



1 Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

2 A. My name is Maurice L. Twitchell. My business address is 1300 South Evergreen
3 Park Drive Southwest, P.O. Box 47250, Olympia, Washington 98504.

4 Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?

5 A. I am employed by the Washington Utilities and Transportation Commission as a
6 Regulatory Consultant.

7 Q. WHAT ARE YOUR EDUCATION AND EXPERIENCE QUALIFICATIONS?

8 A. I am a graduate of Brigham Young University, holding a Bachelor of Science
9 degree with a major in Accounting and a minor in Business Administration and
10 Economics, having been graduated in June, 1970. I was employed by the
11 Washington Utilities and Transportation Commission in September of 1970.
12 While in the employment of the Commission, I have participated in or been in
13 charge of numerous Staff studies and accounting examinations, including
14 telephone cases involving U S WEST (Pacific Northwest Bell Company), General
15 Telephone Company of the Northwest, Inc., United Telephone Company of the
16 Northwest, Pacific Telecom, Inc., and many of the other Local Exchange
17 Companies. I have also participated in examinations of Avista Corporation (The
18 Washington Water Power Company), Puget Sound Energy (Washington Natural
19 Gas Company and Puget Sound Power and Light), and Pacific Power & Light

1 Company. I have also participated in examinations of water and transportation
2 companies.

3 Q. ARE YOU FAMILIAR WITH THE MERGER OF US WEST AND QWEST IN
4 DOCKET NO. UT-991358?

5 A. Yes.

6 Q. WERE YOU INSTRUCTED TO MAKE AN ACCOUNTING EXAMINATION
7 OF THE DOCUMENTS THAT SUPPORT THE SYNERGIES THAT WILL BE
8 GENERATED BY THE MERGER OF U S WEST, INC. (U S WEST) AND
9 QWEST COMMUNICATIONS INTERNATIONAL INC.(QWEST) IN
10 DOCKET NUMBER UT-991358?

11 A. Yes. I was instructed to identify the amount of the synergies that should flow to
12 the Washington Intrastate results of operations as a result of the merged company.

13 Q. WHAT WAS THE SCOPE OF THE EXAMINATION?

14 A. I have read the filed testimony of U S WEST witnesses Paul Gallant, Carl Inouye,
15 and Theresa Jensen. I have also read and studied the synergy material contained
16 in the responses to the following data requests: WUTC 01-001, WUTC 02-008,
17 WUTC 02-010, WUTC 02-011, WUTC 02-015, WUTC 02-016, 02-023, WUTC

1 05-123, WUTC 05-130, WUTC 07-140, PC 01-001, PC 02-038, PC 03-044, PC
2 04-075, 04-078, and PC 04-079.

3
4 Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION AS THE
5 APPROPRIATE AMOUNT OF SYNERGIES THAT SHOULD FLOW TO THE
6 STATE OF WASHINGTON INTRASTATE OPERATIONS SO THAT, IN
7 ADDITION TO THE CONDITIONS DESCRIBED IN THE TESTIMONIES OF
8 STAFF WITNESSES BLACKMON, FOLSOM, GRIFFITH AND STILLWELL,
9 THE COMMISSION CAN FIND THAT THE PROPOSED MERGER IS
10 CONSISTENT WITH THE PUBLIC INTEREST?

11 A. It is my recommendation that the synergies associated with the operating expense
12 savings of \$4,343,000,000 are the total merged company's operating expense
13 synergies that should be used to allocate the Washington Intrastate generated
14 savings. The Washington Intrastate portion of these synergies is \$233,598,713.

15 Q. PLEASE EXPLAIN HOW YOU ARRIVED AT YOUR RECOMMENDATION
16 FOR THE SYNERGIES THAT SHOULD BE ALLOCATED TO
17 WASHINGTON INTRASTATE.

18 A. I reviewed the merged company's data request responses to ascertain the different
19 types of synergies that the merged company is attesting will occur as a result of
20 the merger. Based on my review, I believe that only synergies resulting from

1 operating expense savings should be included as savings for Washington
2 Intrastate purposes.

3 Q. WHAT ARE THE OTHER TYPES OF SYNERGIES THE MERGED
4 COMPANY CLAIMS WILL OCCUR?

5 A. The merged company's responses to data requests discussed three types of
6 synergies; a) revenue benefits, b) operating expense savings, and c) capital
7 expenditure savings. The response to Data Request WUTC 02-008, the Securities
8 and Exchange Commission Form S-4 for QWEST Communications International
9 Inc. (Page II-16), provides information concerning the amount of projected
10 synergies for the merged company. This response states: "We expect that during
11 the period 2000 through 2005 we will realize net synergies of approximately
12 \$10.5 billion to \$11.0 billion as a result of the combination of our two
13 companies."

14
15 This document continues to discuss synergies for the same time period that will
16 result from Revenue benefits: "We expect the combined company will realize
17 gross revenue benefits of more than \$12 billion" SEC Form S-4 at p. II-16.

18 The document also quantifies the benefits from reduced operating expenses: "We
19 believe that during the period 2000 through 2005, these operating expense savings

1 will be approximately \$4.3 billion to \$4.5 billion.” SEC Form S-4 at p. II-16. A
2 second source of synergy benefits is stated as: “revenue benefits will result in
3 incremental gross margins of approximately \$4.0 billion to \$4.4 billion.” SEC
4 Form S-4 at p. II-16. A third source of synergy benefits is identified as capital
5 expenditure savings: “We believe that during the period 2000 through 2005, these
6 capital expenditure savings will be approximately \$2.2 billion to \$2.3 billion.”
7 SEC Form S-4 at p. II-16.

8
9 The sum of these three sources of synergy is approximately \$10.668 billion. The
10 merged company then adds taxes to this \$10.668 billion to calculate gross
11 revenues of \$12.444 billion.

12 Q. BASED ON YOUR EVALUATION OF THE MERGED COMPANY’S
13 RESPONSES TO DATA REQUESTS, WHY DO YOU BELIEVE IT IS
14 APPROPRIATE TO CONSIDER OPERATING EXPENSE SAVINGS
15 SYNERGIES, BUT NOT THOSE ARISING FROM REVENUES OR CAPITAL
16 EXPENDITURE SAVINGS?

17 A. The response to Data Request No. WUTC 07-140 states the following concerning
18 the \$4.3 billion synergies associated with operating expense savings: “Expense
19 synergies are both potential reductions of existing expense and avoidance of
20 projected expense growth.” I believe that this type of synergy would be

1 appropriate to measure because the decrease will be an actual reduction to
2 operating expenses.

3 In its response to Data Request No. WUTC 07-140, the company makes the
4 following statement: “Revenue synergy is a potential avoidance of the projected
5 loss of existing local revenue to competition.” I do not believe that this type of
6 synergy would be appropriate to measure because the increase in revenues merely
7 offsets the projected loss of revenues caused by competition.

8 In its response to Data Request No. WUTC 07-140, the company states the
9 following concerning the \$2.2 billion in synergies associated with capital
10 expenditure savings: “It should be emphasized that all capital synergies are the
11 avoidance of future capital.” I do not believe that this type of synergy would be
12 appropriate to measure because the benefit will flow to the calculation of the rate
13 of return in any regulatory review. I am unable at this time to measure the impact
14 this will have on capital structure and the cost of debt and equity.

15 Q. DID U S WEST OR QWEST PROVIDE YOU WITH A METHOD OF
16 ALLOCATING THE MERGED COMPANY’S SYNERGIES TO
17 WASHINGTON INTRASTATE?

1 A. No. In response to Data Request No. WUTC 07-140, U S WEST stated: “[I]t is
2 impossible to estimate the effect of synergies on U S WEST Washington
3 Intrastate regulated financial results”

4
5 Q. HAVE YOU DEVELOPED A METHOD OF ALLOCATING THE MERGED
6 COMPANY’S SYNERGIES TO WASHINGTON?

7 A. Yes, I have prepared an Exhibit entitled Exhibit SC-1 ____ (MLT-SC-1). On
8 line 18, Column (I), this Exhibit shows the total synergy that is calculated for
9 Washington Intrastate results of operations as \$233,598,713.

10 Q. PLEASE EXPLAIN EXHIBIT SC-1 ____ (MLT-SC-1).

11 A. This Exhibit calculates the U S WEST percentage of the two merged companies’
12 earnings before interest, taxes, depreciation and amortization (EBITDA) as
13 forecasted for the years 2000 through 2004 (Lines 1 through 6). Lines 7 through
14 13 develop the Washington Intrastate results also using the EBITDA as a
15 percentage of U S WEST Communications. Line 14 develops the EBITDA
16 percentage that Washington Intrastate is as a percentage of the total merged
17 company. The result is 5.379%. Lines 15 through 17 provide the synergies of the
18 merged company from operating expense savings as forecasted for the years 2000
19 thru 2005 (six years). Line 18 provides the synergies to Washington Intrastate
20 operations of \$233,598,713 as shown in Column (I).

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2 Q. IN YOUR OPINION IS THIS \$233,598,713 IN SYNERGIES A REASONABLE
3 AMOUNT TO BE PASSED ON TO WASHINGTON INTRASTATE RESULTS
4 OF OPERATIONS?

5 A. Yes. The total synergies the merged company reported to the Commission was
6 \$12.4 billion. I have only required the company to allocate the expense portion of
7 this synergy of \$4.3 billion. This equates to 35 percent of the total synergies the
8 company claims it will receive from the merger. My allocation of the synergy to
9 Washington Intrastate operations is conservative. I have developed my percentage
10 of U S WEST to total merged company by using the forecasted growth of
11 QWEST and U S WEST through 2004. This is seen on my Exhibit SC-1 ____
12 (MLT-SC-1) lines 2 through 6. If I had used the forecasted year 2000, the
13 percentage would be 86.3 percent. When using the forecasted results for the years
14 2000 through 2004, the percentage is 77.1 percent.

15 Q. WILL STAFF BE MAKING RECOMMENDATIONS ON HOW THESE
16 SYNERGIES WILL BE PASSED ON TO WASHINGTON CUSTOMERS?

17 A. Yes, this will be addressed in Staff witness Ms. K. Folsom's testimony.

18 Q. DOES THIS CONCLUDE YOUR TESTIMONY?

19 A. Yes.