

**Exhibit T-\_\_ (KMF-T-1)**  
**Docket No. UT-021120**  
**Witness: Kathleen M. Folsom**

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION  
COMMISSION**

**In the Matter of the Application of**

**QWEST CORPORATION**

**Regarding the Sale and Transfer of  
Qwest Dex to Dex Holdings, LLC**

**DOCKET NO. UT-021120**

**TESTIMONY OF**

**Kathleen M. Folsom**

**STAFF OF  
WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION**

**March 18, 2003**

**NON-CONFIDENTIAL**

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

2 A. My name is Kathleen M. Folsom, and my business address is 1300 South  
3 Evergreen Park Drive Southwest, P.O. Box 47250, Olympia, Washington 98504.  
4 My e-mail address is kfolsom@wutc.wa.gov.

5  
6 **Q. BY WHOM ARE YOU EMPLOYED AND IN WHAT CAPACITY?**

7 A. I am employed by the Washington Utilities and Transportation Commission  
8 (Commission) as a Senior Telecommunications Regulatory Analyst.

9  
10 **Q. WHAT ARE YOUR EDUCATION AND EXPERIENCE QUALIFICATIONS?**

11 A. I hold a Bachelor of Arts degree in Business Administration from Washington  
12 State University. I also hold an MBA, with a concentration in Finance, from  
13 Portland State University. I have testified before the Commission on issues  
14 related to the establishment of an authorized rate of return for GTE Northwest  
15 Incorporated (GTE-NW) in Docket No. UT-931591 and U S West  
16 Communications, Inc. in Docket No. UT-950200. I have submitted testimony on  
17 issues related to transfers of property and merger issues for GTE Corporation  
18 and Bell Atlantic Corporation in Docket UT-981367 and for U S WEST Inc. and  
19 Qwest Communications International Inc. (QCII) in Docket UT-991358.

20 Additionally, I was the lead staff in the review of the proposed merger of

1 Portland General Electric Co. (PGE) and Northwest Natural Gas Company  
2 (NWN ), Docket UG-011607. In my capacity as a Regulatory Analyst, I have  
3 presented recommendations to the Commission on numerous security, affiliated  
4 interest, and transfer of property applications.

5  
6 **Q. What is the purpose of your testimony?**

7 A. My testimony provides certain background information that relates to PGE, a  
8 regulated electric utility that is owned by Enron. Staff believes that this  
9 background information will enable the Commission to analyze the claims of  
10 Qwest Corporation (QC) witnesses Jensen, Cummings, and Johnson regarding  
11 the impact of a potential bankruptcy filing on the customers, employees, and  
12 operations of QC.

13  
14 **Q. Please explain the basis for your understanding of PGE's situation.**

15 A. I am familiar with PGE in my role as a financial analyst at the Commission. Even  
16 though I work in the telecommunications section, financial analysts at the  
17 Commission make a point of monitoring the financial activities of all regulated  
18 industries. Issues such as cost of capital, corporate structure, affiliated interest  
19 relationships, and mergers and acquisitions have many common elements across  
20 the regulated industries. Moreover, I am particularly familiar with PGE because

1 I was the staff lead in the review of the proposed sale of PGE to NWN in 2001.

2 Staff reviewed this proposed transaction because the buyer, NWN, is a regulated  
3 public service company in this state.

4  
5 **Q. How did you come to lead the staff team for a transaction involving energy  
6 companies?**

7 A. As I noted earlier, Commission staff often work across industries on matters  
8 relating to corporate structure, securities, cost of capital, and affiliated interests.  
9 The telecommunications section had recently reviewed three large telecom  
10 mergers – Bell Atlantic/GTE, Qwest/US West, and WorldCom/Sprint – and thus  
11 had a great deal of experience that could be applied to a utility merger without  
12 respect to industry.

13  
14 **Q. Did the proposed sale of PGE to NWN ever close?**

15 A. No. NWN withdrew its request for approval of the merger due to issues  
16 associated with Enron's bankruptcy. Similarly, the merger of WorldCom and  
17 Sprint was abandoned before the Commission ever ruled on it.

1 **Q. Why is the situation with PGE relevant in this proceeding?**

2 A. The PGE situation demonstrates that QCII and QC are overstating the harm that  
3 might come to customers of the telephone company and to the telephone  
4 company itself should QCII make a bankruptcy filing. PGE is a public service  
5 company whose owner, Enron, experienced one of the largest and most  
6 spectacular collapses in the history of American corporations. If QC's claims of  
7 post-bankruptcy doom were correct, then PGE today would be in ruins. Its  
8 customers would be suffering from poor service, perhaps even no service at all,  
9 due to the bankruptcy of its owner, Enron. In reality that is not at all the  
10 situation at PGE. Indeed, PGE appears to be in better shape than QC today, even  
11 though PGE's parent is in bankruptcy and QC's parent QCII is merely at risk of  
12 bankruptcy.

13  
14 **Q. Please briefly review the history of Enron's acquisition of PGE and its  
15 bankruptcy filing.**

16 A. PGE, incorporated in 1930, is an integrated electric utility. PGE's service area is  
17 located entirely within the state of Oregon. On July 2, 1997, Portland General  
18 Corporation, the former parent of PGE, merged with Enron Corp. As a result of  
19 that transaction, Enron became the surviving corporation and PGE a wholly-  
20 owned subsidiary of Enron. On December 2, 2001, Enron, along with certain of

1 its subsidiaries, filed to initiate bankruptcy proceedings under Chapter 11 of the  
2 federal Bankruptcy Code. PGE was not included in the Enron bankruptcy.  
3 Numerous lawsuits have been filed against Enron and its stock has been  
4 suspended from trading on the New York Stock Exchange. Additionally, several  
5 investigations of Enron were commenced from Congressional committees and  
6 state and federal regulators, including FERC and the State of Oregon.

7  
8 **Q. Has PGE made a bankruptcy filing?**

9 A. No. Although Enron owns PGE's common stock, PGE as a separate corporate  
10 entity owns or leases the assets used in its operations. Further, PGE's  
11 management, separate from Enron, manages the daily operations of the  
12 company. PGE is a valuable asset in the bankruptcy proceeding that will  
13 ultimately serve, in some form, as a source of compensation to the Enron  
14 creditors. PGE has not sought bankruptcy protection.

15  
16 **Q. Earlier you testified that PGE is in better shape than QC. Please explain.**

17 A. PGE has access to the capital markets, where QC is limited in its ability to do so.  
18 As QC witnesses Johnson and Cummings point out, issuing additional equity or  
19 debt for both QC and QCII has proved infeasible due to the SEC investigation  
20 into matters relating to accounting policies and declining bond ratings for QCII

1 and QC. In contrast, despite the unprecedented and unparalleled financial  
2 disaster at Enron, PGE has continued to publish financial statements in  
3 conformance with generally accepted accounting principles, to generate positive  
4 cash flow from its operations, and to raise capital on reasonable terms as  
5 required. One might expect QC to be in as good or better condition, since QC's  
6 parent company QCII has not made a bankruptcy filing. To the contrary, QC  
7 and QCII are unable to publish reliable financial statements and may not be able  
8 to issue registered securities to the public, as financial records can't be verified in  
9 the registration required to issue such securities.

10  
11 **Q. Please briefly explain credit rating definitions.**

12 A. A credit rating is typically expressed in terms of default risk, in other words, the  
13 likelihood of payment. Ratings are further divided into investment grade and  
14 below investment or speculative grade.

15  
16 **Q. Please explain the differences between investment grade and speculative  
17 grade credit ratings.**

18 A. One of the main differences is that speculative grade, or junk bond, issuance has  
19 a higher risk than an investment grade issuance, therefore requiring a higher rate

1 of interest. Also, institutional investors may be prohibited from investing in junk  
2 bonds.

3  
4 **Q. Is there any difference in the ratings of PGE and QC?**

5 A. Yes. PGE, the wholly-owned subsidiary of bankrupt Enron, has an investment  
6 grade rating of BBB+ from Standard & Poor's (S&P) and Baa2 from Moody's.  
7 QC, whose parent QCII is not yet in bankruptcy, has a speculative rating of B-  
8 from S&P and Ba3 from Moody's.

9  
10 **Q. Please explain the rationale given by S&P for its investment grade rating on**  
11 **PGE.**

12 A. S&P's research summary, dated January 28, 2003, states: "PGE is now rated  
13 primarily on its stand-alone credit quality. PGE's rating is higher than that of its  
14 parent because of the perceived economic disincentives of Enron or its creditors  
15 to file PGE into the Enron bankruptcy. In Standard & Poor's Ratings Services  
16 view, PGE's value as a going concern is greater than if it were a part of a  
17 consolidated bankruptcy filing."

1 **Q. Why does Moody's continue to assign an investment grade rating to PGE?**

2 A. As reported in PGE's December 12, 2002, Form 8-K, Moody's confirmed the  
3 current investment grade credit ratings of PGE. The Form 8-K reports that  
4 "Moody's further noted that its ratings of PGE consider the Company's  
5 "fundamentally sound operations", "healthy capitalization ratios", and  
6 "comfortable levels of earnings and cash flows."  
7

8 **Q. Has PGE actually issued debt securities since its parent company has**  
9 **experienced financial difficulties?**

10 A. Yes, PGE has been able to access capital markets since the Enron bankruptcy has  
11 occurred. In 2002 PGE financed a total of \$250 million in first mortgage bonds.  
12 On October 10, 2002, PGE issued \$150 million of 8 1/8% First Mortgage Bonds,  
13 maturing February 2010. On October 28, 2002, PGE issued \$100 million of  
14 5.6675% First Mortgage Bonds, maturing October 2012.  
15

16 **Q. If QCII were to seek bankruptcy protection, would QC also need to declare**  
17 **bankruptcy?**

18 A. No, not necessarily. QC would likely have no reason to seek bankruptcy  
19 protection, because it would remain a financially sound corporation. As with  
20 PGE in the Enron bankruptcy, QC would be an asset in a bankruptcy proceeding

1 involving its parent, QCII. The creditors may become the owners of QC, but it  
2 would likely not be in their interest to disrupt the telephone company operations  
3 which may result in a possible decline in profits.

4  
5 **Q. Is there an additional concern that QC witnesses believe would occur if the**  
6 **parent company QCII, but not QC were to file for bankruptcy?**

7 A. Yes. QC witness Johnson suggests that a bankruptcy by the parent company  
8 QCII, but not QC, will be disruptive for the employees of all of QCII's family of  
9 companies.

10  
11 **Q. Has PGE experienced a dramatic reduction in employees since its parent,**  
12 **Enron, declared bankruptcy?**

13 A. No. In fact, PGE's employment level has remained nearly constant over the last  
14 three years. In 2000 the number of employees was 2,781, in 2001 there were 2,790  
15 and in 2002 the total was 2,757.

16  
17 **Q. Are you suggesting that whatever harm would be imposed on QC and its**  
18 **customers by a bankruptcy filing is already being felt?**

19 A. Yes. QC's witnesses would have the Commission believe that it should approve  
20 this sale in order to avoid bankruptcy, which they imply would be very harmful

1 to customers. As explained in greater detail by Staff witness Glenn Blackmon,  
2 QC and its customers are already being penalized by virtue of QCII's ownership.  
3 There is no reason to believe that a bankruptcy filing would make things worse.  
4 Indeed, a bankruptcy filing may actually improve circumstances for the  
5 telephone company and its customers.

6

7 **Q. Does this conclude your testimony?**

8 A. Yes, it does.

9