Exhibit ___ (TPG-T)

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In Re Petition of	**)**	
U S WEST Communications, Inc.	**)**	**Docket No. UT-980948**
For a Declaratory Order Ending Imputation	**)**	
Of Revenue Derived from Transferred	**)**	
Directory Publishing Business	**)**	

REJOINDER TESTIMONY

OF

TIMOTHY P. GOLDEN
PRICEWATERHOUSECOOPERS LLP

On behalf of

U S WEST COMMUNICATIONS, INC.

July 16, 1999

A. PLEASE STATE YOUR NAME AND PLACE OF EMPLOYMENT.

A. Timothy P. Golden, PricewaterhouseCoopers LLP, 2400 Eleven Penn Center, Philadelphia, PA 19103

Q. ARE YOU THE SAME TIMOTHY GOLDEN THAT FILED DIRECT AND REBUTTAL TESTIMONY IN THIS DOCKET?

A. Yes, I am. My responsibilities at PricewaterhouseCoopers and my professional and educational qualifications remain as presented in my direct testimony with one minor adjustment. That is, on July 1, 1999 I became a Partner in the Firm and assumed greater leadership responsibilities within its business valuation practice.

Q. PLEASE STATE THE PURPOSE OF THIS REJOINDER TESTIMONY.

A. The purpose of this rejoinder testimony is to respond to certain portions of the surrebuttal testimony dated June 28, 1999 of Mr. Michael Brosch submitted on behalf of Public Counsel, AARP and TRACER relating to the fair market value of the directory publishing operations of U S WEST Inc. (the "Business") as of January 1, 1984.

Q. HOW IS YOUR REJOINDER TESTIMONY ORGANIZED?

A. My testimony addresses certain issues raised by Mr. Brosch on pages 41 through 49 of his surrebuttal, in the order in which they appear, relating primarily to the topics of selection of discount rate and terminal year growth rate.

Q. ON PAGE 42 OF HIS SURREBUTTAL, MR. BROSCH ATTEMPTS TO RESOLVE SOME APPARENT CONFUSION WITH RESPECT TO WHICH DEBT AND EQUITY RATIOS SHOULD BE EMPLOYED IN A DISCOUNT RATE DETERMINATION. WAS HE SUCCESSFUL?

A. No, I believe Mr. Brosch demonstrates a lack of familiarity with proper discount rate derivation techniques for business valuation purposes. As he states:

> **A. ARE YOU, AS MR. GOLDEN SUGGESTS AT PAGE 8 OF HIS REBUTTAL, GENUINELY CONFUSED BY THE CONCEPT OF DEBT AND EQUITY RATIOS IN WACC EQUATIONS?**
>
> A. No. I considered the use of market value of equity capital in defining the capital structure employed in my Weighted Average Cost of Capital and concluded that such an approach produces unreasonable results in the light of the large variation between the market versus book value of the New U S WEST equity and the related book value at December 31, 1998.[1]

Mr. Brosch goes on to provide a reason as to why the book equity ratio is low and confirms that his 1999 vintage WACC calculation employed ratios from a 1995 rate case. He does not attempt to address why he thinks the market based equity ratio, the theoretically correct ratio to employ, is too high. For a service business such a yellow page publisher with few physical assets, the market value of equity should be much higher than book value. The fact that various public utility commissions deem ratios that are "more balanced" in the rate making process for regulated, asset intensive utilities is irrelevant in the valuation of the Business. The fact that Mr. Brosch has observed a large difference in U S WEST Inc.'s book and fair market value based equity ratios, provides absolutely no justification for looking towards a dated Commission approved ratio for a regulated public utility business segment.

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[1] Brosch Surrebuttal, page 42, lines 12-17 .

A.

A. IS MR. BROSCH CORRECT IN ASSERTING ON PAGE 43 OF HIS SURREBUTTAL THAT THERE ARE NO MAJOR DIFFERENCES IN YOUR RESPECTIVE APPROACHES?

A. No. The fact that Mr. Brosch employed, not quite correctly, one of PricewaterhouseCoopers LLP's many spreadsheet templates as the sole value calculation for his 1999 estimate does not mitigate the many shortcomings in his analysis. As discussed on pages 60 through 64 of my Rebuttal Testimony, his failure to conduct any corroborative, market based valuation procedures is an egregious omission that perhaps attests to Mr. Brosch's admitted lack of experience in the discipline of business valuation. On page 44 of his surrebuttal, Mr. Brosch speculates that there is "no dispute" with respect to "basic input data employed in the valuation". I emphasize that Mr. Brosch's almost exclusive reliance on basically two lines of management-provided projections to prepare a valuation conclusion is a source of great dispute.[2]

Considerable economic, industry and other market-based "input data" must be gathered and analyzed before a valuation professional should attempt to render an opinion of value for a business. In my 1984-vintage valuation, I employed a group of large, predominantly newspaper publishing companies to develop one of several secondary, market-based valuation approaches. In dismissing the utility of such procedures, Mr. Brosch's direct testimony noted that there was a lack of "suitably comparable" companies.[3] A 1989 US Tax Court Case (*Hall Estate v. Commissioner*)[4] has been cited in business valuation literature for the clarity of its reasoning on a number of issues, but particularly with respect to comparable

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2 See Public Counsel Supplemental Reponse to U S WEST data request No. 15.

3 Brosch Direct Testimony, page 25, line 8.

4 US TC; Cohen, J.; *Hall Estate v. Commissioner*, No. 39319-86, 92 T.C. No. 19, 2/14/89

company selection. In this case, two experts (First Boston Corporation and Shearson Leahman Hutton, Inc.) valued the equity of the privately held Hallmark Cards, Inc. by using, in part, the public market multiples of such diverse companies as Avon Products, Inc., The Coca-Cola Company, Lenox, Incorporated, McDonald's and IBM as well as American Greetings Corporation, Hallmark's sole publicly traded greeting card competitor. The Court dismissed the valuation analysis of a third expert who chose to consider only American Greetings as a guideline company in part because this expert too narrowly construed the concept of comparability.

A. MR. BROSCH, ON PAGES 44-47 OF HIS SURREBUTTAL, ASSERTS THAT YOU HAVE NOT PRESENTED ANY EVIDENCE AS TO WHETHER THE BUSINESS'S LONG-TERM GROWTH RATE CORRESPONDS WITH INFLATION. IS HE CORRECT?

A. No. As Exhibit TPG-4 to my rebuttal shows, when graphing 1984-1998 Business revenues and CPI-U, the relationship between these two variables has moved through at least two stages. As Mr. Brosch notes on page 45 of his surrebuttal, the difference between CPI-U and revenues has consistently been about 2%-4% since 1990 (actually as low as 1.8% in 1993[5]), a reasonably narrow differential. However, the pre-1990 years show considerably more turbulence with Business revenue *growth lagging* CPI-U by 6.5% in 1987 in contrast to Mr. Brosch's belief that:

> "the conclusion suggested by the graph is that revenue growth *consistently exceeds* inflation for the USWD business" [6]

I interpret the graph to show that there is a reasonable relationship that has, at least on one

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5 See Schedule 2a to Confidential Exhibit TPG-1 to my direct testimony for actual input data.

6 Brosch Surrebuttal, page 45 lines 6-7.

occasion, been overwhelmed by major shifts in industry dynamics. Such industry forces may very well arise again. Ignoring this likelihood would likely lead to an overly optimistic forecast of Business growth into perpetuity.

A. DOES MR. BROSCH ATTEMPT TO USE THE POST-1990 RELATIONSHIP TO JUSTIFY HIS 1999 -VINTAGE 5.5% TERMINAL YEAR GROWTH ASSUMPTION?

A. Yes. He misinterprets Exhibit TPG-4 by stating that it suggests a 3% real growth rate and adds it to an assumed 2.3% projected inflation rate. These two figures algebraically add to 5.3%, not 5.5%. This flawed calculation, which appears to be Mr. Brosch's first attempt on the record to independently derive a terminal year rate, naively ignores the future likelihood of a potential industry downturn. That is, he arbitrarily selects the most recent seven-year period to project into eternity. For corroborating support, Mr. Brosch looks to the Business's 1998 actual performance and an excerpt from the U S WEST Inc.1998 Investor's Handbook that addresses solely ***short-term*** (i.e., 1999) growth initiatives.[7] Neither the testimony nor workpapers of Mr. Brosch indicates that he conducted much if any research into current or projected ***long-term*** industry trends.

With regard to the 1998 Investor's Handbook Mr. Brosch references, roughly 80% of the "1999 Growth Initiatives" page he discusses clearly addresses the Business's emerging Internet advertising and electronic commerce service offerings.[8] Mr. Brosch opined in his Direct Testimony that "Inclusion of these other Dex ventures would likely reduce the indicated business enterprise value...".[9]

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[7] Ibid., pages 45, 46.
[8] U S WEST Inc. 1998 Investor's Handbook. Page 23.
[9] Brosh Direct Testimony, page 50 line 23.

A. HAS ANY PARTY IN THESE PROCEEDINGS PRESENTED ANY EVIDENCE AS TO WHAT POST 2002-2003 TERMINAL YEAR GROWTH RATES SHOULD BE?

A. As noted by Mr. Brosch on page 48 of his surrebuttal, the Financial Advisors engaged by U S WEST to provide February 1998 fairness opinions suggest perpetuity (post-2002) growth rates of 2.5% to 3.0%. The Financial Advisors have not provided testimonial or workpaper support for us to ascertain precisely how these growth rates may be allocated between real and inflationary components. Based on published short-to-intermediate term inflation rate forecasts, one can only speculate that the preponderance of this 2.5% to 3% range could be inflationary, though likely not all as Mr. Brosch suggests.[10] Neither Staff nor the Public Counsel has questioned the Financial Advisors' credentials or the propriety of a $4.75 billion February 1998 transfer price.

A. WHAT DO YOU THINK OF THE "VALUATION TABLE" MR. BROSCH PRESENTS ON PAGE 48 OF HIS SURREBUTTAL?

A. This table demonstrates that "the business valuation from Company prepared forecasts" could range from $4.828 billion to $9.32 billion, depending upon various combinations of discount rates and terminal year growth rates. This absurdly wide range succeeds again in demonstrating why business valuation is simply not an exercise that consists of inputting data into a computer spreadsheet, particularly a spreadsheet that the user has not created and may not fully understand. This table points to the need for thorough, thoughtful market-based corroborative valuation procedures to be performed. The valuation analyst is not alone in making critical terminal year growth and discount rate judgements; the market can provide

[10] Ibid., page 48 line 18.

clues. Despite whatever mechanical means may be used to derive these variables, the market (and therefore the valuation analyst) may ignore them if these variables in concert produce nonsensical current or anticipated “exit” implied pricing multiples.

Q. DOES THIS CONCLUDE YOUR REJOINDER TESTIMONY?

A. Yes it does.