

1 BEGIN QWEST CONFIDENTIAL *****.⁴ END QWEST

2 CONFIDENTIAL It is this amount that Dr. Selwyn recommends be used as the fair market
3 value of Dex for Washington ratemaking purposes.⁵

4 **Q. ARE THESE ASSUMPTIONS REASONABLE?**

5 A. No. Nothing in law or policy has granted the Washington ratepayer the claim in perpetuity on
6 which Dr. Selwyn bases his calculation. It is inconceivable in a policy regime that forbids
7 subsidy and encourages level-playing-field competition that an overt subsidy to services for
8 which firms are currently actively competing would remain in place, growing at a constant rate
9 forever. It is particularly difficult to believe that such a policy would have continued under rate
10 of return regulation as the set of affected services became smaller, as services were
11 reclassified as competitive and as the effect of imputation became the dominant factor in
12 pricing services.

13 **A. The actual sales price in an open, competitive transaction is a better measure of the**
14 **value of an asset than forecasts of fair market value.**

15 **Q. WHAT IS THE FAIR MARKET VALUE OF AN ASSET?**

16 A. In economics, fair market value generally represents the price at which an asset would be sold
17 in a competitive market in which many willing buyers and sellers meet.⁶ Around this narrow

⁴ Selwyn, page 54, Table 3.

⁵ Selwyn, pages 109-110.

⁶ U.S. capital markets are a textbook example of such a market: there are many informed and independent buyers and sellers of assets.

1 definition, a rich and complex theory of procurement and auctions has evolved which
2 examines the institutional arrangements—generally an auction or its