

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

**IN THE MATTER OF CONTINUED)
COSTING AND PRICING OF)
UNBUNDLED NETWORK ELEMENTS,)
TRANSPORT, TERMINATION, AND)
RESALE)**

**DOCKET NO. UT-003013
*Part D***

SUPPLEMENTAL REBUTTAL TESTIMONY

OF

D. M. (MARTI) GUDE

ON BEHALF OF

QWEST CORPORATION

APRIL 17, 2002

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EXECUTIVE SUMMARY

D. M. (Marti) Gude is employed by Qwest Corporation. In her position as Director - Cost Accounting, she is responsible for various regulatory and management accounting functions. Her responsibilities include the development of TELRIC-based cost study factors and preparing and analyzing embedded cost studies and information relating to cost studies that Qwest uses for purposes such as deregulation, cost accounting, and regulatory filings.

She originally filed rebuttal testimony responding to the testimony of Mr. Peter J. Gose, on behalf of WorldCom, Inc., regarding the various issues he raised concerning TELRIC-based non-recurring cost studies that Qwest presented in its direct case. Ms. Gude's testimony clarified the issues raised by Mr. Gose and set forth rationale indicating why his testimony should be disregarded or considered moot.

In her supplemental rebuttal testimony Ms. Gude addresses Mr. Gose's recommendation to the Commission that they require a compliance filing update of all of Qwest's cost study factors for the limited purpose of setting prices in the present Part D phase of Qwest's cost proceeding.

1 **I. IDENTIFICATION OF WITNESS**

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

3 **A.** My name is D. M. (Marti) Gude. My business address is 1314 Douglas-on-the-Mall,
4 Omaha, Nebraska.

5
6 **Q. ARE YOU THE SAME D. M. (MARTI) GUDE THAT PREVIOUSLY FILED**
7 **TESTIMONY IN THIS PROCEEDING?**

8 **A.** Yes I am. I filed rebuttal testimony on March 7, 2002, which dealt with issues surrounding
9 the Direct Testimony and recommendations sponsored by Mr. Peter J. Gose, on behalf of
10 WorldCom, Inc. In that testimony, I addressed various issues he raised concerning the cost
11 study factors contained in Qwest's TELRIC-based non-recurring cost studies presented in
12 Part D of this cost proceeding.

13
14 **II. PURPOSE OF THIS TESTIMONY**

15 **Q. WHAT IS THE PURPOSE OF YOUR SUPPLEMENTAL REBUTTAL**
16 **TESTIMONY IN THIS PROCEEDING?**

17 **A.** In this testimony I am responding to the Supplemental Direct testimony sponsored by Mr.
18 Peter J. Gose, on behalf of WorldCom, Inc., and to additional recommendations he makes
19 regarding the development and use of updated factors in the Part D phase of these
20 proceedings. In particular, I address Mr. Gose's suggestion that updated cost factors be
21 obtained via a required compliance filing update. I also take note of Mr. Gose's lack of

1 discussion on what extent such factors would be employed in reevaluating prices set in
2 earlier phases, now that the Commission is in the Part D phase of Qwest's cost proceeding.

3
4 **III. ISSUES RELATING TO THE SUPPLEMENTAL DIRECT**
5 **TESTIMONY OF PETER J. GOSE**

6 **Q. WHAT SPECIFIC ISSUES DO YOU HAVE REGARDING THE SUPPLEMENTAL**
7 **TESTIMONY AND RECOMMENDATIONS SPONSORED BY MR. GOSE?**

8 **A.** Mr. Gose proposes that the Commission require Qwest to file a complete update of its
9 expense factor model in this phase of its cost proceeding using the most currently available
10 data. Mr. Gose bases this recommendation upon a limited analysis of 2000-year data for
11 three cost areas relating to Product Management, Sales and Business Fee expenses.¹ His
12 analysis of these three expense areas, and his recalculation of Qwest's cost factors for these
13 expenses, resulted in factor changes at the third or fourth decimal level.² He apparently
14 performed no application or pricing materiality assessments regarding the use of his
15 recalculated factors. Yet, based solely on recalculated factor results for the three cost
16 areas, Mr. Gose suggests that the Commission should require Qwest to update of all of its
17 cost factors, even though the Commission has all but completed its pricing of Qwest's
18 services in the present cost proceeding. I believe Mr. Gose's analysis was superficial and
19 that that his recommendation is both unwarranted and ill timed.

20

¹ See Supplemental Testimony of Peter J. Gose dated February 14, 2002, at page 5. His analysis included a cost category for Advertising expense, however the cost factor for this category was "0" in both the Qwest developed cost factor module and in Mr. Gose's analysis.

² Since Mr. Gose's testimony did not include complete support and documentation for his recalculated factor values, his factor calculations and results could not be fully assessed for developmental accuracy.

1 **Cost Factor Update Recommendation**

2 **Q. WHAT CONCERNS DO YOU HAVE REGARDING MR. GOSE'S COST FACTOR**
3 **UPDATE RECOMMENDATION?**

4 **A.** First, as I discussed in some detail in my Rebuttal testimony, I disagree with Mr. Gose's
5 suggestion that the Commission should consider changing the cost factor values and/or
6 calculation methodologies employed in Qwest's cost studies filed in this phase of the cost
7 docket. Changing cost factors from those that were developed, reviewed, and applied in
8 determining costs in the earlier phases of this proceeding creates an unacceptable lack of
9 continuity between Qwest's non-recurring cost studies and pricing methods and those
10 studies and pricing procedures already addressed by the Commission. Unless the
11 Commission were willing to revisit all pricing set in earlier phases of this cost proceeding,
12 Mr. Gose's recommendation is ill timed. For this reason alone, I would continue to urge
13 the Commission to reject Mr. Gose's proposal.

14
15 **Q. DID MR. GOSE CONDUCT A THOROUGH ANALYSIS OF QWEST'S COST**
16 **STUDY FACTORS AND THE IMPLICATIONS OF MAKING A CHANGE IN THE**
17 **FACTORS USED IN DETERMINING PRICES?**

18 **A.** No. I believe Mr. Gose's analysis was over simplified. He restricted his analysis to three
19 cost factors, ignoring any potential change to factors in all of the other cost areas, and
20 which, if updated, may not support his "reduced factor" inference. By inference and
21 innuendo Mr. Gose suggests that all of Qwest's cost factors have declined since the time
22 they were developed for use in the earlier phases of this cost proceeding. However, given
23 Mr. Gose's limited review of factors and the lack of materiality price testing on those he

1 reviewed, potential offsets to his findings and pricing effects were ignored.

2
3 Furthermore, his analysis and recommendation fails to address or formulate a remedy for
4 the pricing and procedure inconsistencies that would be created by changing the factors
5 and procedures at this stage of the cost proceedings without a plan to adjust the factors and
6 prices that resulted in earlier phases. Thus, his recommendation to update all cost factors
7 at this stage of the Commission's cost proceeding should be rejected.

8
9 • **Directly Attributed and Common Cost Factors**

10 **Q. IN HIS SUPPLEMENTAL TESTIMONY, DOES MR. GOSE CONTINUE TO**
11 **ADVOCATE CHANGING THE COST FACTORS THAT ARE ASSOCIATED**
12 **WITH ATTRIBUTED AND COMMON COSTS?**

13 **A.** No, Mr. Gose appears to have now accepted the fact that the Commission should keep
14 attributed and common cost factors in sync with those employed in earlier phases of the
15 Company's cost proceeding. His testimony suggests that, if the Commission does not
16 follow his recommendation to require a complete update of all of Qwest's cost study
17 factors, including attributed and common factors, then the attributed and common cost
18 factors used in this phase should reflect those prescribed by the Commission in previous
19 dockets and earlier phases in this cost proceeding.

20
21 Although Mr. Gose did not fully explain his rationale for changing his position on this
22 matter, it may be that Mr. Gose recognized that the attributed and common factors were

1 developed on the premise that they are applicable to all investment-related and directly
2 assigned costs. And he may have recognized that, changing the cost study calculation
3 methodology for Qwest's non-recurring studies in Part D of these proceedings, to exclude
4 the application of attributed and common costs to non-recurring costs, would result in
5 unwarranted inconsistencies with other studies and the development of other costs.

6
7 Regardless of his current reasoning, the Commission should dismiss his original proposal
8 to require Qwest to update only the attributed and common cost factors solely for the
9 purpose of this phase of cost review and pricing. If such an action were taken, it would
10 necessitate re-evaluating pricing set in earlier phases of this cost proceeding, a requirement
11 that Mr. Gose totally ignores.

12
13 **• Other Considerations**

14 **Q. IS THERE ANY OTHER REASON FOR THE COMMISSION TO REJECT MR.**
15 **GOSE'S PROPOSAL TO UPDATE ALL COST STUDY FACTORS IN THIS**
16 **PHASE OF THE PRESENT COST PROCEEDING?**

17 **A.** Yes, there is. It is my understanding that the Commission has recently scheduled and
18 docketed a new cost proceeding, Docket No. UT-023003, for the intended purpose of once
19 again conducting a complete and thorough review of Qwest's costs and pricing of
20 wholesale services. As a result, Qwest will be filing updated cost factors and new cost
21 studies in a proceeding that is only a few months away. Thus, requiring Qwest to perform
22 an intermediate and complete update of its cost factors now, in this proceeding, would put

1 this phase of costing and pricing out-of-sync with earlier pricing phases. Furthermore, it
2 would not be an efficient use of Company or Commission resources, nor would such
3 action produce consistent pricing procedures and results in the present cost proceeding.
4

5 **IV. FINAL CONCLUSIONS AND RECOMMENDATIONS**

6 **Q. WHAT FINAL CONCLUSIONS AND RECOMMENDATIONS DO YOU HAVE**
7 **REGARDING THE TESTIMONY PROVIDED BY MR. GOSE IN THIS**
8 **PROCEEDING?**

9 **A.** As I stated in my previous testimony, the cost factor changes and/or update
10 recommendations made by Mr. Gose were misguided or moot. Mr. Gose's supplemental
11 testimony and request for a complete update of factors is also unwarranted and ill timed.
12 Thus, I continue to recommend that the Commission disregard completely the issues raised
13 by Mr. Gose and reaffirm the cost factors previously employed by Qwest in the other
14 phases of this cost proceeding and in its preparation of its non-recurring cost studies under
15 review in this phase of the cost docket.
16

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

18 **A.** Yes, it does.