EXHIBIT MSR-3T

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, a non-affiliate	Docket No. UT-021120

TESTIMONY IN SUPPORT OF SETTLEMENT AGREEMENT

BY

MARK S. REYNOLDS

QWEST CORPORATION

MAY 16, 2003

Q. HAVE YOU PREVIOUSLY PROVIDED BIOGRAPHIC INFORMATION IN THIS DOCKET?

A. Yes. My rebuttal testimony provides my business address, current job responsibilities, employment background, and witness history in this state.

Q. WHAT IS THE PURPOSE OF THIS TESTIMONY?

A. The purpose of this testimony is to present to the Commission a Settlement Agreement ("Agreement") signed by certain parties to this proceeding. My testimony will describe the Agreement and explain why it is in the public interest that the Washington Utilities and Transportation Commission ("Commission") approve the sale of the Washington assets and operations of Dex in accordance with the terms of the Rodney Purchase Agreement ("Sale"), without conditions other than those set forth in the Agreement.

Q. PLEASE DESCRIBE THE AGREEMENT.

A. The signatories to the Agreement include Public Counsel, AARP, WeBTEC, Department of Defense, and Qwest ("Parties"). The Parties agree to support the Agreement in lieu of the positions they may have taken in their previously filed testimony. The Agreement includes five provisions that the Parties believe should satisfy the Commission's public interest considerations with regard to the Sale. These provisions include:

- A one-time bill credit to customers of $67M;
- An annual revenue credit of $110M per year for the first four years and $103.4M per year for the following eleven years after the sale is

approved (total of 15 years) will be added to Qwest's intrastate regulated revenues;

- A Qwest commitment that it will not petition to remove the Customer Service Guarantee Program, as outlined in Qwest tariff WN U-40, Section 2.2.2.B (sheets 27 through 32) for two years after the Sale is approved;
- A Qwest commitment that it will address certain Washington Telephone Assistance Program/Tribal Lifeline process and training issues; and
- A Qwest commitment that it will work with WeBTEC and the Department of Defense on rate stability issues in association with their client's services.

Q. PLEASE EXPLAIN THE ONE-TIME $67M BILL CREDIT.

A. A one-time $67M bill credit would be applied to customer's bills, distributed on the basis of Residential and Business Access Lines, including activated channels/line equivalents. The total number of access lines/channels that will receive bill credits is estimated to be 2,243,412, as of March 1, 2003. This would result in a per line bill credit of $29.87.[1] If a customer's bill is less than the bill credit amount, the residual credit will carry forward and be applied to the following month's bill. Other specific details associated with the bill credit are included in the Agreement. The Commission shall retain jurisdiction over the implementation of the bill credit, including the authority to decide later if an audit is necessary.

[1] This calculation of the individual end-user bill credit is only an estimation and the best available to the Parties at this time.

Q. PLEASE EXPLAIN THE ANNUAL REVENUE CREDIT.

A. The annual revenue credit is intended to extend the benefits of the current directory imputation to customers for the foreseeable future. This is done by adding the annual amounts specified in the Agreement to Qwest's intrastate regulated revenues during the fifteen-year period of revenue credits. The annual amount of the first four years of revenue credits is $110M and the annual amount of the final 11 years of revenue credits is $103.4M. The revenue credits would be applied in place of the current imputation and imputation would cease coincident with the initiation of the revenue credits. The practical effect of the revenue credits, like imputation, is to effectively reduce the company's revenue requirement, calculated in conjunction with an earnings review, which, in turn, results in lower rates than would otherwise occur if not for the credits. All of the Parties, including Qwest, supported some form of continuation of the imputation or similar benefit in their previously filed testimony.

Q. PLEASE EXPLAIN QWEST'S COMMITMENT THAT IT WILL NOT PETITION TO REMOVE THE CUSTOMER SERVICE GUARANTEE PROGRAM, AS OUTLINED IN QWEST TARIFF WN U-40, SECTION 2.2.2.B (SHEETS 27 THROUGH 32) FOR TWO AFTER THE SALE IS APPROVED.

A. Qwest's current Customer Service Guarantee Program was last addressed in the U S WEST/Qwest Merger Settlement Agreement in Docket No. UT-991358. That agreement allowed Qwest to file tariff revisions to remove any customer-specific service quality credits required in Sections IIA.3-7 of the Merger Settlement Agreement that are not required of all telecommunications carriers operating in exchanges in which the Company operates three years after the merger closing date (June 30, 2003). The program addresses: Guaranteed Appointments and Commitments; Alternatives for Delayed Primary Basic Exchange Services; Out-of-Service Trouble Conditions; No Dial Tone Conditions (Network Congestion); and the Trouble Report Rate. As a provision of the Agreement, Qwest commits that it will not file to remove the Customer Service Guarantee Program for two additional years after June 30, 2003. This would not limit Qwest's ability to seek modification to the program, including the service quality credits, although Qwest commits to consult with the Parties prior to any such filing.

Q. PLEASE EXPLAIN QWEST'S COMMITMENT REGARDING WASHINGTON TELEPHONE ASSISTANCE PROGRAM/TRIBAL LIFELINE PROCESS AND TRAINING ISSUES.

A. During the negotiations, certain of the Parties expressed concerns about the current level of access to knowledgeable service representatives regarding Washington Telephone Assistance Program/Tribal Lifeline benefits. As part of the Agreement, Qwest commits to taking specific steps to ensure that its service representatives can accurately provide interested customers with the necessary information regarding these programs and related payment options (including specific training on WAC 480-120-174(2003)) and properly apply all relevant credits, payment plans, and benefits.

Q. PLEASE EXPLAIN QWEST'S COMMITMENT THAT IT WILL WORK WITH WEBTEC AND THE DEPARTMENT OF DEFENSE ON RATE STABILITY ISSUES.

A. During the negotiations, WeBTEC and the Department of Defense expressed an interest in exploring contractual opportunities for their clients associated with rate stability and master services agreements. As part of the Agreement, Qwest commits to exploring such opportunities with the parties in an effort to meet their needs.

Q. WHY SHOULD THE COMMISSION APPROVE THE SALE OF THE WASHINGTON ASSETS AND OPERATIONS OF DEX IN ACCORDANCE WITH THE TERMS OF THE RODNEY PURCHASE AGREEMENT WITHOUT CONDITIONS OTHER THAN THOSE SET FORTH IN THE AGREEMENT?

A. Because the Agreement is clearly in the public interest. Using the guidelines cited by the Commission in *Colstrip* as benchmarks,[2] the Parties believe that the Sale transaction in conjunction with the Agreement, at the very least, does not harm the public interest.

[2] Docket No. UE-990267, Third Supplemental Order, at pp. 9-10:

> 1. The transaction should not harm ratepayers by causing rates or risks to increase, or by causing service quality and reliability to decline, compared with what could reasonably be expected to have occurred in the absence of the transaction.
>
> 2. The transaction, with conditions required for its approval, should strike a balance among the interests of ratepayers, shareholders, and the broader public that is fair and that preserves affordable, efficient, reliable, and available service.
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> 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.
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> 4. The jurisdictional effect of the transaction should be consistent with the Commission's role and responsibility to protect the interests of Washington gas and electricity ratepayers.

> 1. The transaction should not harm ratepayers by causing rates or risks to increase, or by causing service quality and reliability to decline, compared with what could reasonably be expected to have occurred in the absence of the transaction.

The Agreement offers ratepayers protection from rate increases for the foreseeable future in that it extends the current benefit of imputation for 15 years. Furthermore, the Agreement provides for a one-time bill credit to customers of $67M, effectively making a direct payment to ratepayers for partial disposition of the gain on the sale.

> 2. The transaction, with conditions required for its approval, should strike a balance among the interests of ratepayers, shareholders, and the broader public that is fair and that preserves affordable, efficient, reliable, and available service.

The Agreement meets the objectives of Principle No. 2 in that it provides ratepayers short, medium and long term benefits (bill credits, continuation of Customer Service Guarantee Program, and annual revenue credits, respectively) while allowing Qwest the flexibility to use a portion of the immediate proceeds from the Sale to address its financial situation. The broader public also benefits through the economic effects of the ratepayer benefits and because a financially healthy Qwest is able to continue to invest in the state, provide high quality service to its customers, and meet its obligations, including payroll and employee benefit expenses.

> 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.

Although the Agreement extends the current benefit of imputation to ratepayers for some time into the future (15 years), it is not an endless subsidy that has the potential to distort or impair the development of competitive markets indefinitely.

Additionally, as stated in the Direct Testimony of Theresa A. Jensen (Exhibit TAJ-1T), which I have adopted, after the sale Qwest will continue to provide nondiscriminatory access to white page listings,[3] and will continue to integrate listings from competitive carriers in the information that QC transmits to the new directory publisher for publishing.

4. The jurisdictional effect of the transaction should be consistent with the Commission's role and responsibility to protect the interests of Washington gas and electricity ratepayers.

As I indicated in my rebuttal testimony, this principle has in the past only been articulated with respect to gas and electric utilities. However, it is clear that if a proposal for settlement satisfies the first three principles, as the Agreement does, it also protects the interests of Washington ratepayers.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

[3] *See* Qwest SGAT Section 10.4, White Pages Directory Listing.