Exhibit No. \_\_\_\_-T (PMS-7T) Docket No. UT-061625 Witness: Paula M. Strain

### BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Petition of

**QWEST CORPORATION** 

To be Regulated Under an Alternative Form of Regulation Pursuant to RCW 80.36.135 **DOCKET NO. UT-061625** 

## **REPLY TESTIMONY OF**

#### PAULA M. STRAIN

# STAFF OF WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

## **RE: SEPARATIONS FREEZE ADJUSTMENTS**

February 16, 2007

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1		I. INTRODUCTION
2		
3	Q.	Please state your name and business address.
4	A.	My name is Paula M. Strain. My business address is 1300 S. Evergreen Park Drive
5		S.W., P.O. Box 47250, Olympia, WA 98504. My email address is
6		pstrain@wutc.wa.gov.
7		
8	Q.	Did you file testimony previously in this docket?
9	A.	Yes, I filed direct testimony on January 29, 2007, on behalf of the Commission's
10		Staff (Staff).
11		
12		II. SCOPE OF TESTIMONY
13		
14	Q.	What is the scope of your reply testimony?
15	A.	I am presenting reply testimony on behalf of Commission Staff on the adjustments
16		proposed by both Dr. Robert Loube, on behalf of Public Counsel, and myself to
17		reduce expenses and rate base for DSL and special access investment.
18		
19		III. SUMMARY OF TESTIMONY
20		
21	Q.	Please summarize your testimony.
22	A.	Both Dr. Loube and I proposed adjustments to rate base and operating expenses to
23		account for the effect of the FCC's separations freeze on Qwest's results of

1		operations. Dr. Loube characterizes his adjustment as providing alternative interstate
2		investment, and its impact on separations factors and expenses, and transferring
3		investment and expense to the interstate jurisdiction. Staff's adjustment is limited to
4		reducing intrastate rate base and expenses to remove amounts associated with
5		services that are not considered intrastate services. Staff takes no position on either
6		the separations factors themselves or on what level of investment or expenses is
7		appropriate for the interstate jurisdiction.
8		
9		IV. DISCUSSION
10		
11	Q.	In Exhibit NoC (RL-11C), Dr. Loube calculated Qwest's results of
12		operations, including the effect of adjustments for DSL and Special Access
13		investment and associated expenses. What are the differences between Dr.
13 14		investment and associated expenses. What are the differences between Dr. Loube's adjustments and those in your exhibit?
	A.	-
14	A.	Loube's adjustments and those in your exhibit?
14 15	A.	Loube's adjustments and those in your exhibit? Dr. Loube and I used the same starting point for our calculations, Qwest's intrastate
14 15 16	A.	Loube's adjustments and those in your exhibit? Dr. Loube and I used the same starting point for our calculations, Qwest's intrastate results of operations for 2005, with intrastate rate case adjustments (JR adjustments)
14 15 16 17	A.	Loube's adjustments and those in your exhibit? Dr. Loube and I used the same starting point for our calculations, Qwest's intrastate results of operations for 2005, with intrastate rate case adjustments (JR adjustments) calculated by Qwest. Dr. Loube and I both calculated adjustments for DSL and
14 15 16 17 18	A.	Loube's adjustments and those in your exhibit? Dr. Loube and I used the same starting point for our calculations, Qwest's intrastate results of operations for 2005, with intrastate rate case adjustments (JR adjustments) calculated by Qwest. Dr. Loube and I both calculated adjustments for DSL and special access investment. Dr. Loube's adjustments to DSL and special access costs
14 15 16 17 18 19	A.	Loube's adjustments and those in your exhibit? Dr. Loube and I used the same starting point for our calculations, Qwest's intrastate results of operations for 2005, with intrastate rate case adjustments (JR adjustments) calculated by Qwest. Dr. Loube and I both calculated adjustments for DSL and special access investment. Dr. Loube's adjustments to DSL and special access costs are larger than my adjustments. Dr. Loube used a different method than I did to

<sup>&</sup>lt;sup>1</sup> Dr. Loube used a revenue ratio to calculate special access investment; I used an access line ratio as the basis for my adjustment to special access investment. *See* Exhibit No. \_\_\_\_ C (RL-1TC), pages 59-60; Exhibit No. \_\_\_\_ C (PMS-4C), pages 2 and 3.

2	Q.	In his discussion about the separations freeze and its impact on Qwest's results
3		of operations, <sup>2</sup> Dr. Loube states that Qwest's accounting practices are
4		inconsistent with the FCC's Part 36 rules. Do you agree?
5	A.	Staff has no opinion about whether Qwest's accounting practices follow the FCC
6		rules. That is a matter for the FCC to decide. Regardless of whether Qwest is or is
7		not applying the FCC's Part 36 rules correctly, Staff does agree with Dr. Loube that
8		the way Qwest is applying the FCC's rules results in a mismatch of revenues and
9		costs for those services that a) are affected by the FCC's separations freeze order,
10		and b) were reclassified as interstate services or information services after the freeze
11		took effect. <sup>3</sup>
12		
13	Q.	Do Staff's recommended adjustments for special access and DSL-related
14		investment change Qwest's FCC accounting records or change the separations
15		factors Qwest uses to report its costs in Part 36?
16	A.	No. The Staff adjustments to special access and DSL-related costs are made solely
17		for the purpose of removing costs incurred to provide interstate or information
18		services from Qwest's intrastate results of operations.
19		
20		

<sup>&</sup>lt;sup>2</sup> See Exhibit No. \_\_\_\_C (RL-1TC), Direct Testimony of Robert Loube, Ph.D., starting at page 50. <sup>3</sup> Staff does believe, and has testified previously in another proceeding, that the FCC's application of the separations freeze rules raises questions about the interplay of the direct assignment requirements with the requirements to freeze plant categories. *See* Redacted Revised Testimony of Paula M. Strain, dated December 14, 2004, submitted in Docket No. UT-040788. A complete copy of the redacted testimony, incorporating corrections, is available at <u>www.wutc.wa.gov/documents</u> under Docket No. UT-040788.

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- 1 Q. Does this conclude your reply testimony?
- 2 A. Yes.