Docket No. UT-021120
Supplemental Testimony of
Michael L. Brosch
Exhibit MLB-3ST

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of the Application of QWEST CORPORATION Regarding the Sale and Transfer of Qwest Dex, Inc. to Dex Holdings, LLC, a non-affiliate	))))))))	Docket No. UT-021120

SUPPLEMENTAL TESTIMONY

OF

MICHAEL L. BROSCH

ON BEHALF OF PUBLIC COUNSEL, AARP AND WEBTEC

IN SUPPORT OF AGREEMENT

16 MAY 2003

Q. Please state your name and business address.

A. My name is Michael L. Brosch. My business address is 740 North Blue Parkway, Suite 204, Lee's Summit, Missouri 64086.

Q. Are you the same Michael L. Brosch who previously submitted Direct Testimony in this Docket?

A. Yes. My direct testimony was submitted on behalf of Public Counsel, WeBTEC and AARP and contains a statement of my qualifications and relevant prior experience with respect to Qwest and its directory publishing business.

Q. What is the purpose of your testimony in this Docket?

A. My testimony explains why the Stipulation and Settlement Agreement in this Docket ("Agreement"), as negotiated between Qwest, Dex Holdings, LLC, Public Counsel, AARP, WeBTEC and the Department of Defense, is consistent with the public interest and should be approved by the Commission. The Agreement provides substantial one-time customer credits to Qwest's Washington retail customers at closing and also provides long-term annual revenue credits in lieu of imputation for recognition in any rate proceedings or other earnings reports or investigations through the year 2018. As a compromise of the many issues between Qwest and opposing parties, the Agreement also provides prospective rate stability and brings closure to a historically contentious directory imputation issue in a manner favorable to ratepayers.

Q. Please explain the monetary benefits to customers included in the Agreement.

A. The Agreement provides for up-front bill credits to retail customers on an access line basis, commencing within 45 days of the closing of the Rodney transaction. These credits are expected to be worth approximately $29 per access line and represent direct cash benefits to customers from the sale of Dex. Then, in place of historically contentious imputation adjustments in future rate cases or other regulatory proceedings concerned with Qwest Corporation earnings, a series of fixed annual revenue credits are provided for in the Agreement. These credits commence at $110 million per year for the first four years 2004 through 2008, and then decline to $103.4 million per year for eleven subsequent years through 2018. These amounts are the result of negotiation and compromise between the Parties to the Agreement and reflect a realization for customers of most of the value from the Dex sale, as allocated to Washington.

Q. Have you prepared an Exhibit to quantify the value from the Agreement and to compare this value to the litigation positions of Qwest and the clients you represent?

A. Yes. Exhibit MLB-4C summarizes and compares the litigation position of Qwest (in column C) and the litigation position of Public Counsel, AARP and WeBTEC (in column D) to the value of the monetary relief for customers in the Agreement. The calculated Washington share of the post-tax gain on sale appears on line 1, reflecting the amounts contained at line 16 of Exhibit MLB-2C. The difference in these values relates to the allocation issues surrounding secondary directories and non-Qwest listings, as described in my Direct Testimony and in the Rebuttal of Qwest witness Ann Koehler-Christensen. The income tax factor on line 2 restates these litigation position gain values to revenue equivalent dollar amounts on line 3. The percentage factor on line 4 reflects Qwest's revised litigation position, while Public Counsel, AARP and WeBTEC argue for full customer crediting of the entire Washington share of the Dex gain. Line 5 summarizes the litigation positions of Qwest and my clients, after the compromise discussed in Mr. Reynolds Rebuttal Testimony -- stated in terms of revenue requirement benefits that should be credited to customers.[1]

The bottom half of Exhibit MLB-4C displays the nominal and discounted Agreement amounts for the up-front customer credits and the annual revenue credits through the year 2018. Discounting of all future values is calculated using the 8.15 percent rate advocated by Qwest witnesses Reynolds and Grate[2] and at the 9.37 percent overall cost of capital from Qwest's last rate case, as I advocated. These calculations result in an estimate of total present value benefits to customers from the Agreement of $928.5 million or $859.4 million, respectively. As you can see, the total present value of benefits to customers varies depending upon the discount factor that is used in the calculation. These values are carried up to lines 7 and 8 for comparison to the litigation positions of Qwest and PC/AARP/WeBTEC.

By these comparisons, the Agreement represents a compromise that yields 79 to 85 percent of my recommended total customer economic benefit in Direct Testimony, depending upon the discount rate that is assumed. The comparisons also indicate increases in the value contained within Qwest's revised rebuttal position of 20 to 29 percent.

Q. In your opinion, do the monetary terms of the Agreement reflect a reasonable compromise of the issues surrounding the determination of the Washington share of the Qwest gain on sale and how such share should be attributed to customers?

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1 See Qwest Confidential Exhibit MSR-2C and Brosch Confidential Exhibit MLB-2C.

2 Rebuttal Exhibit MSR-2C and MSR-2, page 2 and Rebuttal Testimony of Philip Grate at pages 46-49.

A. Yes. I believe the Agreement is in the public interest because it provides for customer participation in the gain to be realized upon closing of the transaction through significant one-time customer bill credits, while also securing future rate stability through 15 years of future ratemaking revenue credits. As noted above, a high percentage of the Washington share of the Dex gain is credited to customers overall and these credits are front-loaded and scheduled to extend for 15 years, beyond which time traditional ratemaking may no longer provide a vehicle to attribute any further credits to customers.

Q. Are there also non-monetary benefits to customers within the terms of the Agreement?

A. Yes. The Agreement provides for a secure extension of certain existing customer service provisions, improvements in the WTAP/Tribal Lifeline customer assistance programs and a Qwest commitment to work with certain large customers to secure price increase protections in their contracts.

Q. What is your recommendation to the Commission with respect to the Agreement?

A. I recommend approval of the Agreement as a reasonable compromise of the issues in this proceeding, recognizing that such approval will provide near and long term tangible benefits to customers, while also allowing Qwest the opportunity to accelerate the repayment of debt with realized net proceeds from the Dex sale.

Q. Does this conclude your testimony at this time?

A. Yes.