique ability to generate supra-competitive directory profits, because of their monopoly position in the local exchange market. Hence, in Arizona and elsewhere directory publishing has long been viewed as a profitable byproduct of local telephone service, serving to offset the cost of providing local telephone service.

QCI has, in essence, directed Qwest Corporation (QC) to transfer all of the benefits of this "official" designation to the Dex purchasers for a period of 40 years. Rather than QC receiving a substantial annual payment, its parent corporation is receiving a large lump-sum payment. The end result is the same, however: QC is required to forgo the opportunity to earn substantial income during each of the next 40 to 50 years–income that has historically been used to minimize local rates (either directly or through imputation).

In reviewing the Stipulation, the Commission needs to evaluate whether the imputation provisions provide the Arizona local exchange operations (and ratepayers) with adequate compensation when compared with the value of the "official" directory designation and the Noncompetition Agreement. It is impossible to conclude that the imputation provisions are adequate when the imputation only lasts 15 years, while the"official" directory designation and the Noncompetition Agreement extend for at least 40 years. This problem could be solved by extending the imputation provisions to last for at least 40 years, or by reducing the duration of the"official" directory designation and the Noncompetition Agreement to match the duration of the imputation provisions (e.g. 15 years).

Q. Let's discuss Qwest's claims that the Stipulation is in the public interest. What is the basis for this claim?

A. Qwest witness Maureen Arnold claims that the Stipulation is in the public interest, for three reasons: 1) imputation will increase from a "presumptive" level of $43 million, to a "definite" amount of $72 million; 2) approval of the Application is necessary to close the sale, and will help Qwest "meet its immediate financial needs"; and, 3) imputation of a specific negotiated amount will remove uncertainty and complexity from future rate proceedings.

Q. Can you address the first of her claims, that the stipulation will increase the level of imputation?

A. Mrs. Arnold starts with a false premise: in effect she assumes that, absent the Stipulation, the Commission would be limited to the $43 million in imputation that was included in the 1984 rate case. This assumption is unfounded. The 1988 Settlement Agreement indicated that the $43 million figure was the amount reflected in rates pursuant to the 1984 rate case. However, as I explained in my rebuttal testimony, the 1998 Settlement Agreement also contained language which provided the Commission with ample flexibility to establish a different, larger, imputation amount as circumstances evolved. This flexibility was confirmed by the Commission in Decision 58927, when it held that "the Settlement Agreement does not place a cap of $43 million on the amount of imputation." [Decision 58927, p. 13]. This flexibility was also confirmed by the Arizona Court of Appeals. [See, US West Communication, Inc. v. ACC, 185 Ariz. 277, 281 (App. 1996)].

As I explained in my rebuttal testimony, the $43 million in imputation included in the 1984 rate is a logical starting point, but it does not represent the appropriate amount of imputation today, nor at any point in the future. To the contrary, as I explained in my rebuttal testimony, an appropriate imputation amount must take into consideration growth in the directory publishing business since the 1984 rate case. The value of the services contributed by the local exchange operations to the directory publisher has greatly increased as the state has grown. It is also appropriate to consider inflation during the intervening years since 1984. When these factors are considered, it is self evident that the appropriate imputation value today is far in excess of the $43 million figure.

Furthermore, Mrs. Arnold fails to recognize that, under the Stipulation, imputation will cease after 15 years, whereas under the status quo imputation would continue indefinitely. Even if the Commission were required to limit the annual imputation amount to $43 million (which it is not), there is no basis for assuming that $72 million for 15 years is better than $43 million for 50 years. In total dollars, the Stipulation provides just $1,080,000,000; this represents a decrease in imputation relative to $43 million per year over 40 years ($1,720,000,000) or 50 years ($2,150,000,000). From a public interest perspective, and from the perspective of local exchange customers, this represents a <u>decrease</u> in imputation compared to the $43 million level, not an increase as Mrs. Arnold claims. As I explained earlier, in evaluating the Stipulation, the appropriate time period is 40 to 50 years, coinciding with duration of the Noncompetition Agreement and the "official" designation, respectively.

Q. Can you now address Qwest's second point, that approval of the Application is necessary to close the sale and help Qwest meet its immediate financial needs?

A. It is not clear how this point relates to the proposed Stipulation, or how it supports the contention that the Stipulation is in the public interest. Mrs. Arnold seems to be confusing Qwest's request for approval of the sale, with its request for approval of the Stipulation. While they are certainly related, one is not necessarily contingent upon the other. The sale could be approved by the Commission and consummated by the parties even if the Stipulation were rejected. Similarly, the sale might be approved and consummated pursuant to some other Stipulation, or pursuant to an order of the Commission that sets forth some different set of regulatory conditions.

Even if we were to assume, for the sake of argument, that Mrs. Arnold's underlying thesis were valid (i.e., that consummation of the sale is vitally necessary to Qwest's short term financial viability) that does not shed any light on a public interest analysis of the terms of the Stipulation, since the sale could still be completed even if the Stipulation is rejected. Furthermore, as I explained in my rebuttal testimony, Qwest's problems run much deeper than the short term cash flow and liquidity concerns which seem to be the focus of Mrs. Arnold's reasoning. The root problem is QCI's underutilized long haul fiber optic network. This problem is compounded by the fact that QCI is heavily leveraged, and by the Company's financial reporting problems. In the short run, the infusion of cash provided by the Dex transaction would undoubtedly be helpful. However, it is by no means clear that this cash infusion will suffice, or whether it will simply delaying a future liquidity crisis. Further, as I explained in my rebuttal testimony, selling Dex will tend to exacerbate QCI's financial weaknesses and cash flow problems over the long haul.

Q. Do you see the Dex sale as a long term solution to QCI's problems?

A. No. The sale offers short term relief from Qwest's cash crunch, but it does nothing to solve the accounting uncertainties, and it does nothing to solve Qwest's core problems, including a long haul fiber network with enormous amounts of excess capacity and a weak competitive position, as well as wireless operations that are losing market share in the face of increased competition from national carriers like Verizon and Sprint.

Q. Doesn't Qwest offer some evidence that the sale will improve the Company's long term financial position?

A. Qwest witness Peter C. Cummings states: "The Dex sale transaction's positive impact on QCI's stock price and the lower credit spreads and borrowing costs for QC indicates positive long term expectations from Qwest's long term investors". [Cummings Surrebuttal, p. 3] According to Mr. Cummings, these positive expectations are evidence of "the long term prospects for QCI after the sale". [Id.] Mr. Cummings appears to be referring to the stock and debt market data discussed in his direct testimony. With regard to stock prices, he points to QCI's market performance around the time of the announcement of the Dex sale, and around the time of the closing of the first phase of the sale.

> During the month before the 8/20/2002 announcement of the Dex sale, QCI stock traded at prices under $2.00 a share. Since that date, QCI stock price has steadily increased, generally trading above $4.00 per share since the 11/8/2002 Dexter sale close and ending the year 2002 at $5.00 per share. [Cummings Direct, p. 23]

According to Qwest, the recent stock price of $4 to $5 reflects the anticipated completion of both parts of the Dex sale. [Cummings Direct, p. 22] If the Rodney sale is approved in Arizona and Washington (the only states where approval is still pending), this will only have a "neutral to slightly positive impact" on the Company stock price, confirming that investors have put little weight into the ability of this sale to save Qwest from bankruptcy.

Q. What is your response to the stock market data cited by Mr. Cummings?

A. It is always difficult to interpret market data, because so many factors influence stock price fluctuations. Mr. Cummings emphasizes the increase in the price that was experienced around the time the Dex sale was announced, which he contends continued through the end of 2002. Looking at the stock price in the immediate time period surrounding the Dex announcement one sees that the price did increase in August 2002. However, as shown on page 1 of Schedule 2, it is impossible to know how much of this increase resulted specifically from the Dex transaction, particularly since the price increase began about a week <u>before</u> the transaction was publicly announced. In fact, the price reaction in the month after the announcement was largely neutral. On the day before the announcement (August 19, 2002) QCI's stock closed at $2.24

per share. More than a month later, on September 30, 2002, the stock closed at $2.28 per share.

While it is certainly possible that investors have reacted favorably to the Dex transaction, it is also possible that the stock simply "bounced" in mid August, once a "tipping point" was reached, as speculators concluded the stock price was finally "oversold." While rumors of the Dex transaction may have contributed to the mood shift, the primary factor explaining the price upturn in mid August, 2002 may have simply been a change in investor perceptions and expectations. As shown on page 2 of Schedule 2, the stock had been in a 2 year downtrend, dropping from a high of about $50 in June 2000 to less than $5 in mid-June 2002. Then, as shown on page 1 of Schedule 2, on June 26, 2002 the stock opened sharply lower, plunging by more than 60% during the course of the day, reaching a low of less than $1.25 before closing at $1.79. During the ensuing weeks, the stock price finally began to flatten out, showing signs of price support in the vicinity of $1.25 per share. Under these circumstances, it is hard to know whether the upward movement that began in August 2002 was due to increasing speculation that this long decline was finally coming to an end, or the extent to which this movement was fueled by rumors of the Dex transaction. Either way, at least some of the stock runup was probably due to "short covering" as the stock showed signs that the downtrend was finally ending.

It is certainly true that the stock has performed better since that time, reaching as high as $6.00 in January 2003, before settling back to its recent level of approximately $3.00 to $4.50. However, none of this data provides strong evidence that the Dex transaction is seen by investors as a complete long term solution to the Company's financial problems.

Q. Are there indications that the Dex transaction does not completely solve Qwest's long term problems?

A. Yes. I looked at the Company's stock market capitalization relative to the number of local access lines it serves, in order to compare the recent price with the price of the other RBOCs. I found that the Company's stock market capitalization is equivalent to just $400.50 per access line. This market valuation is just a fraction of what the underlying assets are worth–as suggested by the much higher price per line that Qwest has received when selling some of its most rural exchanges. Some of this discrepancy is due to leveraging (since the assets are encumbered by debt), but given the size of the gap, it is clear the market continues to have serious doubts about Qwest's long term financial future. This depressed stock price suggests that investors continue to be worried about the Company's financial accounting, its debt load, and the problems with the Company's excess fiber capacity.

This conclusion is confirmed by a comparison of QCI's market capitalization per access line with the analogous data for the other RBOCs–BellSouth, SBC, and Verizon. BellSouth is currently valued at approximately $1,800 per access line, SBC is valued at approximately $1,400 per line and Verizon is valued at approximately $2,400 per line. Considering the huge gap between these valuations and QCI's stock market value ($400 per line), it is clear that many investors continue to be concerned about the firm's long term financial viability despite (or because of) the Dex transaction.

If the Dex sale was, in the eyes of stockholders, a complete long-term solution to the Company's financial problems which would eliminate any risk of bankruptcy, one would expect to see the stock price move much closer to levels of the other RBOCs. QCI's stock performance over the past 3 years certainly does not confirm Mr. Cummings' hypothesis, particularly when this performance is compared with that of the other RBOCs, as shown on page 3 of Schedule 2.

Q. Do analysts in the financial community see the Dex sale as a long term solution to QCI's problems?

A. Some do, or at least they did. For example, when the transaction was announced, Lehman Brothers, Qwest's financial adviser on the Dex transfer, told the investment community that it believed the sale would largely eliminate the risk of bankruptcy: it "achieves the key missing ingredient and greatly enhances the probability of successfully eliminating any need to restructure the company". [Lehman Brothers, Q Liquidity Crunch Over - $7B DEX Sale, August 20, 2002.] Even so, Lehman Brothers recently stated that "all of the company's value is supported by our per access line local valuation" [Lehman Brothers, Trend/Guidance Week. Target Reduced, February 20, 2003]. In effect, this suggests that, despite the partial rebound of Qwest's stock price, the market is placing little or no value on Qwest's assets other than the local exchange operations.

Other analysts are more concerned about Qwest's long term financial prospects, and they seem concerned about the possibility of default or bankruptcy notwithstanding the Dex transaction. For instance, Standard and Poor's states:

> We no longer have confidence in management ... in light of Q's need to restate prior year results for a third time, due to improper accounting practices ... It is not clear that this is the last of the restatements, in light

> of ongoing SEC and Department of Justice probes, and review of the company's financial statements by a new auditor, KPMG. Although debt has been reduced somewhat, credit risks remain high on Q's $22.6 billion load. [Standard and Poor's Stock Reports, Qwest Communications, May 3, 2003]

Similarly, Morgan Stanley Co. recently cut its Qwest stock estimates "as we believe the sale of the DEX business will have a negative effect on the operating fundamentals, once completed". [See, biz.yahoo.com/tsp/020603/10025210_2.html] Other analysts also seem concerned that the Dex transaction involves an unhappy tradeoff between short and long term financial health. For instance, Scott Moritz, Senior Writer for TheStreet.com, made these comments shortly after the transaction was announced:

> [A]s new management wins plaudits for cleaning house, the numbers tell a different story. Qwest's core keeps shrinking: Third-quarter business services revenue fell 5% from a year ago, while consumer services revenue fell 9%. Meanwhile, Qwest remains under the cloud of numerous investigations and its accountants still haven't finalized their audit of 2000 and 2001 numbers.
>
> But most jarringly, Wednesday's report underlined the stark reality of the company's future: Without the cash-generating buoyancy of it's soon-to-be-sold directory unit, Qwest's core phone service business will struggle to stay afloat. ...
>
> While pawning the business may have kept Qwest in business for this year, the sale has also robbed Qwest of a rare cash cow whose steady health could offset the company's numerous ills. [TheStreet.com, Qwest Rise, But Core Business Keeps Shrinking, October 30, 2002]

In evaluating the Stipulation and the proposed transaction, the Commission should recognize that the transaction is not an unmixed blessing that should be approved regardless of how it impacts customers. To the contrary, it provides a short term infusion of cash, but it may significantly weaken Qwest's long term financial position.

Q. Can you address Qwest's third reason why it believes the sale is in the public interest?

A. As I explained earlier, Qwest claims that imputation of a specific negotiated amount will remove uncertainty and complexity from future rate proceedings. There is merit to this claim. The amount of imputation allowed or required by the 1988 Settlement Agreement, and the methodology used to calculate the imputation, have been litigated for years, and remain in dispute to this day. This proceeding presents an opportunity to end that dispute and establish a definite, unambiguous imputation amount and/or formula. However, this can be accomplished without having to end the imputation after 15 years. An unambiguous, indisputable imputation amount or formula can (and should) be adopted by the Commission for duration of at least 40 years.

Q. What do you recommend the Commission do with regard to the Stipulation?

A. I recommend the Commission reject the transaction and Stipulation as currently structured, because the proposed 15 year imputation period is drastically shorter than the period of time QC will be prohibited from reentering the directory publishing market, and the period of time that the Dex purchasers will be designated as the official directory publishers for Qwest's Arizona local exchange operations.

I recommend the Commission issue an order that provides Qwest with an opportunity to establish the same number of years for imputation, the non-compete clause, and the official directory designation. This can be accomplished by shortening the duration of the Noncompetition Agreement and the Publishing Agreement (Exhibits M and D to the Rodney Purchase Agreement, respectively) to 15 years. If the Dex purchasers are anxious to complete the transaction, they might agree to this modification if it is necessary to facilitate approval even without any further concessions from Qwest. Alternatively, if the Dex purchasers refuse to renegotiate the duration of these contracts with respect to Arizona, Qwest could amend the Stipulation to increase the imputation period to 45 years, consistent with the average duration of the Noncompetition Agreement and the Publishing Agreement. Another reasonable alternative would be to extend the imputation period and to negotiate shorter non-compete and official designation periods, equalizing all of the time periods at a consistent duration like 20 or 25 years.

Q. Is there any indication that Qwest has the flexibility to make further concessions in order to gain approval of the transaction?

A. Yes. I don't know if Qwest would need to provide further concessions to the Dex purchasers in order to convince them to shorten the non-compete and official designation periods in Arizona. However, it is clear that Qwest anticipated the need to provide significant concessions in order to win regulatory approval for the transaction. According to Qwest Chief Financial Officer Oren Shaffer, Qwest originally ear-marked $500 million of the proceeds from the sale to gain regulatory approval. [Qwest to Keep High Percentage of $4.3B Dex Proceeds, The Wall Street Journal, March 13, 2003] Mr. Shaffer now feels that he "overestimated" the magnitude of the concessions that would be necessary to obtain regulatory approval, since Qwest settled with Utah for $22 million, and approval of only 2 more states is required (Arizona and Washington).

Considering that most of these earmarked funds remain unspent, Qwest clearly has the flexibility to bargain in good faith with the Dex purchasers concerning the duration of the Arizona contracts. Of course, if it chooses to extend the imputation period from 15 years to 45 years it would not need to use any of the earmarked funds, since the only impact will be on the level of rates charged after the initial 15 year period (precluding a potential rate increase upon expiration of the 15 year period).

Q. Does this complete your rejoinder testimony, which was prefiled on May 9th, 2003?

A. Yes, it does.

Appendix A

Qualifications

Present Occupation

Q. What is your present occupation?

A. I am a consulting economist and President of Ben Johnson Associates, Inc.®, a firm of economic and analytic consultants specializing in the area of public utility regulation.

Educational Background

Q. What is your educational background?

A. I graduated with honors from the University of South Florida with a Bachelor of Arts degree in Economics in March 1974. I earned a Master of Science degree in Economics at Florida State University in September 1977. The title of my Master's Thesis is a "A Critique of Economic Theory as Applied to the Regulated Firm." Finally, I graduated from Florida State University in April 1982 with the Ph.D. degree in Economics. The title of my doctoral dissertation is "Executive Compensation, Size, Profit, and Cost in the Electric Utility Industry."

Clients

Q. What types of clients employ your firm?

A Much of our work is performed on behalf of public agencies at every level of government involved in utility regulation. These agencies include state regulatory commissions, public counsels, attorneys general, and local governments, among others.

We are also employed by various private organizations and firms, both regulated and unregulated. The diversity of our clientele is illustrated below.

Regulatory Commissions

Alabama Public Service Commission—Public Staff for Utility Consumer Protection
Alaska Public Utilities Commission
Arizona Corporation Commission
Arkansas Public Service Commission
Connecticut Department of Public Utility Control
District of Columbia Public Service Commission
Idaho Public Utilities Commission
Idaho State Tax Commission
Iowa Department of Revenue and Finance
Kansas State Corporation Commission
Maine Public Utilities Commission
Minnesota Department of Public Service
Missouri Public Service Commission
National Association of State Utility Consumer Advocates
Nevada Public Service Commission
New Hampshire Public Utilities Commission
North Carolina Utilities Commission—Public Staff
Oklahoma Corporation Commission
Ontario Ministry of Culture and Communications
Staff of the Delaware Public Service Commission
Staff of the Georgia Public Service Commission
Texas Public Utilities Commission
Virginia State Corporation Commission
Washington Utilities and Transportation Commission
West Virginia Public Service Commission—Division of Consumer Advocate
Wisconsin Public Service Commission

Wyoming Public Service Commission

Public Counsels

Arizona Residential Utility Consumers Office
Colorado Office of Consumer Counsel
Colorado Office of Consumer Services
Connecticut Consumer Counsel
District of Columbia Office of People's Counsel
Florida Public Counsel
Georgia Consumers' Utility Counsel
Hawaii Division of Consumer Advocacy
Illinois Small Business Utility Advocate Office
Indiana Office of the Utility Consumer Counselor
Iowa Consumer Advocate
Maryland Office of People's Counsel
Minnesota Office of Consumer Services
Missouri Public Counsel
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Pennsylvania Office of Consumer Advocate
Utah Department of Business Regulation—Committee of Consumer Services

Attorneys General

Arkansas Attorney General
Florida Attorney General—Antitrust Division
Idaho Attorney General
Kentucky Attorney General
Michigan Attorney General
Minnesota Attorney General

Nevada Attorney General's Office of Advocate for Customers of Public Utilities

South Carolina Attorney General

Utah Attorney General

Virginia Attorney General

Washington Attorney General

<u>Local Governments</u>

City of Austin, TX

City of Corpus Christi, TX

City of Dallas, TX

City of El Paso, TX

City of Galveston, TX

City of Norfolk, VA

City of Phoenix, AZ

City of Richmond, VA

City of San Antonio, TX

City of Tucson, AZ

County of Augusta, VA

County of Henrico, VA

County of York, VA

Town of Ashland, VA

Town of Blacksburg, VA

Town of Pecos City, TX

<u>Other Government Agencies</u>

Canada—Department of Communications

Hillsborough County Property Appraiser

Provincial Governments of Canada

Sarasota County Property Appraiser
State of Florida—Department of General Services
United States Department of Justice—Antitrust Division
Utah State Tax Commission

Regulated Firms

Alabama Power Company
Americall LDC, Inc.
BC Rail
CommuniGroup
Florida Association of Concerned Telephone Companies, Inc.
LDDS Communications, Inc.
Louisiana/Mississippi Resellers Association
Madison County Telephone Company
Montana Power Company
Mountain View Telephone Company
Nevada Power Company
Network I, Inc.
North Carolina Long Distance Association
Northern Lights Public Utility
Otter Tail Power Company
Pan-Alberta Gas, Ltd.
Resort Village Utility, Inc.
South Carolina Long Distance Association
Stanton Telephone
Teleconnect Company
Tennessee Resellers' Association
Westel Telecommunications
Yelcot Telephone Company, Inc.

Other Private Organizations

Arizona Center for Law in the Public Interest
Black United Fund of New Jersey
Casco Bank and Trust
Coalition of Boise Water Customers
Colorado Energy Advocacy Office
East Maine Medical Center
Georgia Legal Services Program
Harris Corporation
Helca Mining Company
Idaho Small Timber Companies
Independent Energy Producers of Idaho
Interstate Securities Corporation
J.R. Simplot Company
Merrill Trust Company
MICRON Semiconductor, Inc.
Native American Rights Fund
PenBay Memorial Hospital
Rosebud Enterprises, Inc.
Skokomish Indian Tribe
State Farm Insurance Company
Twin Falls Canal Company
World Center for Birds of Prey

Prior Experience

Q. Before becoming a consultant, what was your employment experience?

A. From August 1975 to September 1977, I held the position of Senior Utility Analyst with Office of Public Counsel in Florida. From September 1974 until August 1975, I held the position of Economic Analyst with the same office. Prior to that time, I was employed by the law firm of Holland and Knight as a corporate legal assistant.

Q. In how many formal utility regulatory proceedings have you been involved?

A. As a result of my experience with the Florida Public Counsel and my work as a consulting economist, I have been actively involved in approximately 400 different formal regulatory proceedings concerning electric, telephone, natural gas, railroad, and water and sewer utilities.

Q. Have you done any independent research and analysis in the field of regulatory economics?

A. Yes, I have undertaken extensive research and analysis of various aspects of utility regulation. Many of the resulting reports were prepared for the internal use of the Florida Public Counsel. Others were prepared for use by the staff of the Florida Legislature and for submission to the Arizona Corporation Commission, the Florida Public Service Commission, the Canadian Department of Communications, and the Provincial Governments of Canada, among others. In addition, as I already mentioned, my Master's thesis concerned the theory of the regulated firm.

Q. Have you testified previously as an expert witness in the area of public utility regulation?

A. Yes. I have provided expert testimony on more than 250 occasions in proceedings before state courts, federal courts, and regulatory commissions throughout the United States and in Canada. I have presented or have pending expert testimony before 35 state commissions, the Interstate Commerce Commission, the Federal Communications

Commission, the District of Columbia Public Service Commission, the Alberta, Canada Public Utilities Board, and the Ontario Ministry of Culture and Communication.

Q. What types of companies have you analyzed?

A. My work has involved more than 425 different telephone companies, covering the entire spectrum from AT&T Communications to Stanton Telephone, and more than 55 different electric utilities ranging in size from Texas Utilities Company to Savannah Electric and Power Company. I have also analyzed more than 30 other regulated firms, including water, sewer, natural gas, and railroad companies.

Teaching and Publications

Q. Have you ever lectured on the subject of regulatory economics?

A. Yes, I have lectured to undergraduate classes in economics at Florida State University on various subjects related to public utility regulation and economic theory. I have also addressed conferences and seminars sponsored by such institutions as the National Association of Regulatory Utility Commissioners (NARUC), the Marquette University College of Business Administration, the Utah Division of Public Utilities and the University of Utah, the Competitive Telecommunications Association (COMPTEL), the International Association of Assessing Officers (IAAO), the Michigan State University Institute of Public Utilities, the National Association of State Utility Consumer Advocates (NASUCA), the Rural Electrification Administration (REA), North Carolina State University, and the National Society of Rate of Return Analysts.

Q. Have you published any articles concerning public utility regulation?

A. Yes, I have authored or co-authored the following articles and comments:

"Attrition: A Problem for Public Utilities—Comment." *Public Utilities Fortnightly*, March 2, 1978, pp. 32-33.

"The Attrition Problem: Underlying Causes and Regulatory Solutions." *Public Utilities Fortnightly*, March 2, 1978, pp. 17-20.

"The Dilemma in Mixing Competition with Regulation." *Public Utilities Fortnightly,* February 15, 1979, pp. 15-19.

"Cost Allocations: Limits, Problems, and Alternatives." *Public Utilities Fortnightly,* December 4, 1980, pp. 33-36.

"AT&T is Wrong." *The New York Times,* February 13, 1982, p. 19.

"Deregulation and Divestiture in a Changing Telecommunications Industry," with Sharon D. Thomas. *Public Utilities Fortnightly*, October 14, 1982, pp. 17-22.

"Is the Debt-Equity Spread Always Positive?" *Public Utilities Fortnightly,* November 25, 1982, pp. 7-8.

"Working Capital: An Evaluation of Alternative Approaches." *Electric Rate-Making,* December 1982/January 1983, pp. 36-39.

"The Staggers Rail Act of 1980: Deregulation Gone Awry," with Sharon D. Thomas. *West Virginia Law Review,* Coal Issue 1983, pp. 725-738.

"Bypassing the FCC: An Alternative Approach to Access Charges." *Public Utilities Fortnightly*, March 7, 1985, pp. 18-23.

"On the Results of the Telephone Network's Demise—Comment," with Sharon D. Thomas. *Public Utilities Fortnightly*, May 1, 1986, pp. 6-7.

"Universal Local Access Service Tariffs: An Alternative Approach to Access Charges." In *Public Utility Regulation in an Environment of Change,* edited by Patrick C. Mann and Harry M. Trebing, pp. 63-75. Proceedings of the Institute of Public Utilities Seventeenth Annual Conference. East Lansing, Michigan: Michigan State University Public Utilities Institute, 1987.

With E. Ray Canterbery. Review of *The Economics of Telecommunications: Theory and Policy* by John T. Wenders. *Southern Economic Journal* 54.2 (October 1987).

"The Marginal Costs of Subscriber Loops," A Paper Published in the Proceedings of the Symposia on Marginal Cost Techniques for Telephone Services. The National Regulatory Research Institute, July 15-19, 1990 and August 12-16, 1990.

With E. Ray Canterbery and Don Reading. "Cost Savings from Nuclear Regulatory Reform: An Econometric Model." *Southern Economic Journal,* January 1996.

Professional Memberships

Q. Do you belong to any professional societies?

A. Yes. I am a member of the American Economic Association.

Imputation Comparison

Proposed Stipulation vs. RUCO and Staff Recommendations

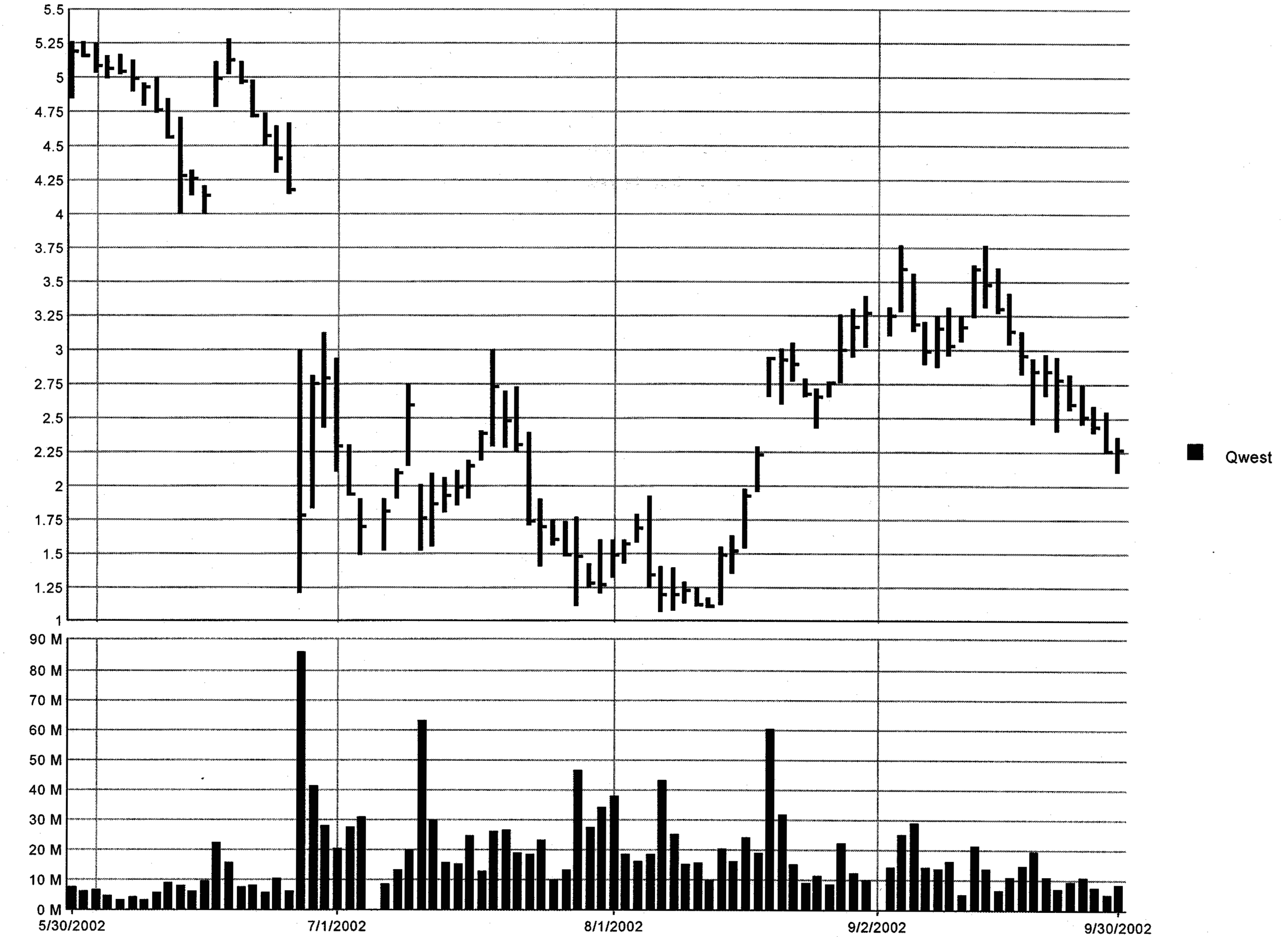
Year	Proposed Stipulation	RUCO (Line Growth)	RUCO (Line Growth and Inflation)	Staff (Traditional Regulation)	Staff (Price Cap) Regulation)
2004	72,000,000	83,961,293	138,221,553	121,300,000	100,000,000
2005	72,000,000	83,961,293	142,494,954	121,300,000	100,000,000
2006	72,000,000	83,961,293	146,900,475	121,300,000	100,000,000
2007	72,000,000	83,961,293	151,442,202	121,300,000	100,000,000
2008	72,000,000	83,961,293	156,124,346	121,300,000	100,000,000
2009	72,000,000	83,961,293	160,951,247	121,300,000	100,000,000
2010	72,000,000	83,961,293	165,927,382	121,300,000	100,000,000
2011	72,000,000	83,961,293	171,057,365	121,300,000	100,000,000
2012	72,000,000	83,961,293	176,345,951	121,300,000	100,000,000
2013	72,000,000	83,961,293	181,798,045	121,300,000	100,000,000
2014	72,000,000	83,961,293	187,418,701	121,300,000	100,000,000
2015	72,000,000	83,961,293	193,213,132	121,300,000	100,000,000
2016	72,000,000	83,961,293	199,186,708	121,300,000	100,000,000
2017	72,000,000	83,961,293	205,344,971	121,300,000	100,000,000
2018	72,000,000	83,961,293	211,693,628	121,300,000	100,000,000
2019		83,961,293	218,238,567	121,300,000	100,000,000
2020		83,961,293	224,985,856	121,300,000	100,000,000
2021		83,961,293	231,941,752	121,300,000	100,000,000
2022		83,961,293	239,112,703	121,300,000	100,000,000
2023		83,961,293	246,505,358	121,300,000	100,000,000
2024		83,961,293	254,126,573		100,000,000
2025		83,961,293	261,983,412		100,000,000
2026		83,961,293	270,083,162		100,000,000
2027		83,961,293	278,433,333		100,000,000
2028		83,961,293	287,041,665		100,000,000
2029		83,961,293	295,916,142		100,000,000
2030		83,961,293	305,064,992		100,000,000
2031		83,961,293	314,496,696		100,000,000
2032		83,961,293	324,220,001		100,000,000
2033		83,961,293	334,243,922		100,000,000
2034		83,961,293	344,577,753		100,000,000
2035		83,961,293	355,231,075		100,000,000
2036		83,961,293	366,213,766		100,000,000
2037		83,961,293	377,536,009		100,000,000
2038		83,961,293	389,208,303		100,000,000
2039		83,961,293	401,241,469		100,000,000
2040		83,961,293	413,646,665		100,000,000
2041		83,961,293	426,435,393		100,000,000
2042		83,961,293	439,619,510		100,000,000
2043		83,961,293	453,211,242		100,000,000
2044		83,961,293	467,223,189		100,000,000

Imputation Comparison

Proposed Stipulation vs. RUCO and Staff Recommendations

Year	Proposed Stipulation	RUCO (Line Growth)	RUCO (Line Growth and Inflation)	Staff (Traditional Regulation)	Staff (Price Cap) Regulation)
2045		83,961,293	481,668,344		100,000,000
2046		83,961,293	496,560,100		100,000,000
2047		83,961,293	511,912,266		100,000,000
2048		83,961,293	527,739,075		100,000,000

Schedule 2 - Price History - Qwest Communications International Inc. (5/30/2002 - 9/30/2002)

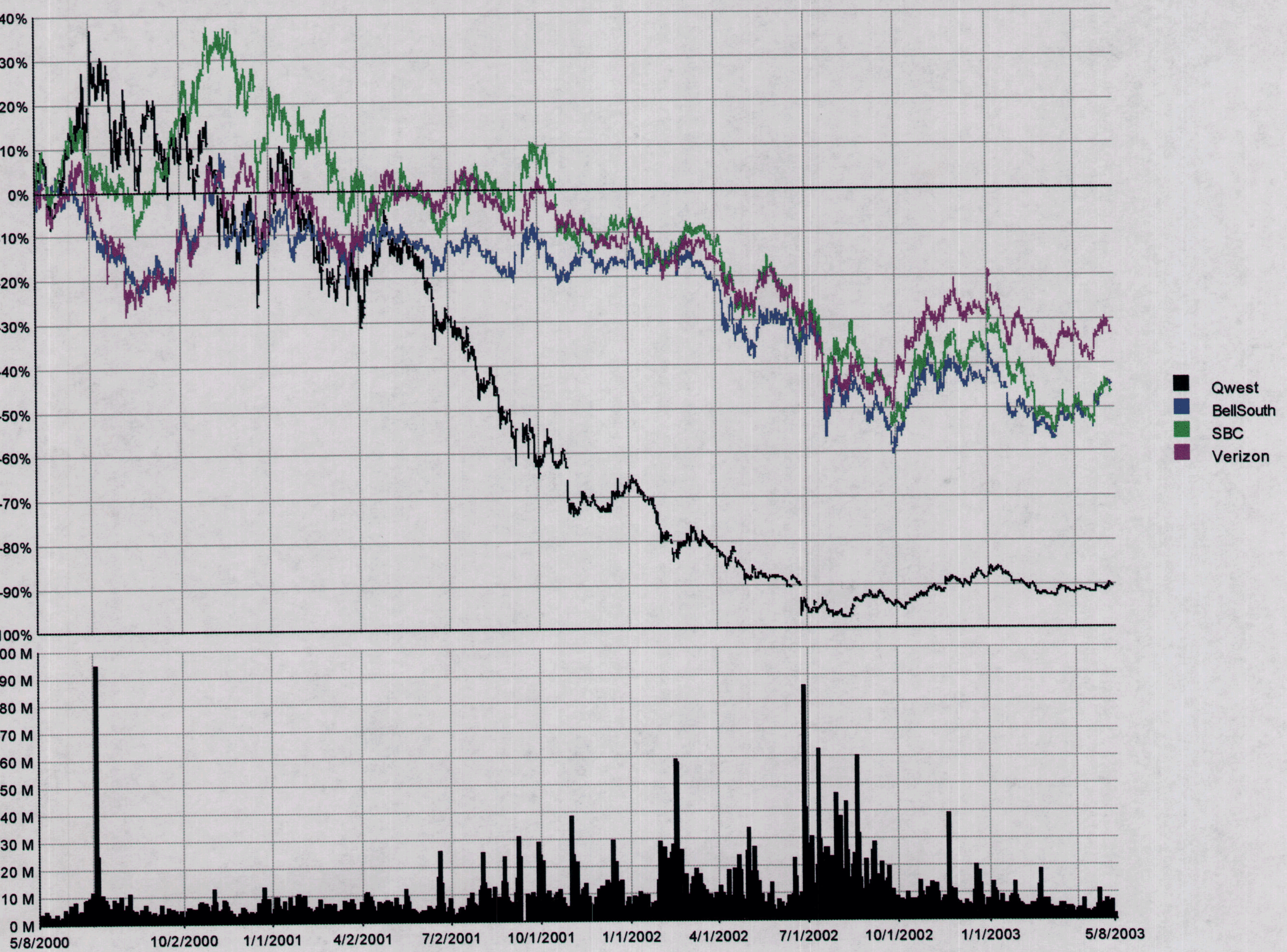


Source: MSN Money

Schedule 2 - Price History - Qwest Communications International Inc. (5/8/2000 - 5/8/2003)

Source: MSN Money

Schedule 2 - Price History - Qwest Communications International Inc. (5/8/2000 - 5/8/2003)



Source: MSN Money