August 29, 1997

Mary S. Hobson, Esq.

Stoel Rives LLP

999 Main Street, Suite 1015

Boise, ID 83702-9011

RE:  U S WEST Rate Case, No. USW-S-96-5

Dear Mary,

The Commission issued its final Order No. 27100 in the above referenced case on August 12, 1997.  Since that time, U S WEST and the Commission Staff have examined several issues encompassed in that Order and the revenue calculations concerning those issues.  After reviewing these issues in the Order and its work papers, it appears that corrections or explanations may be in order. These issues are discussed below.

1.  Capitalized Lease Software.  In Order No. 27100 at pages 25-27, the Commission discusses software capital leases.  In particular, the Commission adopted two adjustments suggested by the Staff.  First, capitalized leases attributable to the sold U S WEST exchanges were removed from the Title 61 rate base in the amount of $14,629.  Second, those software leases identified as supporting Title 62 services ($3.556 million) were also removed.  The Commission calculated that these two adjustments resulted in a Title 61 reduction of $2.098 million.  Order No. 27100 at 27.

After reviewing the Order, the transcripts, the work papers, and the underlying Exhibit No. 172, it appears that the $3.556 million adjustment was on a totalstate basis not an intrastate basis as indicated on page 27.  Staff believes the correct Title 61 amount should be $1.511 million which was used in the work papers to calculate the revenue requirement ($3.556 total state to $2.561 intrastate to $1.511 Title 61 at 59%).  Thus, the revenue requirement does reflect the appropriate Title 61 amount using the 59% allocator.

The amortization expense in the revenue requirement does not properly reflect the Commission allowance of capitalized leases.  Amortization expense should be increased by $706,000.  This increases the Title 61 revenue requirement by $417,000 using the 59% allocator.

2.  Depreciation Expense.  The revenue requirement in Order No. 27100 utilizes the depreciation figure utilized at the hearing representing the stipulation at that time.  The stipulation related to the methodology, depreciation rates and write-off of the reserve.  Depreciation expense in Order No. 27100 should be adjusted to reflect all Commission decisions related to plant in service.

3.  1.89% Error Factor.  In its Order, the Commission adopted the Company’s position that an across-the-board error factor of 1.89% is not reasonable for outside plant accounts.  Order No. 27100 at 29-30.  In examining the work papers attached to the Commission’s Order, $2,999,000 was removed from Title 61 and added to Title 62.  The Staff agrees with the Company that this amount should not have been added to Title 62.  Intrastate plant in service should be reduced to reflect retirements of $4.4 million.  The Title 61 and 62 retirement amounts should also be removed from the respective plant in service numbers when recalculating the plant allocator.  This change will increase the Title 61 revenue requirement because it changes the Title 61 allocation factor.

4.  Weighted Cost of Capital.  The Commission found in its Order that the Company’s composite cost of equity should be 11.2%.  Order No. 27100 at 48.  Multiplying this return on equity by the Company’s equity ratio (55.6%) contained in the capital structure, results in a rate of return component for common stock of 6.2272%.  In its Order, the Commission shows the rate of return component for common stock of 6.22%, or in other words the “truncated” amount.  In the work papers accompanying the Order, the Commission has calculated the Company’s total rate of return utilizing the 6.2272% instead of the truncated amount.  Consequently, the Staff believes that the Commission might consider amending the return on equity stated in the Order to reflect the “rounded” return on equity of  “6.23%” and show the overall rate of return as “9.44%.”  Again, these changes do not impact the calculation of the Company’s revenue requirement.

5.  Memo Expense.  Order No. 27100 allowed memo expense.  The  $2.505 million was not directly assigned to Title 61 in the revenue requirement calculated in the Appendix.  If the Commission intended to assign the $2.505 million directly to Title 61, an adjustment would be required.

6.  ITAP Rates.  Finally, Staff has discovered that the monthly ITAP rates for unlimited and measured residential service were calculated in error.  The monthly unlimited calling rates were set at $7.65 and $10.50 outside and inside the EAS regions, respectively.  Following Idaho Code, the proper calculation for the ITAP rates should have simply subtracted the $3.50 subscriber line charge from the appropriate regular rates for unlimited and measured service.  Based upon the existing rate structure, Staff believes the rates should be $7.40 and $12.60 per month, respectively.  The measured monthly ITAP rates were reported as $2.35 and $5.25 but should be $3.25 and $6.10, respectively.  These changes increase Title 61 revenues by $92,374.

Rather than executing an “errata” at this time, I suspect that the Commission may address these issues when it takes up issues on reconsideration.  If you have any questions concerning these issues, please contact me.

Sincerely,

Donald L. Howell, II

Deputy Attorney General

cc:  Parties of Record

bls/L-hobson.dh2