February 3, 1997

VIA FAX

Mary S.  Hobson

Elam & Burke

PO Box 1539

Boise, ID 83701

RE: Results of Settlement Conference in Case No.  USW-S-96-5

Dear Ms. Hobson:

On January 15, 1997, the parties convened a settlement conference in the above referenced case.  The parties in attendance discussed a host of issues raised in this case.  Based upon these discussions and the Staff’s further review of these issues, the Staff is prepared to make the following representations related to specific issues.  Revised Staff testimony and exhibits will be filed with all parties.

1.  General vs. Subsidiary Ledgers; Adjustments to Rate Base.  In discussions concerning the difference between the general ledger and the state’s subsidiary ledger, the Staff agrees with U S WEST that three accounts and the annual true-up to Plant-in-Service were omitted from the calculation of the rate base.  The Staff agreed to audit these accounts (Capital Leases, Leasehold Improvements, Intangibles) and the annual true-up to Plant-in-Service to determine what should be included in the test year rate base.  The actual increase in Title 61 rate base attributed to each of the accounts is subject to audit verification by the Staff.  On January 23-24, 1997, the Staff conducted an audit of these accounts.  As of today, additional information requested during the audit is forthcoming from U S WEST, therefore, the audit has not been completed.  When the Staff completes its audit, it will share its results with U S WEST and the other parties in this case.  It is assumed that inclusion of these accounts will increase the Title 61 test year rate base and, consequently, result in an increase in revenue requirement.

2.  Miscellaneous Revenues.  The miscellaneous revenue number shown on line 41 of Staff Exhibit 101 excluded the contra-revenue amount for rent compensation.  Staff agrees with the Company that the miscellaneous revenue adjustment was incomplete.  The rent compensation should be included as an expense on Staff Exhibit No. 101.  Revised Exhibit No. 101 will reflect rent compensation of $10.234 million in column (a) which will increase the Title 61 revenue requirement in column (i).

3.  Billing and Collection Revenues & FCC Deregulated.  The Staff agrees that (1) billing and collection revenues and (2) FCC deregulated revenues shown on Staff Exhibit No. 101, lines 39 and 40, respectively, can be deleted from that exhibit.  This deletion does not impact the revenue requirement.

4.  Test Year Access Lines.  The Commission Staff agrees in principle that the number of  access lines in the test year used for calculating a rate design should be the monthly average number of access lines per class/category of service in the test year.  The Staff is continuing to verify the average number of access lines in the 1995 test year and expects the Company to submit figures for verification with its rebuttal testimony.

5.  Local Calling Area Improvements.  In Case No. USW-S-96-4, the Commission approved the creation of three large local calling areas in the Magic Valley, Treasure Valley, and in eastern Idaho.  In Order No. 26672 the Commission adopted a stipulation entered into between U S WEST and the Commission Staff that revenue sharing funds in an amount not to exceed $1.5 million be used to defray the costs of network improvements necessary to implement local calling in the three areas.  In this case, U S WEST asserts that the cost of the necessary network improvements needed to implement the local calling areas is approximately $3.4 million.   Subject to audit, the Staff agrees in principle that additional revenue sharing funds should be utilized to expense/fully depreciate the necessary plant improvements above the $1.5 million cap.

6.  Amortization of Affiliates’ Restructuring Charges.  The Staff realized that although the restructuring charges for USWC had been amortized over a fifteen year period, the restructuring charges for the U S WEST Affiliates had  been written off.  To be consistent with Staff’s amortization of restructuring costs, the amortization expense attributable to the affiliates should be increased by $55,782.  This correction will be reflected on revised Exhibit No. 110 of Kent Schneider’s testimony and on revised Exhibit No. 101, page 12 of Sydney Lansing’s testimony.

7.  Adjustment to Flight Operations (Rate of Return).  Staff agrees that the Rate of Return adjustment for flight operations should be spread among all accounts.  This will result in a decrease of $12,911 to the amount of airplane costs removed as not being Title 61. The spreading of the Rate of Return adjustment to all accounts also impacts the Business Resources Direct Assignment for not Title 61 costs by increasing the adjustment by $6,512.  These changes will be reflected in Staff’s Revised Exhibit No. 101, page 6.

8.  Adjustment for Part 64.  U S West suggested that Staff may have “doubled counted” for Part 64 items due to the way Part 64 is separated by U S WEST.  Staff belives that the only adjustments that might be double counted would have been at U S WEST, Inc and legal.  Consequently, Staff has made an adjustment to the amounts removed from INC and legal to insure that Part 64 has not been removed twice.  This reduces the adjustments to appear on Exhibit No. 101, page 6, to INC directly assigned to other than Title 61 by $7,413 and Legal to other than Title 61 by $3,851.

9.  Three-Year Implementation of Rate Increase.  Staff agrees with U S WEST’s three-year implementation if the Commission approves a revenue requirement resulting in a large rate increase (roughly 50%) that raises residential rates beyond $18.  For rate increases of 10% or less, or for rate decreases, Staff prefers no phase in at all.  For rate increases greater than 10% and less than 50%, Staff prefers a shorter phase-in duration.

10. Adjustment for Direct Assignment of Tech Plus and Tech II.  Tech Plus and Tech II investments funded by revenue sharing were directly assigned to Title 61 ratepayers.  The accumulated reserve was shown on Staff Exhibit No. 101, column d, but the direct assignment of the plant was shown in the allocation column.  The direct assignment of the plant will be shown on revised Exhibit No. 101 in column d.  When the direct assignment of plant was moved, Staff found approximately $6.75 million associated with cable and wiring facilities that was not directly assigned.  These corrections will be made in Staff witness Susan Baldwin’s revised Exhibit No. 114 and in Staff witness Sydney Lansing’s revised Exhibit No. 101.

11.  Taxes.  As indicated in her testimony, U S WEST witness Wright has agreed to change the Company’s calculation related to taxes.

Offers:

1.  Directory Listings.  The Staff could agree to institute a space limitation for directory listings of no more than two lines per listing if the Company agrees to honor requests for inclusion of addresses as designated by the customer, such as street address with suite or apartment numbers.

2.  Customers with Toll Restriction.  The Staff agrees that for new customers who are denied toll access as a result of poor credit history, the Company should not market its custom calling and voice messaging services until the toll-restriction is removed.  For existing customers who are toll-restricted due to non-payment, the Company agrees to suspend custom calling and voice messaging services upon the customer’s request until the toll-restriction is removed.  Customers may then reinstate those services to which they previously subscribed without an additional one-time “reactivation”service charge.

3.  Directory Imputation.  U S WESToffered to discuss issues relating to the Staff’s imputation of Directory revenues.  Staff is willing to consider the Company’s offers concerning U S WEST Directory.

Finally, enclosed are changes to Staff’s direct prefile testimony from witnesses Faunce and Schneider incorporating the changes outlined in paragraphs 6-8 above.  One change to staff witness Eastlake’s testimony is also included.

If you would like to discuss these offers or other issues, please contact me by February 6, 1997.  If you have any questions, please call me at (208) 334-0312.

Sincerely,

Donald L. Howell, II

Deputy Attorney General

DLH/vld:L:Hobson.dh

Enclosures

cc:Parties of Record

Commission Record