BEFORE THE
WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In Re Application of U S WEST, Inc.	)	
And QWEST COMMUNICATIONS	)	
INTERNATIONAL, INC.	)	
	)	Docket No. UT-
991358		
For an Order Disclaiming Jurisdiction, or	)	
In the Alternative, Approving the U S WEST, INC.	)	
-- QWEST COMMUNICATIONS INTERNATIONAL	)	
INC. Merger	)	

REBUTTAL TESTIMONY OF

THERESA JENSEN

Director of Regulatory Affairs

U S WEST COMMUNICATIONS, INC.

February 22, 2000

I. INTRODUCTION

A. PLEASE STATE YOUR NAME.

A. My name is Theresa Jensen. I am the Director of Regulatory Affairs for U S WEST Communications, Inc. ("U S WEST") in Washington. I previously filed direct testimony in this proceeding.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to respond to portions of the prefiled testimony of Michael L. Brosch on behalf of the Office of Public Counsel ("Public Counsel"), Stacey Stewart and Sarah Goodfriend on behalf of McLeodUSA Telecommunications Services, Inc. ("McLeod"), Charles Ward on behalf of AT&T Communications, Inc. ("AT&T") and Suzanne Stillwell, Dave Griffith, Kathy Folsom and Glenn Blackmon of the Washington Utilities and Transportation Commission Staff ("Staff").

Q. WHO IS TESTIFYING ON BEHALF OF U S WEST IN ITS REBUTTAL PRESENTATION?

A. Peter Cummings, Carl Inouye, Mark Reynolds, Mary LaFave and William Taylor of the National Economic Research Associates.

Q. WHAT AREAS WILL EACH WITNESS BE COVERING?

A. Peter Cummings and Carl Inouye will address the financial aspects of Messrs. Brosch's and Ward's testimony and Ms. Folsom's testimony. Mark Reynolds will address the competitive and service issues raised by Staff witness Blackmon, and by McLeod, AT&T, Covad, Rhythms Link and NextLink. William Taylor of the National Economic Research Associates will respond to the testimony of Bridger Mitchell and Sarah Goodfriend of McLeod, Glenn Blackmon of Staff and the access testimony of Mr. Ward of AT&T.

II. <u>WHY THE TRANSACTION SHOULD BE APPROVED</u>

A. WHAT IS THE STANDARD FOR APPROVAL OF THE MERGER TRANSACTION WITH QWEST?

A. The standard to be applied by the Commission in acting upon the merger application is set forth in WAC 480-143-170, which states:

> If, upon the examination of any application and accompanying exhibits, or upon a hearing concerning the same, the Commission finds the proposed transaction is not consistent with the public interest, it shall deny the application.

In its 1997 Order[1] approving the Puget Sound Power and Light Company - Washington Natural Gas Company merger, the Commission identified the

[1] Docket No. UT-960195, Fourteenth Supplemental Order Accepting Stipulation, Approving Merger, pp. 19-20 (issued February 5, 1997).

following four standards it will consider in determining whether the public interest is served by a proposed merger:

> 1. The transaction should not harm customers by causing rates or risks to increase, or by causing service quality and reliability to decline, compared with what could be reasonably expected to have occurred in the absence of the transaction.
> 2. The transaction, with conditions required for its approval, should strike a balance between the interests of customers, shareholders, and the broader public that is fair and that preserves affordable, efficient, reliable, and available service.
> 3. The transaction, with conditions required for its approval, should not distort or impair the development of competitive markets where such markets can effectively deliver affordable, efficient, reliable, and available service.
> 4. The jurisdictional effect of the transaction should be consistent with the Commission's role and responsibility to protect the interests of Washington [utility] customers.

Q. HAVE THE JOINT APPLICANTS DEMONSTRATED THAT THE STANDARD HAS BEEN SATISFIED?

A. Yes. Our testimony establishes that the merger will not harm customers, and in fact will provide benefits to customers compared with what could be reasonably expected to have occurred in the absence of the merger. I discuss these benefits more fully below. The merger and the commitments we are proposing for its approval are also consistent with the Commission's objective to "strike a balance between the interests of customers, shareholders, and the broader public that is fair and that preserves affordable, efficient, reliable, and available service." Moreover, as I discuss more fully below, the merger will not distort or impair the development of competitive markets. Finally, the merger will have no effect on the Commission's ability to exercise its role and responsibility to protect the interests of Washington [utility] customers.

Q. WILL THE COMMISSION'S REGULATORY AUTHORITY CHANGE AS A RESULT OF THE MERGER?

A. No. The Commission will continue to have the same regulatory oversight that it has today over the regulated aspects of U S WEST's operations. If the Commission believes that U S WEST is acting in any improper or anti-competitive manner, the Commission retains all authority it has today.

Q. WHAT BENEFITS WILL U S WEST'S WASHINGTON CUSTOMERS REALIZE FROM THE TRANSACTION?

A. As I previously stated, the proposed merger will bring together Qwest Inc.'s advanced network and broadband Internet service capability with U S WEST, Inc.'s innovative local communications and broadband Internet access capability. Through this combination, we will be able to offer customers more choices and greater access to next generation telecommunications and broadband Internet based services including web hosting and value added web based applications. There are few overlaps in services; therefore, the merged company will create an increased ability to rapidly meet the evolving needs of both residential and business customers.

In addition, the merger enables U S WEST to quickly and efficiently become an end-to-end facilities-based company that provides customers with a full range of telecommunications options. This is impossible without the ability to offer interLATA services. As a result, both companies understand the importance of obtaining Section 271 approval. Moreover, pre-271 approval, Qwest must cease providing interLATA services in U S WEST's 14-state region. Mr. Reynolds will demonstrate that U S WEST is already active in Section 271 proceedings in Nebraska, Arizona and Colorado and is working closely with 11 other states, including Washington, to gain more rapid Section 271 approval in those states. Both U S WEST and Qwest have greater incentives to obtain Section 271 approval in an expedited manner.

Q. HOW WILL U S WEST'S WASHINGTON CUSTOMERS BENEFIT FROM ANY MERGER SYNERGIES THAT RESULT FROM THE TRANSACTION?

A. Since U S WEST is still under rate of return regulation in the State of Washington, customers will directly realize the financial benefits of synergies leading to cost savings and enhanced revenue. The Commission will also have jurisdiction over the inclusion, or exclusion, of costs incurred as a result of the merger and whether such costs are appropriate to pass on to ratepayers. In this regard, U S WEST should be entitled to recover "costs to achieve" subsequent merger related savings. Under rate of return regulation, U S WEST will carry the burden of demonstrating the reasonableness of such costs before the Commission.

Q. WILL U S WEST'S WASHINGTON CUSTOMERS BE PROTECTED FROM ANY NEGATIVE FINANCIAL IMPLICATIONS ASSOCIATED WITH THE MERGER TRANSACTION?

A. As Mr. Cummings testifies, the Commission currently determines the cost of capital allowed in determining U S WEST's rate of return. Furthermore, as Mr. Cummings testifies, nonrecurring costs such as transaction costs and goodwill costs associated with the merger are not included in rate base calculations. The merger transaction alone has no direct implications for rates, terms, and conditions of service. Post merger implications on rates, terms and conditions of service continue to be subject to the Commission's jurisdiction.

Q. WILL THE MERGER DISTORT OR IMPAIR THE DEVELOPMENT OF COMPETITIVE MARKETS?

A. No. In fact, the merger promotes competition. U S WEST alone cannot offer a full service solution to its customers. Once U S WEST has obtained Section 271 approval, it will be able to compete with alternative local exchange service providers on a parity basis. Its merger with Qwest, which has a ready made long distance service network, will allow US WEST to immediately compete once Section 271 approval has been obtained.

Q. ARE THE ISSUES RAISED BY ALTERNATIVE LOCAL EXCHANGE PROVIDERS IN THIS PROCEEDING A BASIS UPON WHICH THE COMMISSION SHOULD DENY THE MERGER APPLICATION?

A. No. Mr. Reynolds will demonstrate that apart from irrelevant matters that have no connection to the merger itself, the opposing competitive local exchange telecommunication providers repeatedly raise conclusory allegations with little or no factual support. In fact, many allegations fail to make any connection to circumstances in Washington, and thus much of this information is not relevant. These tactics are designed to prolong this proceeding, and cause harm to U S WEST's service reputation. Mr. Reynolds will address how claims, such as these alleged offenses, have a number of resolution mechanisms that should be appropriately used to seek relief, rather than in this merger proceeding. The opposing competitive local exchange telecommunication providers retain every right that they have today, whether to arbitrate, file a formal complaint with the Commission or file a lawsuit in a court of law, for any grievance against U S WEST.

Q. HAVE THE OPPOSING PARTIES DEMONSTRATED THAT PLANNED IMPROVEMENTS TO U S WEST'S SYSTEMS, NETWORK AND/OR OPERATIONS WILL BE DELAYED DUE TO THE MERGER?

A. No.

Q. HAVE THE OPPOSING PARTIES DEMONSTRATED THAT INVESTMENT WILL BE DECREASED DUE TO THE MERGER?

A. No. The opposing parties suggest that the merger will result in decreased investment in Washington but provide no evidence of U S WEST plans to neglect or abandon facilities in Washington. Such evidence does not exist; U S WEST in fact has no plans to decrease investment in Washington as a result of the merger. U S WEST has invested over $1.8 billion or over $335 million a year in Washington since 1995. In 1999, U S WEST invested over $560 million in Washington.

Q. HAVE THE OPPOSING PARTIES DEMONSTRATED THAT THEIR PROPOSED IMPROVEMENTS TO U S WEST'S SYSTEMS, NETWORK AND/OR OPERATIONS WOULD BENEFIT CUSTOMERS?

A. No. Opposing parties propose that the Commission mandate specific system, network and operation improvements with no justification or demonstration that any direct customer benefit will result from such improvements. They also fail to recognize that investments made in system and operation improvements may ultimately result in increased rates. In fact, Staff proposes that U S WEST be required to make significant additional investment in Washington – a minimum of $100 million annually – and the same time be precluded from raising rates for seven years. Staff's proposal, which clearly denies U S WEST any ability to recover in rates the costs associated with this additional investment, denies

U S WEST any opportunity of earning a reasonable rate of return.

I. INVESTMENT REQUIREMENTS

A. STAFF WITNESS GRIFFITH CLAIMS THAT U S WEST HAS FAILED TO FULFILL ITS PREVIOUS COMMITMENTS TO IMPLEMENT MEASURES TO IMPROVE SERVICE. (GRIFFITH, PP. 3-7) WHAT IS U S WEST'S RESPONSE?

A. U S WEST has not failed to fulfill any commitment it has made to improve service. Mr. Griffith alleges that U S WEST committed to replace analog central office switches by 2000 and then failed to do so. U S WEST did not make a formal commitment to replace such switches; rather U S WEST filed a 1994 depreciation study which projected, based on information and plans available at the time, that such switches would be replaced by 2000. U S WEST never specifically stated that such switches would be replaced nor did it ever suggest projected switch replacements were intended as a service improvement measure. In fact, Staff's memorandum in Docket No. UT-951425 specifically recognizes the replacement schedule as a projection when it stated the following:

> The analog switch account average year of final retirement (AYFR) is estimated by Staff to be 1998.8 versus a company estimate of 1998.6. The difference is due to disagreement in projected retirement dates for the switches. The Company retirement schedule appears overly ambitious and not consistent with prior experience.[2]

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[2] Docket No. UT-951425, Staff Memorandum dated August 28, 1996. See Exhibit TAJ-1.

It is also important to note, that from an earnings perspective, U S WEST did complete its depreciation of analog switch expense in 1999, even though it is still replacing the switches. Therefore, ratepayers have paid rates consistent with the depreciation settlement which occurred in 1997.[3]

Mr. Griffith also alleges that U S WEST failed to keep its commitment concerning the placement of additional interoffice facilities between Rochester and Olympia. U S WEST delayed its commitment to relieve congestion between Rochester and Olympia when it determined a more efficient approach was available. It revised its plan to utilize facilities it was in the process of deploying between Rochester and Centralia; these facilities interconnected with Olympia via Centralia. This approach minimized the expense to ratepayers and provided a more efficient solution.[4]

Q. MR. GRIFFITH RECOMMENDS THAT U S WEST BE REQUIRED TO REPLACE ALL REMAINING ANALOG SWITCHES. (GRIFFITH, P. 8) IS U S WEST PLANNING TO REPLACE THESE SWITCHES?

A. Yes. On May 13, 1999, I shared the schedule for replacement of the remaining

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[3] The rate increase authorized as a result of the depreciation settlement in Docket No. UT-951425 was not implemented until February, 1998. No retroactive ratemaking occurred for the period of time that had passed since the original depreciation case had been filed in 1995.

[4] U S WEST advised Staff of this change in plans in a letter dated October 29, 1999.

analog switches with the Commission Staff. The schedule is attached as Exhibit TAJ-2. Qwest has no plans to change this schedule. All remaining analog switches in Washington will be replaced by third quarter, 2001.

Q. MR. GRIFFITH RECOMMENDS THAT U S WEST BE REQUIRED TO INSTALL DIVERSE FIBER OPTIC RINGS IN EVERY CENTRAL OFFICE WITHIN 3 YEARS AFTER MERGER CLOSE. (GRIFFITH, P. 10) IS THIS CONDITION ACCEPTABLE TO U S WEST?

A. No. U S WEST has digital connectivity in 97% of its offices, either through fiber optic technology or through digital radio. U S WEST has no current plans to install diverse fiber optic rings in every central office because current infrastructure is adequate for existing customer demand. It is unclear why Staff suggests such a requirement be imposed upon U S WEST.[5] This proposal is unrelated to the merger transaction and should not be a condition of merger approval.

A. MR. GRIFFITH ALSO PROPOSES TO IMPOSE A CONDITION THAT U S WEST IMPROVE ITS E911 NETWORK BY JUNE 30, 2001. (GRIFFITH, PP. 11-12) HOW DOES U S WEST RESPOND TO THIS PROPOSAL?

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[5] See Staff data response to U S WEST data request No. 10. See Exhibit TAJ-3.

A. Mr. Griffith proposes U S WEST upgrade its E911 system to recognize ten digit dialing. U S WEST is currently working with Staff and Public Counsel on a number of potential projects under consideration for use of funds available from the outstanding refund in Docket No. UT-950200. The E911 network upgrade is one such project. The need to upgrade E911 systems is not unique to U S WEST. If such a requirement is indeed necessary, it should be imposed on all E911 providers, not just U S WEST. This proposal is unrelated to the merger transaction and should not be a condition of merger approval.

Q. MR. GRIFFITH RECOMMENDS THAT U S WEST BE REQUIRED TO INVEST $100 MILLION PER YEAR FOR 5 YEARS FOLLOWING MERGER CLOSING TO BE USED FOR SERVICE REMEDIATION PROJECTS. (GRIFFITH, P. 14) IS THIS CONDITION ACCEPTABLE TO U S WEST?

A. No. U S WEST and Qwest should be free to determine what investment is required in the State of Washington and when such investment should be made. The Commission has traditionally not dictated the amount of investment each utility should make and should not take the opportunity of a merger proceeding to begin imposing such a requirement. The Commission has approved a number of mergers in recent years and has not imposed any minimum investment requirements as a condition of merger approval.[6] Such a requirement is neither wise as a matter of policy nor warranted under the particular circumstances of this transaction, where there has been no demonstration that investment levels would be affected by the merger.

[6] Docket No. UT-981367 GTE/Bell Atlantic Merger; Docket No. UE-960195 Puget Sound Power & Light Co./Washington Natural Gas Merger; Docket No. UE-981627 PacifiCorp/Scottish Power plc Merger.

Q. HAS MR. GRIFFITH IDENTIFIED HOW THE APPLICANTS SHOULD INVEST $100 MILLION PER YEAR FOR 5 YEARS FOLLOWING MERGER CLOSING TO BE USED FOR SERVICE REMEDIATION PROJECTS?

A. No, other than the few suggestions addressed above. Nor has Mr. Griffith established that such investment is necessary in order to improve service quality or correct any potential service issues currently faced by U S WEST.[7] A requirement to invest $500 million over five years in a competitive market may not be in the public interest, may not be necessary to improve service and may result in increased rates under a standard revenue requirement calculation given the current U S WEST rate of return regulatory environment.

Q. ARE THERE ANY PROBLEMS WITH THE METHOD MR. GRIFFITH PROPOSES TO DETERMINE THE BASELINE LEVEL OF INVESTMENT FOR PURPOSES OF THIS $100 MILLION ANNUAL REQUIREMENT? (GRIFFITH, P. 16)

A. Yes. Mr. Griffith fails to recognize the changes that are occurring in the market and in the industry. He assumes that U S WEST will need to continue to invest at the same level it has in prior years and fails to acknowledge that as it loses customers to alternative local exchange providers it may not need to invest at

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[7] See Staff data response to U S WEST data request No. 13. See Exhibit TAJ-4.

comparable levels.[8] Nor does he recognize the dramatic shifts by customers to wireless technology. He also fails to allow for potential changes in the rates charged by U S WEST suppliers, and fails to adjust prior investment for regulatory mandates or non-recurring projects. It would be inappropriate to require U S WEST to continue investment at a specified amount when the market is changing so dramatically. The Commission has existing provisions to monitor service quality, which will remain in place after the merger. These provisions enable the Commission to monitor whether U S WEST is investing at appropriate levels to meet the service standards established by the Commission.

Q. MR. GRIFFITH ALSO PROPOSES THAT U S WEST BE REQUIRED TO PROVIDE QUARTERLY UPDATES ON THE PROGRESS OF SERVICE IMPROVEMENT PROJECTS AND ANNUAL REVIEWS OF THE COMPANY'S PLANNING AND IMPLEMENTATION PROCESS FOR INFRASTRUCTURE INVESTMENTS. (GRIFFITH, P. 15) DOESN'T U S WEST ALREADY PROVIDE STAFF WITH PROJECTED PLANS FOR INFRASTRUCTURE IMPROVEMENTS?

A. Yes. In accordance with RCW 80.04.300, U S WEST files its annual budget of

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[8] He does acknowledge that a decrease in access lines should also be factored into the investment requirement. But he does not recognize less investment may be necessary if investment is stranded or sufficient due to the decrease in the number of U S WEST access lines served in a given market area. See Staff data response to U S WEST data request No. 14. See Exhibit TAJ-5.

expenditures that includes all construction projects where the intrastate Washington jurisdictional share is greater than $1 million.

Q. WHAT ABOUT MR. GRIFFITH'S PROPOSAL THAT U S WEST BE FINED $1,000 PER DAY FOR EACH INSTANCE WHERE THE COMPANY DOES NOT MEET DUE DATES ESTABLISHED FOR KEY INFRASTRUCTURE IMPROVEMENTS? (GRIFFITH, P. 15)

A. Mr. Griffith fails to recognize that there may be good reason for schedule adjustments that ultimately benefit the ratepayer. The previous discussion regarding the delay in the fiber job between Olympia and Rochester, for example, made sense from an overall ratepayer perspective. There may be other instances where a schedule modification is reasonable and prudent. Manufacturer delays may delay due dates. Changes in demand may warrant postponement of a scheduled project since additional capacity has been freed up. Each instance should be evaluated on its own merits. U S WEST should be entitled to adjust schedules as necessary and is more than willing to work with the Commission when such decisions are necessary and appropriate. Finally, there is nothing about the merger that changes the Commission's current authority to render penalties in accordance with RCW 80.04.380 and RCW 80.04.400.

Q. DO YOU THINK U S WEST/QWEST SHOULD BE REQUIRED TO INCREASE ITS WASHINGTON STATE ENGINEERING AND CONSTRUCTION WORKFORCE BY 30% FOR SEVEN YEARS, AS RECOMMENDED BY MR. GRIFFITH? (GRIFFITH, P. 16)

A. Of course not. Mr. Griffith provides no rationale as to why an increase is necessary in order for U S WEST/Qwest to meet the Commission's objectives for improved service and infrastructure deployments.[9] Nor does Mr. Griffith acknowledge that U S WEST/ Qwest may meet whatever requirements it may have through contracted employees or existing resources. The Commission should maintain its past practice of refraining from prescribing specific workforce requirements and allow U S WEST the benefit of its expertise to determine what its workforce requirements are.

I. SERVICE QUALITY

Q. MR. BROSCH IS CRITICAL AT PAGE 40 THAT U S WEST DID NOT PROVIDE SPECIFIC SERVICE ASSURANCES. WHAT IS YOUR RESPONSE TO THIS?

A. Actually, in the referenced Data Request Nos. 3-46 and 5-88, the response was emphatic that Qwest and U S WEST are committed to providing total quality service, making it unnecessary to list any more specific details. The response states:

> With respect to whether service quality will improve as a result of the merger, Qwest anticipates that the combined company's implementation of the service quality commitments recently announced by U S WEST will improve service quality for those Washington consumers served by U S WEST.
>
> These commitments are important because Qwest believes that

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9 See Staff data response to U S WEST data request No. 15. See Exhibit TAJ-6.

> providing quality service at reasonable prices is simply good business….Qwest is committed to making affordable and quality telephone services widely available at just and reasonable rates.
>
> … the ability to attract and retain customers will depend upon providing consistent high quality service.

I would state that this is a firm service assurance. It is a commitment both companies will abide by.

A. MR. BROSCH BELIEVES THAT SPECIFIC ASSURANCES THAT SERVICE QUALITY WILL BE MAINTAINED OR IMPROVED FOR ALL CUSTOMERS SHOULD BE GIVEN (PAGE 41). DO YOU HAVE ANY COMMENTS REGARDING HIS BELIEF?

A. Yes. As this Commission is well aware, service issues are currently under the control of the Commission, and will remain so after the merger. Service issues should be limited to considering whether the transaction, in and of itself, will affect the quality of service received by U S WEST's Washington customers. As noted above, the Joint Applicants are committed to improved service following the merger. The Commission has all of the tools it needs to assure that Washington customers are provided with high quality telephone service. The Joint Applicants' assurances and the Commission's authority with respect to service make this an issue that need not and should not be addressed in any detail in this proceeding.

Q. MR. BROSCH DISCUSSES VARIOUS SERVICE RESULTS ON PAGES 43 THROUGH 46 OF HIS TESTIMONY. DO YOU HAVE ANY COMMENTS REGARDING HIS TESTIMONY?

A. Yes. The held order data provided to Public Counsel in response to Staff data request WUTC 04-066 demonstrates that U S WEST held orders as a percent of total orders has changed by less than one half percent and is less than 2% of over 719,000 orders received in 1999. On September 30, 1999, U S WEST responded to an inquiry from the Commission concerning its increasing number of held orders in 1999. See Exhibit TAJ-7. U S WEST explained the temporary increase in held orders was due to two policy changes that occurred in 1999, and that held order levels would stabilize in the months to come. Year-end held order data for 1999 actually concludes with fewer held orders than 1998; a 23% reduction from year-end 1998 results.[10]

While U S WEST is concerned about any service that is delayed, we also must recognize that the overwhelming number of services are installed in a timely manner. In 1999, U S WEST processed over 2.7 million orders, including over 719,000 orders for access line service to its Washington customers.

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[10] Year end 1998, U S WEST had 1,803 outstanding Washington held orders or 0.2% of total orders received. Year end 1999, U S WEST had 1,380 outstanding Washington held orders or less than 0.2% of total orders received.

Q. MR. BROSCH ALSO NOTES THE RESULTS OF SERVICE INTERRUPTIONS. WOULD YOU PLEASE COMMENT?

A. Again, U S WEST, on a statewide basis, consistently satisfies the out-of-service measurement by having fewer than four trouble tickets per 100 access lines. While individual exchanges may exceed the measurement of four in any given month, particularly due to storms, cable cuts, equipment malfunctions or other unusual circumstance, the overall average statewide measurement is a clear indication of the consistent level of service being provided to our Washington customers month after month.

While performance concerning repair standards continues to be a challenge to U S WEST, measurable improvement has been made since 1996. U S WEST has lost a number of its experienced network technicians, engineers, managers and supervisors to alternative local exchange providers and has had a difficult time finding qualified employees for a number of available positions. U S WEST has utilized every available resource to fill these positions and will continue to do so.

Q. WHAT WASHINGTON-SPECIFIC PLAN HAS U S WEST DEVELOPED TO IMPROVE THE PERFORMANCE ON RESTORATION OF SERVICE FOR THOSE CUSTOMERS REPORTING OUT-OF-SERVICE TROUBLE?

A. Out-of-service conditions are caused by a number of factors, many of which are beyond U S WEST's control. Among other service improvement efforts, U S WEST has increased its emphasis on quality inspections. As an example, when repair work occurs based on a reported service outage, the technician is directed to inspect the entire section of plant in the applicable area. This extra effort will not only repair the immediate problem, but it also allows the technician to identify and take proactive repair action to avoid future problems.

U S WEST will continue to pursue improved performance in each service measurement category through new, improved practices, technological solutions and through the retention of qualified experienced employees. U S WEST expects continued improved performance in all categories. The merged company will continue to look for further process improvements to continue to improve upon present service quality results.

U S WEST has also provided additional training to its customer service representatives on basic customer courtesy call handling and service skills. In addition, U S WEST plans to introduce employee promotions and incentive programs that reward employees for improved customer service resulting in satisfied customers. U S WEST also analyzes each customer complaint received for targeted employee training in order to eliminate future complaints.
U S WEST plans to increase the number of supervisors in this area so that individual coaching time and training is increased.

Q. WHAT IS U S WEST DOING IN RESPONSE TO NETWORK CONGESTION PROBLEMS IN WASHINGTON?

A. Some customers in selected areas have experienced trouble in obtaining dial tone during evening hours. Heavy Internet or data transmission related service usage largely drives this. U S WEST has responded to these conditions in a variety of ways. First, U S WEST has increased the capacity of the affected serving central offices so that more routes for call completion are available to the customers. In addition, U S WEST has reassigned individual groups of customers into different trunk groups so that they are less likely to experience network busy signals. Third, U S WEST has worked with Internet service providers in an attempt to move the data traffic off the analog central office switch that was never designed to accommodate long holding times for multiple simultaneous users in a data environment. These efforts have greatly decreased the network congestion experienced by customers served by these central office switches.

Q. WHAT DIAGNOSTIC TECHNIQUES DOES U S WEST USE TO TRACK CUSTOMER SERVICE PROBLEMS?

A. U S WEST uses various programs and mechanisms to determine what plant facilities/features appear to be causing customer service problems. For instance, U S WEST uses the Network Maintenance and Analysis (NMA) tool to monitor the signaling and switching network, subscriber loop systems, and digital carrier systems for equipment troubles that potentially could result in customer service problems. Outputs or reports from the NMA are electronically provided to the appropriate responsible maintenance section for corrective action. For example, line module alarms are forwarded to the network operations center technicians responsible for maintaining and repairing line modules in the switch network. U S WEST also uses other systems, i.e., Dantel, which monitor building integrity, system power, and ancillary equipment for potential customer service affecting anomalies. Many of these monitoring systems provide similar data to specific customer locations such as for direct inward dialing (DID) trunks.

Specific maintenance tools such as Circuit Installation Maintenance Assistance Package (CIMAP) have been implemented for trouble report flow to the appropriate repair entity depending on the nature of the problem area. Each repair entity has established action plans for dealing with each issue or problem area.

Many of these tools are designed to alert maintenance technicians of degrading customer service elements in such a way that the corrective action can be effected before the customer is aware that there is a problem with their service.

All of these steps, plus the addition of technicians is expected to have a significant impact on the restoration and reduction of out-of-service troubles. U S WEST added technicians in 1999 and will be adding additional installation and maintenance technicians in Washington to handle overall volumes. This additional headcount will help to ensure customer needs and Commission rules are met in a timely fashion.

Scheduling technician's shifts around the needs of our customers is also a focus of this year's improvement plan. Technician availability will be adjusted to ensure that the customer's needs are met. Repair issues will be given the highest priority when scheduling the technician's day, without compromising other customer commitments.

A. DOES MR. BROSCH ACKNOWLEDGE U S WEST HAS IMPROVED ITS PERFORMANCE WITH RESPECT TO SEVERAL SERVICE QUALITY MEASUREMENTS?

A. Yes. At page 46 of his testimony, Mr. Brosch acknowledges "U S WEST has made progress in reducing the percentage of total Washington exchanges with excessive trouble reports since 1997." He also recognizes that network congestion "performance has improved."

Q. DOES MR. BROSCH REFLECT WASHINGTON RULE STANDARDS AND MEASUREMENTS IN HIS EXHIBIT MLB-2?

A. Not in all cases. His graph concerning trouble reports fails to recognize the standard set forth in the rule, which refers to two consecutive months or four out of twelve consecutive months.

Q. WHAT COMMENTS DO YOU HAVE REGARDING THE OTHER MEASUREMENTS MENTIONED BY MR. BROSCH?

A. I would note that in areas where the measurements are not being met, steps have been taken to improve these service levels. Additional employees have been hired, capital expenditures have been increased, and strategies have been put in place to deal with these service issues.

Q. MR. BROSCH SETS FORTH A NUMBER OF CONDITIONS WITH RESPECT TO SERVICE THAT HE CLAIMS SHOULD BE ADDRESSED AS CONDITIONS OF THE MERGER (PAGE 47). PLEASE RESPOND.

A. As I've previously stated, such conditions are not an appropriate subject for the merger review process. The Commission has implemented extensive service quality rules set forth in WAC 480-120-5XX that define acceptable levels of performance for basic exchange services. If the Commission believes that there is a pattern of non-compliance with the service quality rules, the Commission has authority to begin a service quality investigation or proceeding. The merger between U S WEST and Qwest does not change the Commission's authority over service quality. Because the merger occurs at the holding company level, and because local telephone service is provided at the operating company level, the merger will not impact U S WEST's requirement to meet the Commission's service quality rules in the future. The Commission has an effective service quality monitoring process already in place, and therefore it is unnecessary to use the merger review process to change or expand the current process.

Q. ON PAGE 42, MR. BROSCH ALSO RECOMMENDS THE COMMISSION INSIST THAT REDUCTIONS IN THE WORK FORCE SHOULD NOT BE EXCESSIVE OR DISPROPORTIONATELY LARGE WITHIN WASHNGTON. PLEASE COMMENT ON HIS PROPOSAL.

A. Again, Mr. Brosch is advocating an issue that is not an appropriate consideration in this proceeding. There are no plans to reduce the number of employees in Washington. In fact, we are hiring new employees in Washington. Staffing increases in other states also benefit our Washington customers. To put any kind of conditions on workforce levels within the state of Washington would be short sighted, and objectionable as an unnecessary interference. Changes within the business, advances in technology, new services and the level of competition faced by U S WEST affect the numbers of employees and the types of jobs they perform. U S WEST needs to be able to adapt to the ever-changing marketplace.

Q. MR. WARD CITES TO U S WEST'S ARMIS REPORT AND ALLEGES THAT IT RECEIVED 361 COMPLAINTS FROM BUSINESS USERS AND 1776 COMPLAINTS FROM RESIDENTIAL USERS IN 1998. HOW DO YOU RESPOND?

A. U S WEST strives to provide good quality service to its customers, and it is not satisfied when any customer feels there is a reason to complain. However, it is important to put the numbers cited by AT&T into perspective: U S WEST serves more than 2.3 million access lines in Washington, and although U S WEST regrets that it had 2,137 complaints, this number is less than 1% (or 1 in more than 23,000 customers) in Washington last year.

Q. MR. WARD ALSO APPEARS TO COMPLAIN THAT THE MERGED COMPANY'S BUSINESS PLAN INCLUDES DEPLOYMENT OF ADVANCED SERVICES AND BROADBAND CONNECTIVITY. IS THIS A FAIR CONCLUSION?

A. All telecommunications providers must invest in new technologies to survive, and be successful. AT&T is doing the same, as it increases its advanced broadband offerings, including its cable systems to which it refuses to provide open access until late 2001. The mere fact that U S WEST, like all prudent telecommunications providers entering the 21st Century, is increasing its deployment of advanced broadband offerings does not mean it is going to neglect the local network. This is especially so because much of these broadband offerings, like xDSL, are based on the same copper infrastructure that is integral in the local network. Moreover, as stated previously, U S WEST committed to invest more than $4 billion to upgrade its network in 1999. In short, Mr. Ward's speculations about the dire "implications of the proposed merger" are simply unsupported.

A. BOTH STAFF WITNESS STILLWELL AND PUBLIC COUNSEL WITNESS BROSCH RECOMMEND ADOPTION OF SEVERAL CONDITIONS TO REQUIRE U S WEST TO IMPROVE THE QUALITY OF SERVICE TO ITS CUSTOMERS. DO YOU HAVE ANY RESPONSE?

A. Yes. As previously stated, U S WEST will continue to focus on process improvements that result in improved service. As recognized by the opposing parties, the Commission has available to it all its existing measures to encourage U S WEST to improve service quality by disallowing expenses, adjusting U S WEST's rate of return and rendering penalties. There is nothing about the merger that changes the Commission's authority in this regard nor is there anything reason to believe service quality will decline. Joint Applicants have readily acknowledged that unless U S WEST provides quality service at reasonable and affordable rates, it will not survive in a competitive market.

A. MS. STILLWELL CITES SEVERAL STATISTICS REGARDING THE QUALITY OF SERVICE CURRENTLY PROVIDED BY U S WEST. (STILLWELL, PP. 3-13) DO HER STATISTICS PROVIDE AN ACCURATE CHARACTERIZATION OF CURRENT CIRCUMSTANCES?

A. No. Ms. Stillwell focuses solely on customer complaints. She fails to utilize other indicators of U S WEST's service quality performance. For example, in 1998 the Commission commissioned a customer survey concerning the service quality study of all regulated utilities in the State of Washington.[11] The results of the study indicated that U S WEST was viewed more favorably than the next largest local service provider in Washington. See Exhibit TAJ-8.

I. REMEDIES FOR SERVICE FAILURES

Q. DOES U S WEST AGREE WITH MS. STILLWELL'S RECOMMENDATION THAT THE EXISITING REMEDIES FOR HELD ORDERS BE CONTINUED? (STILLWELL, PP. 18-19)

A. Joint Applicants have no current plans to eliminate existing remedies for held orders offered under the current U S WEST tariff.[12]

If Joint Applicants wanted to modify, or eliminate held order remedies, they could not do so without first obtaining Commission approval of the tariff revision(s). Therefore, it is unnecessary for the Commission to require retention of existing held order remedies as a condition of merger approval. The Commission already has full authority to require Joint Applicants to continue this practice.

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11 The study was done by Organizational Dynamics, Inc.

12 WN U-31, Exchange and Network Services, Section 2, Sheets 27 and 27.1.

Q. DOES U S WEST AGREE WITH MS. STILLWELL'S RECOMMENDATION TO RETAIN THE EXISTING MISSED APPOINTMENT AND COMMITMENT CREDITS? (STILLWELL, P. 19)

A. Joint Applicants have no current plans to eliminate existing remedies for missed appointments or commitments offered under the current U S WEST tariff.[13]

If Joint Applicants wanted to modify, or eliminate such remedies, they could not do so without first obtaining Commission approval of the tariff revision(s). Therefore, it is unnecessary for the Commission to require retention of existing missed appointment or commitment remedies as a condition of merger approval. The Commission already has full authority to require Joint Applicants to continue this practice.

Q. FOR OUT-OF-SERVICE CONDITIONS, MS. STILLWELL PROPOSES A $50 CREDIT FOR ANY CUSTOMERS WHOSE SERVICE IS NOT RESTORED WITHIN 24 HOURS, OR WHEN SERVICE PROBLEMS RECUR WITHIN 7 DAYS. (STILLWELL, P. 19) DO YOU AGREE WITH THIS PROPOSAL?

A. No. Ms. Stillwell's recommendation is inconsistent with the Commission's own rules specific to service restoration. WAC 480-120-520(8) requires all reported interruptions of telecommunications service to be restored

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[13] WN U-31, Exchange and Network Services, Section 2, Sheets 27.2 and 27.3.

within two working days, excluding Sundays and holidays. WAC 480-120-520(8) also recognizes appropriate exceptions such as emergency situations, unavoidable catastrophes and force majeure. Joint Applicants should not be held to a service standard not required of other telecommunications carriers or required by Commission rule. Customer remedies for telecommunications company failures to meet service standards are currently being considered in Docket Nos. UT-990146, UT-991922 and UT-991301. Ms. Stillwell's proposal is more appropriately addressed in that proceeding.

Q. DOES U S WEST CURRENTLY PROVIDE A CREDIT FOR ANY CUSTOMERS WHOSE SERVICE IS NOT RESTORED WITHIN 24 HOURS, OR WHEN SERVICE PROBLEMS RECUR WITHIN 7 DAYS?

A. Yes. U S WEST customers currently receive a credit for an out-of-service condition, which is prorated based on the number of days each customer was out of service. This remedy includes a credit for customers who experience repetitive service problems.

Q. FOR NETWORK CONGESTION PROBLEMS WHICH CAUSE NO-DIAL TONE SITUATIONS, MS. STILLWELL RECOMMENDS A CREDIT OF ONE MONTH'S SERVICE FOR ALL CUSTOMERS SERVED BY A SWITCH THAT EXPERIENCES MORE THAN 2% BUSY HOUR NO-DIAL TONE. (STILLWELL, P. 19) IS THIS PROPOSAL ACCEPTABLE TO U S WEST?

A. No. Network congestion problems do not occur twenty-four hours a day. They typically occur for approximately three to four hours in the evening in high Internet or data communication traffic communities. They also do not affect every customer served by the central office switch in the affected community. Exhibit TAJ-9, represents network congestion problems experienced in the Lake Forest Park/Shoreline digital central office switch during the week of November 15, 1999. The exhibit demonstrates that a switch with network congestion still provides for call processing. The number of calls processed, however, is decreased when customers maintain central office switch connections for lengthy periods of time. Network congestion is not caused solely by increased calls, rather it is caused by increased call lengths.

Providing all customers served by the central office switch experiencing network congestion with a monthly credit for service would reward both inconvenienced customers as well as customers who tie up the network for several hours and create the network congestion problem for other customers. The Commission should not reward customers who tie up the network for several hours by requiring universally applied customer service credits. The Commission should allow U S WEST to determine how and when it will apply customer specific credits.[14]

Q. MS. STILLWELL ALSO RECOMMENDS THAT U S WEST BE REQUIRED TO ADOPT AND DISTRIBUTE TO ALL CUSTOMERS A "CONSUMER BILL OF RIGHTS." (STILLWELL, P. 20) DOES U S WEST SUPPORT THIS PROPSAL?

A. No. U S WEST's existing tariff appropriately addresses its service commitment to its customers, as do the tariffs of other telecommunications companies. The Commission's service quality rules actually represent the "Consumer Bill of Rights" specific to service performance. Joint Applicants cannot change U S WEST's tariffs without Commission approval and will continue to employ practices and procedures designed to produce results that comply with the Commission's service quality requirements. A requirement to adopt and distribute an undefined "Consumer Bill of Rights" has no relationship to the issues arising from the transaction, and is better addressed in Docket Nos.

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[14] Where such network congestion conditions have occurred, U S WEST worked with community officials, the Commission complaint handlers, legislators and its customers to appropriately credit inconvenienced customers for this inconvenience and will continue to do so. Not all customers were directly affected by the network congestion and therefore not all customers received a credit.

UT-990146, UT-991922 and UT-991301.

Q. MS. STILLWELL WOULD REQUIRE U S WEST TO CLEAR ALL ORDERS THAT ARE HELD FOR MORE THAN 30 DAYS. (STILLWELL, P. 20) HOW DOES THIS PROPOSAL COMPARE WITH THE STANDARD REQUIRED UNDER THE COMMISSION'S EXISTING RULES?

A. Ms. Stillwell's recommendation is inconsistent with the Commission's own rules specific to the availability of service. WAC 480-120-051 requires all telecommunication carriers to complete 90% of all applications for installation of primary exchange access lines within five business days. It further requires all telecommunications carriers to complete 99% of all applications for installation of primary exchange access lines within ninety days after receipt of the application. Both requirements are contingent upon completion of all tariff requirements by the applicant. Ms. Stillwell's proposal suggests U S WEST be held to a different standard than that required by current Commission rule.

Q. MR. BROSCH, FOR HIS PART, WOULD REQUIRE THE ESTABLISHMENT OF A SCHEDULE AND TARGETS FOR REDUCING OUTSTANDING HELD ORDERS, WITH CUSTOMER CREDITS FOR FAILURE TO PERFORM IN THE FUTURE? (BROSCH, P. 47) HOW DOES U S WEST RESPOND TO THIS PROPOSAL?

A. Mr. Brosch also fails to recognize that the Commission's own rules do not require telecommunications companies to complete all held orders within a specified period of time. Nor does Mr. Brosch recognize that this Commission has already defined the appropriate customer remedy for held orders. In Docket No. UT-950200, the Commission ordered U S WEST to provide service alternatives for certain held order conditions. No further remedy is necessary.

Q. OVER THE LAST FIVE YEARS, WHAT PERCENT OF U S WEST'S ORDERS ARE HELD DUE TO A LACK OF FACILITIES?

A. Over the last five years, U S WEST has completed over 98% of its orders for access lines. The other 2% have been delayed due to the need for additional facility deployment and less than 0.05% of U S WEST's orders are held at any given time due to a lack of facilities.

Q. MS. STILLWELL FURTHER PROPOSES A REQUIREMENT THAT U S WEST RESPOND TO COMMISSION-REFERRED COMPLAINTS WITHIN 2 DAYS, AND TO PAY A $100 PER DAY PENALTY FOR EACH COMPLAINT TO WHICH A TIMELY AND COMPLETE RESPONSE IS NOT MADE. (STILLWELL, P. 20) IS THIS REQUIREMENT ACCEPTABLE TO U S WEST?

A. No, Ms. Stillwell's proposal that U S WEST respond to Commission-referred complaints within two days is currently required by WAC 480-120-101(5); therefore, it is not necessary for the Commission to impose this requirement upon Joint Applicants as a condition of the merger. Joint Applicants are already subject to this requirement. The Commission also already has the means to impose a penalty, when appropriate, in accordance with RCW 80.04.380. Ms. Stillwell's proposal is unrelated to the merger transaction and should not be a condition for approval of the merger.

Q. MS. STILLWELL IS ALSO PROPOSING THAT THE COMPANY BE REQUIRED TO INCREASE ITS COMPLAINT-HANDLING STAFF TO 5 PERSONS DEDICATED TO RESOLVING WASHINGTON COMPLAINTS. (STILLWELL, P. 21) IS THERE ANY BASIS FOR THIS REQUIREMENT?

A. No. Ms. Stillwell presents no basis for her proposal. U S WEST currently employs four employees to respond to Washington Commission complaints. These employees are located in Washington and other U S WEST states.

Q. MR. BROSCH PROPOSES THAT U S WEST BE REQUIRED TO PROVIDE ORDER TRACKING NUMBERS, AND DISCLOSURE OF ALTERNATIVE SERVICE REMEDIES IF A SERVICE ORDER IS NOT FILLED WITHIN 5 DAYS. (BROSCH, P. 47) IS THIS PROPOSAL ACCEPTABLE TO U S WEST?

A. No. U S WEST currently provides an order confirmation number upon customer request. A requirement to provide such information whether or not the customer desires it or not is inefficient, unnecessarily increases cost, and may provide little or no benefit from an end user perspective. Mr. Brosch's proposal is best addressed in the Commission's current rulemaking in Docket Nos. UT-990146, UT-991922 and UT-991301.

U S WEST already discloses service alternatives for held orders in its tariff and provides an annual notification to its customers of such alternatives. U S WEST also advises customers of available service alternatives at the time they are notified that their order has been held due to a lack of available company facilities.

Q. MR. BROSCH ALSO PROPOSES THAT U S WEST IMPLEMENT CUSTOMER CREDITS FOR FAILURE TO COMPLY WITH COMMISSION SERVICE QUALITY RULES, AND THAT THIS SYSTEM BE PATTERNED AFTER THE SERVICE QUALITY SETTLEMENT ADOPTED IN MINNESOTA. (BROSCH, P. 47) WHY WOULDN'T U S WEST IMPLEMENT SUCH A PROPOSAL IN WASHINGTON?

A. Mr. Brosch assumes the Commission agrees with customer credits adopted by the Minnesota Commission. The Commission currently has a rulemaking open that includes consideration of customer remedies. The appropriate forum for consideration of customer credits is Docket Nos. UT-990146, UT-991922 and UT-991301.

Furthermore, the service quality provisions adopted in Minnesota were part of a settlement agreement that eliminated rate of return regulation and replaced it with price regulation. In Minnesota, U S WEST voluntarily agreed to a number of commitments in order to obtain regulatory parity with its competitors. In Washington, U S WEST continues to operate under rate of return regulation.

Q. MR. BROSCH FURTHER PROPOSES THAT THE CUSTOMER CREDITS BE BASED UPON PLACEMENT OF A DESIGNATED AMOUNT OF INTRASTATE REVENUES "AT RISK." (BROSCH, P. 48) IS SUCH AN APPROACH ACCEPTABLE TO U S WEST?

A. No.

Q. MORE GENERALLY, MR. BROSCH PROPOSES THAT THE COMMISSION STRENGTHEN ITS SERVICE QUALITY RELIEF "TO COINCIDE WITH THE MOST FAVORABLE LEVELS OF RELIEF OFFERED BY USWC IN OTHER STATES." (BROSCH, P. 49) WHAT IS WRONG WITH THIS PROPOSAL?

A. Mr. Brosch fails to recognize that remedies offered by U S WEST in other states were typically part of a settlement agreement eliminating rate of return regulation or otherwise addressing issues in addition to service quality. It would be unreasonable to isolate individual elements from another state without considering the overall regulatory regime in which U S WEST operates in each jurisdiction.

Q. MR. BROSCH RECOMMENDS THAT U S WEST BOOK BELOW-THE-LINE ALL COSTS IT INCURS IN PROVIDING CUSTOMER RELIEF FOR SERVICE FAILURES. (BROSCH, P. 50) DOES U S WEST OBJECT TO THIS TREATMENT?

A. Yes. Mr. Inouye addresses why this approach is unacceptable.

Q. UNDER MR. BROSCH'S PROPOSAL, MONTHLY SERVICE QUALITY REPORTING TO THE COMMISSION WOULD EXPAND. (BROSCH, PP. 52-3) IS U S WEST AGREEABLE TO THIS INCREASED REPORTING REQUIREMENT?

A. U S WEST is willing to provide monthly service quality results, in accordance with WAC 480-120-535, as required by the Commission.

VI. FINANCIAL ISSUES

A. STAFF WITNESS BLACKMON PROPOSES THAT U S WEST BE PROHIBITED FROM INCREASING THE RATES OR CHARGES FOR ANY TARIFFED SERVICE FOR 7 YEARS AFTER THE MERGER CLOSES. (BLACKMON, P. 16) WHY IS THIS PROPOSAL UNACCEPTABLE TO U S WEST?

A. Mr. Inouye describes in his testimony the financial implications of this proposal. From a policy perspective, the proposal is contrary to the regulatory framework upon which rates are currently set for U S WEST in Washington. U S WEST's revenue requirement is determined under traditional rate of return regulation, where U S WEST recovers its prudently incurred operating expenses and is entitled an opportunity to earn a reasonable rate of return on the assets it devotes to the public service. Given this framework, U S WEST can be expected to require rate relief if its operating expenses increase over the next seven years, or if it increases its investment in assets devoted to the public service in Washington. A requirement to forego a demonstrated need for rate relief is contrary to law, in these circumstances.

Q. WHAT IS THE IMPACT OF THIS PROPOSAL WHEN COMBINED WITH STAFF'S OTHER RECOMMENDATIONS REQUIRING AN ADDITIONAL $100 MILLION ANNUAL INVESTMENT IN SERVICE IMPROVEMENTS OVER THE NEXT FIVE YEARS (GRIFFITH, P. 14) AND OTHER REQUIRED MEASURES? (GRIFFITH, PP. 17-18)

A. As discussed in Mr. Inouye's testimony, U S WEST would clearly be denied an opportunity to earn a fair rate of return on its investment, as the rate relief necessary to allow a return on the additional $500 million of required investment would be denied.

Q. HOW DO YOU RESPOND TO STAFF WITNESS FOLSOM'S CLAIM THAT IT IS ACCEPTABLE FOR THE COSTS OF IMPLEMENTING STAFF'S PROPOSED CONDITIONS TO EXCEED THE LEVEL OF SYNERGY SAVINGS FROM THE TRANSACTION ESTIMATED BY U S WEST/QWEST? (FOLSOM, P. 9)

A. When all the elements of Staff's proposal are considered together:

(1) Merger synergies are assumed to be created by the transaction, but as Mr. Inouye testifies, there is no supporting analysis which shows that synergies will flow to Washington regulated operations, or that the synergies will survive in the face of the other conditions which Staff is proposing, such as splitting U S WEST into two and requiring the creation of an advanced services subsidiary;

(2) Even though there is no evidence to suggest that investment in Washington will be reduced as a result of the transaction, Staff proposes to require $500 million in incremental investment in Washington during the five years following the merger, an amount which is double the level of synergies that Staff would attribute to Washington; and

(3) This additional investment creates a revenue requirement deficiency, given U S WEST's constitutional right to earn a reasonable rate of return on this additional investment, but rate relief cannot be used to cure this deficiency given the 7-year moratorium on rate increases proposed by Dr. Blackmon.

There is no possible scenario under which U S WEST could achieve reasonable results following the merger. Nor has Staff attempted to demonstrate how its proposed conditions could possibly produce reasonable results for U S WEST.

I. EXCHANGE SALES

Q. MR. WARD ALSO CRITICIZES U S WEST WITH RESPECT TO SALE OF EXCHANGES, AND REQUESTS A THREE-YEAR MORATORIUM ON ALL SUCH SALES. WHAT IS YOUR RESPONSE TO MR. WARD'S TESTIMONY ON THIS ISSUE?

A. I strongly disagree with Mr. Ward. First, discussion of exchange sales is not pertinent to this merger proceeding. The testimony of Mr. Ward with regard to any conditions on additional exchange sales should be disregarded as it is essentially outside the scope of this docket.

Second, it is interesting that Mr. Ward is concerned with U S WEST's and Qwest's commitment to rural areas. AT&T has yet to demonstrate its commitment to rural areas. AT&T currently picks and chooses the customers it <u>wants</u> to serve, which tend to be U S WEST's business customers who previously were available to U S WEST to enable the subsidization of U S WEST's high-cost, rural customers.

Third, U S WEST is committed to providing quality basic service to its customers. There is no condition, statute, rule or regulation of which I am aware of that precludes U S WEST from evaluating the best way to serve its existing customer base and, if appropriate, to sell exchanges, whether rural or urban. (As noted below, any such sale would, of course, be subject to Commission approval and a showing that it is consistent with the public interest.)

It would be unnecessary and inappropriate to place any moratorium or other restriction on exchange sales. The exchange sale process requires that U S WEST provide extensive details of the transaction in order to obtain Commission approval. The Commission currently has, and will retain, the authority to approve any asset transfer of an operating utility in this state. In such a proceeding, the Commission determines the issues that should be addressed, including investment commitment and customer impacts for the particular exchanges being sold.

Suggesting a moratorium on the sale of exchanges is nothing more than AT&T's attempt to place constraints on U S WEST's investments generally, and to foreclose the merged company's ability to compete with it either in-region or out-of-region. Rather than an attempt to protect rural customers, this is simply a maneuver to hamper the merged company's ability to make ongoing financial decisions. AT&T is free to generate capital and make investment decisions based upon market criteria and has done so repeatedly in the past with its acquisitions of NCR, TCG, TCI and now MediaOne. Nevertheless, it desires to hamstring

U S WEST and the new merged company with conditions in order to retain disparate regulatory treatment between U S WEST and AT&T.

For all these reasons, there is absolutely no need for any type of conditions or a moratorium for any U S WEST sale of exchanges.

II. CONCLUSION

Q. DOES THE COMMISSION HAVE A FULL RECORD UPON WHICH TO PERFORM ITS PUBLIC INTEREST ANALYSIS?

A. Yes. As the Commission stated in its Third Supplemental Order in this proceeding, the standard to be applied by the Commission is whether the transaction is consistent with the public interest. In connection with this analysis, Joint Applicants are required "to produce sufficient evidence to demonstrate no harm will result as a result of the transaction." (Order, p. 3) Assuming this burden is met by Joint Applicants, then those parties opposing the transaction must offer evidence to demonstrate that the transaction is inconsistent with the public interest.

The record shows that Joint Applicants have met their burden to show that customers are not harmed from the transaction and, in fact, that customers can be expected to benefit from the transaction. The telecommunications and information services industry is changing at a mind-boggling pace, and that consolidation is reshaping the market. Maintaining the status quo (a stand-alone RBOC) is simply not the best way to ensure that Washington consumers reap the benefits of dynamic change – neither in the short term, nor certainly in the long run. The creation of a diverse and more efficient entity through the merger of Qwest and U S WEST will enable the combined company to compete better – especially with telecommunications giants such as AT&T/TCG/TCI/MediaOne. If Washington customers wish to purchase complete (and competitive) packages of communications services, at national and global levels and lower costs, which result from economies of scale and scope, U S WEST must be able to compete with the offerings of AT&T/MediaOne/TCI/TCG, AOL/Time Warner and MCI/WorldCom/Brooks Fiber/MFS/UUNet/Sprint. Absent the merger, U S WEST would find it increasingly difficult to offer a full portfolio of voice, data, video, IP, long distance and wireless services to its Washington customers. The companies also have complementary management skills: Qwest has experience as a long distance provider and broadband network operator, and U S WEST has experience in local markets, network management, and the service of a large customer base. The companies have complementary physical assets as well; Qwest recently completed its state-of-the-art, 25,500 mile OC-192 fiber optic, Internet protocol network in North America, and has also invested heavily in international broadband facilities. Washington has already enjoyed the benefits of U S WEST's leadership in advanced services such as Digital Subscriber Lines

(DSL), which enable businesses and residential customers to share data and access the Internet at much higher speeds. Building on U S WEST's ongoing efforts in Washington and combining two forward-looking companies that have complementary assets and skills and an extraordinary focus on the deployment of advanced services cannot help but benefit all levels of Washington consumers.

Q. HOW HAVE THE OPPOSING PARTIES ATTEMPTED TO SHOW THAT THE TRANSACTION IS INCONSISTENT WITH THE PUBLIC INTEREST?

A. The Intervenors in this docket have asked the Commission to take a narrow approach to reviewing the Qwest/U S WEST merger.[15] Rather than present the Commission with the quantum of evidence reflecting both the potential benefits and harms of this merger, many of the parties have chosen to use their comments to revisit grievances concerning a variety of issues not related to, or in any way affected by, the merger itself.

Q. WHY SHOULD THE COMMISSION APPROVE THE MERGER?

A.

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[15] While the Intervenors have proposed the Commission take a narrow approach in reviewing the Qwest/ U S WEST merger, they have utilized this proceeding as a forum to raise every issue they can possibly think of, including issues already addressed by this Commission or the FCC, as well as pending issues. As Mr. Reynolds points out in his testimony, the Commission should establish that there are more appropriate venues for wholesale issues to be heard and resolved, which include all wholesale customers.

This merger is about growth. It creates an opportunity for Washington to expand and develop economically in the fast growing area of advanced telecommunications. In the final analysis, the choice comes down to whether Washington will be better served by the status quo, or by the advantages offered by the collective resources of Qwest and U S WEST. The choice is clear. If the merger is approved, the complementary strengths of Qwest and U S WEST will be combined to provide better, more advanced services and opportunities to Washington customers.

A. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.