Q.Please state your name and business address for the record.

A.My name is Madonna Faunce.  My business address is 472 West Washington Street, Boise, Idaho.

Q.By whom are you employed and in what capacity?

A.I have been employed by the Idaho Public Utilities Commission (IPUC) as an auditor since 1989.  I am licensed as a Certified Public Accountant in the State of Idaho.

Q.Please give us a brief description of your educational and professional background.

A.I received a B.A. degree in Accounting from Boise State University in 1975 and an M.B.A. from Boise State University in 1977.  I have attended several seminars since graduation in accounting, tax, law, personnel, management and negotiation.  I have also attended a Training for Utility Management Analysts seminar sponsored by NARUC in September of 1989.

Prior to working for the Idaho Public Utilities Commission, I was employed by Grays Harbor College as Assistant Dean for Administration.  I was in charge of all accounting, payroll, capital projects, contracts, personnel and affirmative action.  While at the College, I also taught accounting and management.  Before working for the College, I was Chief Operational Officer, Treasurer and Controller in private industry.

Q.What is the purpose of your testimony?

A.I will be discussing affiliated transactions.  I will discuss the services provided, the charges for those services and the allocation verses direct assignment of the charges by U S WEST Advanced Technologies, Inc. (USWAT), Bell Communications Research, Inc. (Bellcore, BC), U S WEST Business Resources, Inc.  (BRI), U S WEST Communications Services, Inc. (USWCS, CS), U S WEST Federal Services, Inc. (FS), U S WEST, Inc.  (USWI, Inc.), U S WEST Marketing Resources Group, Inc. (MRG), U S WEST, Inc. Strategic Marketing (SM) and

U S WEST, Inc. Management Information Services (MIS) to

U S WEST Communications, Inc. (USWC).

I will also discuss aircraft usage and charges to USWC from BRI.  Finally, I will discuss USWC direct and outside legal cases and charges from U S WEST, Inc., the parent holding company.  I am sponsoring Staff Exhibit Nos. 102-105 and I prepared page 6 to Staff Exhibit No. 101.

U S WEST’s STRUCTURE

Q.Please describe the organization structure of U S WEST?

A.Staff Exhibit No. 102 is the current organization chart.  This chart shows U S WEST, Inc. as the parent with U S WEST Communications Group (USWCG, Communication Group) and U S WEST Media Group (USWMG, Media Group) representing the two units that were set up in 1995, each with separate targeted stock issued.  As can be seen in Staff Exhibit No. 102 all the affiliates have been aligned under the Communication Group and Media Group.

Q.Can you give a short description of each affiliated entity with which the regulated USWC does business?

A.Staff Exhibit No. 103, includes short descriptions provided by the Company of each affiliated entity with which USWC does business.

Q.You mentioned that the Communications Group and the Media Group were set up in 1995.  Can you explain?

A.On October 31, 1995, the shareholders of

U S WEST, Inc. voted to approve a “Recapitalization Plan,” to reincorporate in Delaware and create two classes of common stock.  One class is the Communications Group Common Stock and the other class is the Media Group Common Stock.

Q.Can you tell us what the Media Group is and something about its operations in 1995?

A.The Media Group is comprised of three general business areas: (1) cable and telecommunications network business outside the Communications Group Region and internationally; (2) domestic and international wireless communications network businesses; and (3) domestic and international directory and information services businesses.

Q.Please describe the cable and international operations.

A.The Media Group’s cable and telecommunica-

tions business includes Inc.’s investment in Time Warner Entertainment Company L.P. (TWE), the second largest provider of cable television services in the United States; its cable systems in the Atlanta, Georgia metropolitan area; and international cable and telecom-

munications investments, including TeleWest plc.  In 1995, TeleWest Communications merged its cable television and telephony interests with SBC CableComms to form TeleWest, the largest provider of combined cable and telecommunications service in the United Kingdom.  The Media Group also owns interests in cable and/or telecom-

munications properties in the Netherlands, Sweden, Norway, Hungary, Czech Republic, Malaysia and Indonesia.

Q.Please describe the wireless business.

A.The Media Group provides domestic wireless communication services, including cellular services, in 13 western and midwestern states to a rapidly growing customer base.

In 1994, U S WEST signed an agreement with AirTouch Communications to combine their domestic cellular assets.  The combination was to take place in two phases.  In Phase I, effective November 1, 1995, the two companies are operating their cellular properties separately.  A Wireless Management Company (WMC) has been formed and is providing centralized services to both companies on a contract basis.  In Phase II, AirTouch and U S WEST will contribute their domestic cellular assets to WMC.  U S WEST expects that Phase II closing could take place by the end of 1996 or early 1997.

In 1995, U S WEST partnered with AirTouch Communications, Bell Atlantic and NYNEX to form a strategic national wireless alliance and formed a venture to provide personal communications services (PCS).  This venture, PCS PrimeCo, purchased 11 licenses in the Federal Communication Commission’s PCS auction, covering 57 million people in Chicago, Dallas, Honolulu, Houston, Jacksonville, Miami, Milwaukee, New Orleans, Richmond, San Antonio and Tampa.  Media also provides wireless communications services internationally through its “Mercury One 2 One” joint venture located in the United Kingdom.

On February 27, 1996, U S WEST announced a definitive agreement to merge with Continental Cablevision, Inc. (Continental).  On November 16, 1996,

U S WEST announced that the purchase of Continental had been completed.  Continental is the nation’s third-largest cable operator.  U S WEST will purchase all of Continental’s stock for approximately $5.3 billion and will assume Continental’s debt and other obligations, which amount to approximately $5.3 billion.  Upon closing, U S WEST will own or share management of cable systems in 60 of the top 100 American markets and serve nearly one of every three cable households.  Continental has interests in cable properties in Australia, Argentina and Singapore; a 10% interest in Primestar; telephone access businesses in Florida and Virginia; and interest in programming that include Turner Broadcasting System, E! Entertainment Television, the Golf Channel, and the Food Channel.  In September 1995, U S WEST filed a lawsuit in Delaware Chancery Court to enjoin the proposed merger of Time Warner and Turner Broadcasting.  Time Warner filed a countersuit against U S WEST in October 1995.  In June 1996 the Delaware Chancery Court denied

U S WEST’s petition to enjoin the proposed merger.

Q.What is the third area of Media Group?

A.Media’s directory and information services businesses develop and package content and information services, including telephone directories, database marketing and other interactive services in domestic and international markets.

Q.Can you now tell us about the Communications Group and it’s 1995 operations?

A.The Communications Group primarily provides regulated communications services in 14 western states.  Services offered by the Communications Group include local telephone services, exchange access services, and long-distance services within Local Access and Transport Areas (LATAs).  For example, U S WEST Communication provides intrastate, intraLATA long distance services in the southern Idaho (Boise) LATA.  The Communications Group provides other products and services, including custom calling features, voice messaging, caller identification, highspeed data applications, customer premises equipment and certain communications services to business customers and governmental agencies both inside and outside the region.  The Communications Group’s strategy is to offer integrated communications, entertainment, information and transaction services over both wired and wireless networks to its customers primarily within its 14-state region.  Per U S WEST’s Proxy Statement for shareholders meeting in June 1996, the key initiatives to support this strategy include initiatives to attract and retain customers including:

(1) enhancing existing services

with products such as caller

identification, call waiting and

voice messaging;

(2) aggressive expansion of data

services;

(3) pursuing opportunities to offer

paging, wireless and cable television

services, and

(4) rapid entry into the interLATA

long-distance market.

The Communications Group is evaluating the relative costs of alternative video technologies, as well as the near-term feasibility of interactive services.  To satisfy anticipated demand for combined video and telephony services on a cost-effective basis, the Communications Group’s strategy may include selective investments in wireless cable technologies.  A market trial for a broadband network capable of providing voice, data and video services to customers commenced in the Omaha area in August 1995.  The Communications Group does not intend to expand this service offering beyond the Omaha area because of service cost and pricing issues.

Q.Why is this background information important in understanding U S WEST Communications southern Idaho affiliated transactions?

A.There are two important reasons.  First, Staff believes that it is very important for the Commission to understand why direct assignment of costs and affiliated expenses is so important to the southern Idaho Title 61 customers at this time, especially as

U S WEST, Inc, moves away from traditional Title 61 telephone service.  It is also important to understand why relying on traditional methods of cost allocation to U S WEST Communication (USWC) by the non-regulated affiliates does not give a true picture of the nature of the costs and expenses.  If the service or product that causes a cost to be recorded in southern Idaho is not identified and properly assigned by non-regulated affiliates, it would cause a subsidization of that

non-regulated service.  Staff witnesses Lansing and Baldwin address problems associated with the Company’s failure to directly assign costs and the difficulties of allocating general expenses and excess capacity on the basis of existing service levels.

Q.What is the second reason?

A.Normally, transactions between non-affiliates are presumed to be reasonable when the utility demonstrates that it actually incurred the expenditure.  Parties challenging such non-affiliate transactions carry the burden to show that the expenditures were unreasonable or imprudent.  In contrast, transactions between affiliate companies are to be subjected to close scrutiny and the regulated utility has the burden of proving the reasonableness of its affiliate transactions.  In this instance U S WEST Communications has the burden of proving the affiliate transactions were reasonable and cannot simply rely on the fact that expenditures were incurred.  If the Company fails to produce substantial evidence of the reasonableness of its affiliate transaction, then the amount greater than the reasonable expenditure may be refused.  This Commission and Idaho courts have consistently followed this approach.  Order Nos. 21443, 16945, 16829; General Telephone Vo. v. Idaho PUC, 109 Idaho 942, 712 P.2d 651 (1986), Boise Water Corp. v. Idaho PUC, 97 Idaho 832, 555 P.2d 163 (1976).

Q.Were affiliated transactions examined?

A.Yes, the Staff examined, where possible, all costs presented in the answer to Staff’s Production Request No. 073, Attachment A.  In this production request Staff asked:

Please break out by U S WEST

Communications, Inc. (USWC)

account and codes (give name

of account and code) charges

from payments to affiliate as

shown in Response No. 026 for

U S WEST, Inc. (Inc.), USW Business

Resources, Inc. (BRI), USW

Advanced Technologies, Inc.(USWAT)

and Bellcore (BC).

The answer included charges from New Vector, U S WEST Communication Services, U S WEST Enhanced Services,

U S WEST Federal Services, U S WEST Marketing Group,

U S WEST Multimedia and U S WEST Real Estate.

Q.Did the response to Staff Request No. 073 actually supply all the data to support the affiliate transaction or that Staff needed to determine the nature and detail of the affiliated transactions?

A.No.  The responses to Request No. 073 showed only the amounts of charges to USWC accounts from each affiliate.  From the data supplied, Staff then requested additional information, invoices, projects and data to substantiate the costs, allocation and classification of the affiliate transactions.

Q.What did Staff’s examination of the affiliated transactions show?

A.Staff found that affiliates were not using direct assignment in their records or identifying direct assignment of transactions to southern Idaho Title 61 or Title 62 operations when it was possible to identify that a direct assignment was needed to meet regulatory requirements.

Q.Why does Staff believe that the affiliates are not directly assigning costs?

A.Staff has found that all affiliates that charge costs to USWC are allocating costs that are not related to Title 61 regulated services.  These costs include those related to broadband video, fiber media, video dial tone, other enhanced services and inside wire.  All of these items should be considered as deregulated under Title 47 Code of Federal Regulations - Part 64 - (Telecommunication) and should be directly assigned to Part 64 when identified, per the Code of Federal Regulations Title 47 - Telecommunications - Part 32.23 Accounting for Nonregulated activities.

Staff also found affiliates allocating state-specific costs to Idaho that are attributable to Washington, Oregon, Montana, Wyoming, Utah, Colorado, Arizona, New Mexico, North and South Dakota, Nebraska, Minnesota, and Iowa.  The state specific costs should be charged to the state that incurred the cost.  In a similar fashion, regional costs for the eastern, central and western regions that should have been directly charged to the states that make up each region were charged to Idaho.  Staff also found that the affiliates were not identifying Title 62 costs for direct assignment in southern Idaho.

Q.Please outline your findings in regard to affiliated transactions?

A.I will discuss affiliated transactions in four segments:

1) Strategic Marketing, U S WEST Marketing Group (MRG), U S WEST Communication Service (USWCS), and U S WEST Federal Service(FS);

2) Bellcore (BC) and Advance Technology (AT);

3) Business Resource Inc.’s (BRI) allocations, Rate of Return and flight operations, and

4) U S WEST, Inc.(Inc.) and legal charges.

MARKETING GROUPS

Strategic Marketing

Q.Please discuss the first segment including Strategic Marketing, U S WEST Marketing Group, U S WEST Communication Service and U S WEST Federal Service.

A.The Strategic Marketing work plan involves market perception surveys.  The work performed is in three dominant areas: market research, strategy development and competitive analysis.  These areas are used to increase USWC’s customer relations and focus.  Strategy development devises plans to target those markets of current or potential importance to USWC.  The Strategic Marketing Group also helps USWC to further develop and enhance its marketing skills.  Staff was supplied a sample of brief project descriptions reflecting approximately 10% of the costs identified in Production Request No. 73A to analyze.

Q.Did the Company supply full details for this segment?

A.No, USW Communication did not supply a full description and analysis of the benefits for the services that where charged to it and allocated to southern Idaho Title 61 customers.

Q.Why is this important?

A.As previously stated the courts have held that transactions with an affiliate company should be closely scrutinized.  The burden of proving the reasonableness of expenses incurred between affiliates falls upon the Company.  There is a presumption that transactions between affiliates are not reasonable and

U S WEST southern Idaho bears the burden of proving that the expenses were reasonably incurred.  Because U S WEST has not provided sufficient detail on expenses charged by an affiliate, it has not sufficiently demonstrated that these affiliate charges are reasonable or allowed the Commission or Staff to examine such charges in detail.

Q.Does Staff believe that the costs charged by Strategic Marketing were prudently incurred?

A.Not entirely.  Staff’s examination of the projects supplied is limited by the lack of information; therefore, it could be said that USWC has not met it’s burden of proof.  However, the brief description that was supplied showed that the majority of the projects were for Part 64 non-regulated services, improving the corporate image of U S WEST and/or Title 62 services.  These projects included:

Monitoring the Brand Image of USW

Investig. of Innov. Methods for New Product

Research

Positioning for Colorado Public TV

Evaluation of Applying US West Brand Out of Region

Corporate Branding Policies & Processes

Video Communications

Monitoring Team - wireless

While the costs may have been prudently incurred for the Part 64 and Title 62 services I believe that the costs were not prudently incurred for southern Idaho Title 61 customers.  These projects could have and should have been directly assigned.  Based on the sample provided by USWC, I have directly assigned $119,409 to Part 64 and/or Title 62 services from the costs charged to southern Idaho intrastate, leaving $231 to be allocated as a joint cost between Title 61/62.  Staff Exhibit No. 101, page 6, Column I, line 42.

U S WEST Marketing Group

Q.What did Staff find when they examined

U S WEST Marketing Group (MRG)?

A.MRG sells advertising in the yellow pages portion of local telephone books to USWC.  An examination of the advertising purchased in the yellow pages shows that the main purpose of this advertising is not informational but promotional of Title 62 services (Staff Exhibit No. 104).  In contrast, A through I pages in the front of the telephone book, tell how to reach U S WEST for phone services and how to order phone services (Staff Exhibit No. 105).  This material is more informative than the yellow pages advertisements.  In Order No. 25826, page 11, the Commission stated:

...when the level of costs is

escalated beyond what is necessary

for Title 61 service alone, the

additional cost should be directly

allocated to Title 62.

In my opinion the cost of advertising contained in the yellow pages for USWC is clearly an escalation of costs to serve Title 62.  I believe the A through I white pages contained in the front of the telephone book are what is necessary for the Title 61 service.  Therefore, Staff has directly assigned the total yellow page cost for advertising of $32,742 to Title 62 services at a southern Idaho intrastate level.  Staff Exhibit No. 101, page 6, Column K, line 42.

U S WEST Communications Service

Q.What did you find when you examined U S WEST Communications Service (USWCS)?

A.USWCS markets integrated telecommunications systems to businesses and public tax supported organizations.  This market unit also sells and installs customer premises equipment and manages 911 databases.  To match the recording of revenue from these Title 62 services, Staff has directly assigned the total allocated cost of $1,393,495 assigned to southern Idaho intrastate to Title 62 services.  Staff Exhibit No. 101, page 6, Column L, line 42.

U S WEST Federal Service

Q.What did you find when you examined U S WEST Federal Service (FS)?

A.FS is a marketing unit that markets integrated voice and data network services to federal government agencies situated within USWC’s region.  The customers of this unit typically involve federal agencies with more than 5 lines, including the Department of Defense and the Government Services Administration.  To match the recording of revenue from these Title 62 services, Staff has directly assigned the total allocated cost of $8,047 assigned to southern Idaho intrastate to Title 62 services.  Staff Exhibit No. 101, page 6, Column M, line 42.

RESEARCH AFFILIATES

Q.Please describe the operations of your second segment, Bellcore and Advanced Technologies.

A.Advanced Technologies (USWAT) provides a range of technology management services.  In addition,

U S WEST Technologies, Inc. (USWT) acted as USWC’s agent in the management of the Bellcore work program.  Effective January 1, 1994, Advanced Technologies (USWAT) name was changed to Technologies, Inc. (USWT) and USWT assumed the responsibility for directing the development and implementation of new systems to support USWC’s re-engineered processes.  Following an evaluation of the changes implemented in 1994, and early in 1995, USWAT resumed its original role as a developer of new products and services.  As a result, the personnel responsible for systems design and development work were transferred to USWC to improve the alignment of implementation of USWC’s re-systemization efforts with USWC’s needs.

Bellcore (BC) is a support services company providing engineering, network planning, operations and research and development support to USWC and other former Bell companies.  USWC holds a one-seventh ownership interest in Bellcore.  The purpose of the Company is to provide technical and other support services that relate to the needs of its owners.  In late 1996 the Wall Street Journal reported that Bellcore was up for sale and that a likely buyer had been found.  Staff does not know the details of the sale and cannot comment on the effect that this sale would have in the future on southern Idaho intrastate costs.

Q.What did you find when you reviewed the costs from Advanced Technologies and Bellcore allocated to southern Idaho Title 61 services?

A.I examined over 600 projects charged to USWC from USWAT and over 700 projects charged to USWC from Bellcore.  I found in examining USWAT and BC, that projects could generally be classified as restructuring (re-engineering), Title 62, Part 64, out of period, FCC/Access, research, lobbying, state specific, and support of 61/62 functions.  Because the project descriptions are classified by USWC as “confidential,” I cannot identify all the mis-allocated projects or costs in testimony.  However as an individual example of a project, I have included a description of a mathematical modeling project that was allocated to Title 61 customers.  Staff Exhibit No. 106 (public).

Staff believes that Title 62, Part 64, and toll access projects should be directly assigned to eliminate Title 61 subsidies of these services as discussed earlier and mandated by the Commission Orders.  Staff does not believe the Company’s contention that

Assignment of Title 61 amounts on a

project by project basis cannot be

economically justified from a cost/

benefit basis.  However, the majority

of projects are for maintenance and

enhancements for USWC’s systems and

operations, including southern Idaho,

and would therefore benefit both Title

61 and 62 services.  Some projects may

be Title 61 specific and some projects

may be Title 62 specific, but overall

the allocation between Title 61 and 62

is reasonable.  Costs for each project

are assigned to the appropriate accounts

and states, and then further assigned to

southern Idaho intrastate and Title 61 as

described by Mr. Elder in his testimony

and interrogatory responses.  STF03-194

Response a,b,c,

My review does not agree with the Company’s position.  I believe that all state specific projects should be directly assigned to that state.

Restructuring (Re-engineering)

Q.Can you discuss re-engineering projects in general for USWAT and BC?

A.Ratemaking treatment of re-engineering projects will be discussed in Staff witness Schneider’s testimony.  Briefly, the Restructuring Plans are two plans the Company developed to reduce costs and provide faster, more responsive customer services by the end of 1997.  Because the re-engineering is a one time project that will be completed within one year of this case and re-engineering has produced no benefits within the test year, Staff believes that the total re-engineering costs should not be reflected in the 1995 expenses but should be amortized instead.  See Staff witness Schneider’s testimony.  USWC’s quantification of re-engineering cost will vary from Staff’s quantification because Staff believes projects and expenses undertaken to correct the negative effects of re-engineering should be classified as re-engineering.  In Order No. 25826, dated December 12, 1994, pages 14-15, under 8. Service Quality, the Commission notes:

During the past few years, this

Commission has been confronted with

increasing evidence of a decline in

the quality of service being offered

by U S WEST ... These findings serve

to confirm what we believe has been

occurring, namely, that there has been

a decline over the last three years in

the level of service offered by U S

WEST ... The Commission believes that

the root cause of these problems lies

squarely with the Company’s cost cutting

measures and its resulting inability to

react to and manage changes.  By all

appearances, the Company has chosen to

reduce its employee numbers too quickly

and too far in its attempt to become a

more competitive organization ... In

conjunction with the reductions in

personnel, U S WEST has installed support

systems that have either been too slow in

developing or have not performed up to

expectations ... U S WEST also blames

system problems as a cause of service

difficulties.

U S WEST has been trying to correct the service quality problem by the introductions of new systems and introducing new functionality to existing systems according to the 1996 Proxy Statement for shareholders meeting in June 1996, at page C-8:

The Communications Group believes

that improved customer service,

delivered at lower cost, can be

achieved by a combination of new

systems and introducing new

functionality to existing systems.

This is a change from the initial

strategy which placed more emphasis

on the development of new systems.

The systems needed to replace systems that have not operated or systems needed to correct problems caused by the downsizing should all be considered as part of the re-engineering effort.  Systems are tools of management and it is the responsibility of management to choose the proper tools and to use them wisely.

I also believe that development of systems to support or correct problems at the new MegaCenters, (consolidating 560 local service centers into 26 large regional centers) should also be classified as re-engineering.  Information provided to Staff on re-engineering shows only those costs that have been approved for the re-engineering contingency fund.  Cost centers may still incur re-engineering costs but those costs will be shown as expenses for that unit.  All costs that can be identified as re-engineering or sometimes called restructuring should be identified and amortized.  (See Staff witness Schneider’s testimony.)

Q.Did you make an expense adjustment for

re-engineering costs?

A.When I determined the purpose of each project, the projects were listed as a joint Title 61/62 cost that need to be allocated between those two services or as not being a Title 61 cost.  For the re-engineering costs just discussed and for out-of-period, lobbying, applied research and basic research and development costs that Staff will be discussing Staff has directly assigned and/or removed $1,467,651 for USWAT and $1,751,118 for Bellcore at the southern Idaho intrastate level.  In examining each project Staff does believe that approximately 30% of USWAT’s total costs and 19% of Bellcore’s total costs should be considered re-engineering.  Staff Exhibit No. 101, page 6, Columns B and C, line 42.

Out of period costs

Q.Why must out of period costs for USWAT and

BC be removed?

A.Out of period costs must be removed from test year costs to present a true picture of ongoing cost levels.  If out of period costs were left in, the expense level in the rate case would be too high.  When those costs did not reoccur in the following years the Company would be over earning.

Lobbying

Q.Should lobbying cost be removed?

A.Lobbying costs have been traditionally removed from the test year as a shareholder cost because, what the Company lobbies for may not be in the best interest of Title 61 customers or may not agree with the beliefs of Title 61 customers and therefore would put the Title 61 customers at a disadvantage.  Staff believes that the monitoring of the FCC and legislation is a duplication of services provided by Inc. and USWC.  See Order Nos. 19902, 19411, 20180, 22237, 20592, 20523, 20372 and 25880.

Applied and Basic Research

Q.Would you address the reason for removing applied research and basic research and development costs from USWAT and BC?

A.Given the direction into non-regulated services that U S WEST, Inc. is leading the U S WEST Communication Group and U S WEST Media Group, Staff believes that costs that are for applied research, basic research and development, and other long-range projects should not be charged to Title 61 service until the Company can demonstrate that a product has been developed, that the product is both economically and functionally useful, that the product benefits Title 61, what portion of that product benefits Title 61 and what portion benefits Title 62, and that the product has been deployed and is useful to southern Idaho customers.  Only about one in ten research projects will result in a product that is both economically and functionally useful.

If Title 61 customers are required to pay for research without the assurance that the project is for Title 61 services, then they may be subsidizing non-regulated services.  Based on my review of the 1300 projects, I believe that 1% or less of all projects currently being pursued and/or supported by USWAT or Bellcore were truly for or caused by a need to improve a Title 61 service (outside of problems caused by re-engineering) and most of that 1% is for platforms and gateways used to access Title 62 service through Title 61 services.  This conclusion is consistent with the corporate policy to improve shareholders position by offering new non-regulated services.

Even for those projects that are successful, by expensing all costs the Title 61 customers would basically be paying for assets before the asset is used and useful and before revenues and/or savings are matched to the costs.

USWC has not provided Staff with any proof that these expenses are used or useful or that the amount of allocation to Idaho Title 61 is reasonable or that the telephony services or products from research are available within southern Idaho.  Therefore Staff recommends the complete disallowance of all applied research and basic research and development costs until the Company can prove the usefulness to Title 61 southern Idaho customers.

Business Resources Inc.

Q.Please discuss your third segment which was for Business Resources Inc.

A.Business Resources Inc. (BRI) provides procurement, warehousing, transportation and other services to the U S WEST family of companies.  BRI uses responsibility codes to allocate costs to the different organizations that it serves.  BRI does have the ability to identify some costs by region.  Approximately 85% of BRI costs are allocated to USWC.  I found indication that USWC did directly charge some of BRI costs to the states by use of GEO codes.  I found no indication that regional costs identified by BRI were being allocated by region.  An examination of GEO codes at USWC showed that if the GEO code is properly used costs can be charged by region.  To ignore the proper use of code capability is poor management and may result in one region subsidizing another region.  I did find that USWC was unable to identify any services from BRI that related to Part 64, Title 62, toll access, and only minimum re-engineering cost.

Q.Why do you question the BRI charges?

A.In examining BRI’s allocation study I found costs for repair service of coin, a clear Title 62 service that should be directly assigned.  Because USWC is required to do all of its purchasing through BRI, it is fair to conclude that if BRI is repairing coin phones, it is also helping to purchase coin phones.  BRI also repairs and purchases for operator services, another Title 62 service, that should be directly assigned.  As noted in re-engineering and in the classification of projects from BC and USWAT, systems development was a key issue in the Re-engineering Plan in 1995.  This would mean that any purchase of material for re-engineering would be made through BRI which in turn would mean that there should be significant re-engineering costs at BRI.  In examining BC & USWAT, I found that over 58% of the project costs were Part 64 and Title 62 projects like broadband, gateways, platforms, video dialtone, AIN networks, radio, interexchange carriers billing and access, and cellular.  However, there appears to be no costs for procurement, consulting, management and warehousing for any of these services from BRI.  Because USWC is required to procure all of its materials and to use BRI for all of its warehousing and transportation, it is surprising that there was no direct assignment of costs for either the non-regulated or Title 61 services.

Besides Title 61 basic local services, the Company offers exchange access services (for long-distance providers and wireless operators) and long-distance services within LATAs.  The Company also provides other products and services, including custom calling, voice messaging, caller identification, high-speed data applications, customer premises equipment and services to business customers and governmental agencies both inside and outside the region.  All are Title 62 services in southern Idaho.  Again there is no cost directly assigned to these services from BRI.

Q.Did you find any other reasons for questioning BRI charges?

A.The Media Group that was created in December 1994 with the acquisition of cable television systems in the Atlanta Metropolitan Area operates both cable, wireless communications, and has permission to provide local switched and non-switched telephone service in Georgia.  Staff found that only 4.6% of BRI charges were made to the Media Group in comparison to the 85% charged to USWC.  Staff examined USWC Strategic Initiatives and found that in operations and technologies the 1995 focus was primarily on three areas:

1) Improving customer service by enhancing

network capacity, improvements at the

customer service centers, reducing held

orders and improving customer service

orders;

2) Network enhancements by adding access

lines, deployment of “soft dial tone,”

deployment of fiber optic cable, equip

wire center to enable switched data

communications at 56kb per second and

deploy fiber optic network architecture

that will enable USWC to provided self-

healing network services to carrier,

wireless and large business in major

metro markets;

3) Cost reduction programs by consolidation

of customer service centers, elimination

of employee positions in the core telephony

business.

Even with the above strategic programs in 1995, BRI had no direct assignment to Part 64, Title 62, or access and only minimum charges to re-engineering.  Staff also found that only about 7% of the executive time and directors meetings at Inc. were directed toward Title 61.  In 1995 USWC introduced Call Waiting ID, Home Receptionist (screen phone calls), last call return, long-distance caller ID, do not disturb, and in 1996 VMS Interactive Messaging.  Still BRI had no direct assignment to Title 62.

Q.Do you have a recommendation on how to

handle the problem of no direct assignments at BRI?

A.Staff believes that given the Board of Directors mandate to improve shareholders position, by cutting costs and offering new competitive products, and for the reasons Staff has put forward there should be directly assignable charges from BRI.  Therefore, I have assigned 50% of BRI’s adjusted southern Idaho intrastate costs as directly assignable to re-engineering, Part 64, Title 62, access and other.  This is considerably less than the 90% for USWAT, 82% for BC, or the 100% from the obvious Title 62 services like FS or CS.  The direct assignment of costs reduces southern Idaho intrastate expenses to be allocated between Title 61/62 by $692,313.  Staff Exhibit No. 101, page 6, Column A, line 42.

Q.You stated above that you used “BRI’s adjusted southern Idaho intrastate costs,” did you find other problems at BRI?

A.Yes, I found that BRI was earning a rate of return (ROR) greater than U S WEST’s return authorized by the Idaho PUC.  By setting BRI up as a separate entity, Inc. has attempted to increase its value to shareholders by increasing the profits of BRI above the utility’s allowed rate of return in southern Idaho.  With 85% of BRI sales going to USWC and with USWC being required to take service from BRI, I believe BRI should be limited to a return on its investment consistent with prior Commission rulings and with the Idaho Supreme Court decision in General Telephone, 109 Idaho at 942.  Therefore, I examined BRI’s rate base and have applied the southern Idaho rate of return used by Staff in this case to determine the allowable level of BRI’s earnings.  I have added a tax gross-up factor from this case to determine what BRI’s revenue requirement should have been and found that BRI was over earning in 1995.  I have allocated these over earnings back to southern Idaho

intrastate for an adjustment of $128,949.  Staff Exhibit No. 101, page 6, Column N, line 42.

Flight Operations

Q.You mentioned that BRI had flight operations.  Can you explain?

A.BRI manages the Company owned aircraft as well as billing for the use of the aircraft by USWC.  Billing for USWC usage is separated into the following designations: Service 890 includes all administrative and maintenance costs for keeping fixed wing aircraft ready for use, and is charged to Account 6728.99 as an administrative service.  Service 895 is billed on hourly usage of aircraft by USWC executives, and is charged to Account 6511, executive expense.  USWC has no studies regarding aircraft use compared to commercial use.  USWC has no studies to show what the cost would have been if commercial flights were used instead of corporate aircraft.  USWC’s portion of aircraft costs are allocated to all states, including southern Idaho, because the aircraft are used by executives of USWC and supposedly those executives perform work that benefits all states.  USWC does not track how often non-company personnel are transported on company-owned aircraft or how often the aircraft was used to transport people to company sponsored events or to transport customers.

Q.Were you able to examine data related to the use of the airplanes?

A.By examining flight logs, Staff found the aircraft is used for business, entertainment, and personal use.  An examination of flight logs compared to billings show that the flights are billed for the personnel on board the aircraft not the purpose of the flight.  Flight costs are generally billed to BRI, USWAT, International, Multi Media, Marketing Resources Group, Inc. and USWC.  Staff’s examination showed that USWC, southern Idaho intrastate Title 61 services were being charged for out-of-period costs, Part 64, Title 62, Corporate Image building, lobbying, marketing and personal use.  These flights included trips to Omaha to see the new broadband experimental site, Time Warner visits, new ventures, outside board meetings, speaking engagements, transporting customers to special events, road shows, legislative strategies, etc.  I also found that an executive would use the aircraft to attend a meeting, return to original airport overnight and return to the meeting at the same location the next day.  Many flights had only one or two people on board.  In examining costs and comparing those costs to commercial travel, I found that the aircraft was twice as expensive.  In addition I found that the Company’s ability to video conference would certainly save time, money, and improve safety if it was used instead of setting up meetings everyday and flying personnel all over the country.  I  was able to verify from the flight logs approximately $650,000 that could be considered in period Title 61/62 cost.  I also determined that the same flights would have cost $345,000 less if they had been taken on commercial airlines.  This would reduce flight costs to $308,000 which after allocation to southern Idaho intrastate would reduce southern Idaho intrastate revenue requirement by $150,903.  Staff Exhibit No. 101, page 6, Column H, line 42.

U S WEST, Inc.

Q.In your fourth segment, what did you find when you examined U S WEST, Inc. (Inc.)?

A.Inc. provides corporate headquarters services in the areas of corporate finance and accounting, executive management, federal regulatory and public policy, legislative services, human resources services (including relocation services), legal services, public relations, share-owner services, strategic planning, treasury services and trust management.

As I have discussed earlier, the direction of Inc.’s two groups is directly related to top executive decisions at Inc.  Both Media and Communications have

been gearing up for competition.  Both appear to be convinced that Part 64 and Title 62 services will propel the Company into the 21st Century and both are expending large sums of money and time to accomplish this.  This direction comes from Inc.  In examining the Proxy Statement for shareholders meeting in June 1996, Staff found that Executive and Board Members compensation is directly related to the “long-term interests of shareholders” and a “structure that directly aligns the executives with the interest and concerns of shareholders” and “shareholder value creation.”

In examination of the Board of Directors’ minutes I found that less than 7% of the discussion had been spent on what could be considered a Title 61/62 service and most of this was for service quality problems related to re-engineering.  Staff also found that capital infusion into USWC was 5.8% of all of Inc.’s capital infusion into affiliates including the USWMG.  With BRI included it would increase to approximately 7% of all of Inc.’s capital infusion into affiliates.  The flight logs also support my contention that Inc’s. management is spending over 90% of their time on non-regulated business and purchases.  In management’s efforts to increase shareholders value the entire focus is on financing the purchase and/or development of new lines of business and introduction of new service.  Therefore, Staff believes that only 7% of the executive, shareholder and finance expenses allocated to USWC from Inc. should be attributed to the southern Idaho intrastate operations for allocation to Title 61/62 services.  This would decrease southern Idaho intrastate Title 61/62 revenue requirement by approximately $421,318.  Staff Exhibit No. 101, page 6, Column G, line 45.

Internal Audit

Q.Were there other problems in Inc.’s costs?

A.Yes, the internal audit function is considered part of Inc’s costs.  These costs are directly charged to the affiliates.  In analyzing the internal audit I examined a list of audit projects and a selected number of audit reports.  I determined that 56% of the cost allocated to USWC should be directly assigned as they pertain to Title 62 services, Part 64 services,

re-engineering and state specific costs.  This adjustment removed approximately $42,421 from the southern Idaho intrastate revenue requirement to be allocated between Title 61/62 as common costs.  Staff Exhibit No. 101, page 6, Column G, line 46.

Lobbying and Research

Q.When reviewing Inc’s charges did you discover any costs for lobbying and research?

A.In reviewing Inc’s cost I did find lobbying costs and removed them for the same reasons as those discussed with respect to BRI.  Similarly, research costs were found and removed for the same reasons as those discussed with respect to USWAT and BC.  This removed approximately $98,700 from southern Idaho intrastate costs, the remaining costs are properly allocated between Title 61/62 as common costs.  Staff Exhibit No. 101, page 6, Column G, line 47.

Leadership Conference

Q.What was the Leadership Conference?

A.I reviewed the agenda and costs for the Leadership Conference.  A copy of the agenda did not reveal any reason why any of the cost should be considered as beneficial to Title 61.  The theme was Leadership ‘95 and seemed to include food, drinks, strategies (which I have already pointed out relate to Part 64/Title 62), singing and golf.  This conference cost $781,375 of which $576,486 was charged to USWC.  I object to Title 61 customers paying for this strategic session and entertainment.  This removed approximately $16,500 from southern Idaho intrastate costs that otherwise would be allocated between Title 61/62 as common costs.  Staff Exhibit No. 101, page 6, Column G, line 48.

Workforce Management

Q.Please explain your adjustment for Workforce Management.

A.This cost center has the responsibility for implementing all of the Management Separation Plans for employees.  This included consulting, out placement counseling and tracking of any management separation plan related employee issues.  I believe that the majority of the cost for this function is caused by downsizing the workforce in USWC’s re-engineering and therefore should be removed and amortizing as a one time, non-recurring charge.  This removed approximately $13,000 from southern Idaho intrastate expenses that otherwise would be allocated between Title 61/62 as common costs.  Staff Exhibit No. 101, page 6, Column G, line 49.

Recognition

Q.Please explain your adjustment removing 80% of the cost for recognition and rewards for Inc. staff.

A.I have found that 80% of this recognition is based on improving shareholder’s position.  A greater in-depth analysis can be found under bonuses.  This removed approximately $9,400 from southern Idaho intrastate costs that otherwise would be allocated between Title 61/62 as common costs.  Staff Exhibit No. 101, page 6, Column G, line 50.

Image

Q.Please explain your adjustment for public image building, brand advertizing, international golf tournament, international sponsorships, event marketing, exhibits, corporate strategy, public policy and other external relations expenses.

A.These expenses do not benefit Title 61 service in the state of Idaho.  Given the Company’s direction into non-regulated services including cable, video, and other enhanced services in markets outside of southern Idaho, I do not believe that the sponsorship of an international golf tournament benefits Idaho Title 61 customers.  This same reasoning would apply to brand advertizing, event marketing, exhibits, corporate strategy, public policy and other external relations expense.  Other public relations expenses involved the 1995 Recapitalization Plan for which the Company removed the costs from regulated service.  My adjustment removed approximately $87,400 from southern Idaho intrastate costs that otherwise would be allocated between Title 61/62 as common costs.  Staff Exhibit No. 101, page 6, Column G, line 51.

Dues and Memberships

Q.Did you look at the corporate dues and memberships?

A.After examining the information provided by the Company, I believe that all the organizations listed are involved in promotion of Part 64/Title 62 services that did not benefit Idaho Title 61 customers, were lobbying expenses and/or no information on the organization was available.  This removed approximately $600 from southern Idaho intrastate costs that otherwise would be allocated between Title 61/62 as common costs.  Staff Exhibit No. 101, page 6, Column G, line 52.

Subsidiary Tax

Q.Did you remove costs for subsidiary tax?

A.I have allowed costs for the tax library, tax research, state & local tax, income tax compliance and tax audit.  I believe those costs that I have not challenged covers all taxes in southern Idaho.  There should not be any costs in southern Idaho for a subsidiary tax.  This removed approximately $16,000 from southern Idaho intrastate costs that otherwise would be allocated between Title 61/62 as common costs.  Staff Exhibit No. 101, page 6, Column G, line 53.

Legal Expenses

Q.What did you determine to be the amount of Inc.’s legal expenses allocated to southern Idaho intrastate?

A.I found that only 25% of all legal cases could even be considered as connected to or provided some benefit to Title 61.  In addition, I believe that 1% of the Executive Vice President (EVP) Chief legal officer’s time should be allocated to southern Idaho intrastate.  The reason is the type of case in which the EVP chief legal officer is typically involved.  Examples of legal work that the EVP chief legal officer might be involved with in the test year include: Time Warner, the Utah Supreme Court, the Recapitalization Plan, the purchase of Continental Cablevision, Inc. and board meetings.  The EVP chief legal officer would not have been involved in southern Idaho’s revenue sharing plan, EAS or other cases involving Title 61 service, and, therefore, should not be supported by Idaho Title 61 customers.  In total I have removed approximately $200,000 of Inc.’s legal costs from southern Idaho intrastate.  Staff Exhibit No. 101, page 6, Column G, line 54.

Q.Did you review legal costs that are directly assigned to USWC?

A.I reviewed all the information that USWC would supply.  Staff requested in Audit Request 070-A:

Copies of all legal bills and

a description of all legal work

performed and/or billed to Inc.,

BRI, Bellcore, USWAT and/or USWCG,

show where each item was recorded,

the $ amount, and the portion that

was allocated (direct charged) to

southern Idaho and the account

recorded in southern Idaho ledgers.

I was provided billing summaries by “client-matter” and “timekeeper class.”  The costs supplied did not agree with amounts recorded in the books.  I was unable to completely reconcile the amounts, but I believe it is a timing and allocation problem.  I was not supplied with a full description of the legal work performed even though I repeatedly asked for this information.  What I did receive was a one line or one word description that in some cases was very informative such as “rate case Utah” or “service problems Arizona” in other instances there was only a name.  USWC claimed that to obtain more information on a case they would have to go back to each lawyer and have them go through their files and this would be too time consuming and costly.  Therefore, I have worked with the information available and have identified legal expenses for which the Company did not demonstrate a useful relationship to the state of Idaho and to Idaho Title 61 customers.  I believe this is consistent with legal guidelines concerning affiliate transactions that state the mere fact that a utility has incurred expenses paid to an affiliate “does not establish a prima facie case of reasonableness with respect to payments to affiliates.”  Boise Water, 97 Idaho at 836; Washington Water Power v. Idaho PUC, 101 Idaho 567, 576, 617 P.2d 1242, 1251 (1989).  The burden of proving the reasonableness of expenses incurred between affiliates falls upon the public utility.  General Telephone Company v. Idaho PUC, 109 Idaho 942, 950, 712 P.2d 643, 651 (1986).  Thus there is a presumption that transactions between affiliates are not reasonable and the utility bears the burden of proving that the expenses were reasonably incurred.

While the costs in question are called a directly assigned cost, the costs are from Inc., and I found costs for the same cases being allocated to Inc., USWC, and BRI’s records.  Therefore, it appears that the costs are not truly a “direct” assignment but are called direct because the cost is never held on Inc.’s ledgers.

I have directly assigned costs to Title 61, Title 62, Part 64, state specific, access, etc. when the short description provided by the Company has lead me to believe it is appropriate.  I examined 5,875 cases from both directly assigned and outside legal direct assignment including Inc. and BRI with a total cost to southern Idaho of $509,324.  Of this, I found $374,855 should not be included in the southern Idaho intrastate costs.  Staff Exhibit No. 101, page 6, Columns D, E and F, line 42.  I also found that $58,000 should be directly

assigned to Title 61.  Staff Exhibit No. 101, page 6, Column D and F, line 56.

Management Information Systems

Q.Did you also make an adjustment for

U S WEST, Inc. Management Information Systems (MIS)?

A.Yes.  MIS was formed in 1982 as the division of U S WEST, Inc. that provided financial processing for the unregulated subsidiaries of Inc.  Over time, MIS operations expanded to encompass a full technology service line for the entire U S WEST affiliate family.  These services included: consultation relating to systems design, product selection, project management, needs analysis and planning, application services such as design, programming, training, maintenance and enhancements, provision of data transmission facilities to or from MIS host systems, and computer operations services including timeshare services, mini-computer operations, centralized software support and data center operations.  MIS operated as a separate entity of Inc.

When Inc. restructured its business during the first quarter of 1995 and created two separate business groups, it was determined that certain MIS resources should be aligned with the businesses they support.  It was therefore recommended that the MIS function at Inc. be dissolved by the end of 1995 and that MIS functions be aligned with and transitioned to the companies they supported.

In July 1995, Inc. announced plans to transition the computer support and technology resources work done by MIS into either Communication or Media Groups.  The announcement to transition this work was consistent with Inc.’s broader initiative to move corporate staff resources closer to the business units they support.  MIS functions and related resources transferred to either the USWCG or the USWMG at the end of 1995.  The transition resulted in approximately 100 people transferring to the USWC payroll and 170 people transferring to the USWMG payroll.

During the test year the cost for MIS personnel was allocated to USWC through Inc.  From data requests I have determined that approximately 61% of Inc.’s cost is allocated to USWC.  The transferring of personnel from MIS to USWC has resulted in savings with 37% (100/270) of the costs now going to USWC.  This change did not happen until the end of 1995, therefore, an adjustment must be made to reflect the known and measurable cost savings.  I have removed $65,280 from expenses at the southern Idaho intrastate level.  Staff Exhibit No. 101, page 6, Column J, line 42.

Other Affiliated Transactions

Q.Are there any other affiliated transactions that you have made adjustments to?

A.Yes.  On January 1, 1994, U S WEST Technologies (USWT) was created by combining USWAT and the Information Technologies Development (ITD) group of USWC.  This re-engineering placed both the personnel developing new systems technology and the people responsible for deploying that technology under the same management structure.  A total of 356 systems development personnel were transferred from USWC to USWT to develop the USWT structure.  The financial impact to USWC from this re-engineering was neutral.  There were no changes in the number of employees or in the costs for employees who were transferred off the USWC payroll.  These employees continued to support USWC re-engineering with 100% of their costs being billed to USWC.

At the end of 1994, the state of the re-systemization effort was evaluated and improvements were recommended regarding the process of systems delivery.  Following this review, USWT and USWC concluded that the transfer of approximately 750 systems support and development personnel to USWC would create the best alignment between the re-engineering work and USWC’s operational needs, enabling a more efficient deployment of new systems.  The 750 employees were transferred to USWC in 1995.  The financial impact of moving the 750 system support and development personnel to USWC was a net cost reduction for USWC.  The cost reduction of $8,991,600 on an annualized basis was due to a reduction of 118 Central Department employees.  I believe that this known and measurable cost savings should be shown on USWC, southern Idaho intrastate books for a reduction of $173,744.  Staff Exhibit No. 101, page 6, Column O, line 42.

COMPENSATION

Q.Have you examined the compensation package at USWC, BRI, and Inc.?

A.Yes.  The Human Resources Committee of the Board oversees compensation levels and benefit plans to ensure that compensation plans are competitive with the marketplace and aligned with shareholder interests.  The compensation philosophy is to design plans to attract, motivate, and retain the executives necessary to achieve the Company’s business strategies.  The plan rewards those executives for building long-term value for Company shareholders.  According to the Proxy Statement for shareholders meeting in June 1996:

Each compensation element supports

the Company’s mission, values, and

culture.  The compensation principles

that link the individual elements into

an integrated compensation strategy

are as follows: (i) a compensation

structure that directly aligns the

executives with the interests and

concerns of shareholders; (ii)

competitive compensation within

industry and peer companies; (iii)

customized business unit plans that

reflect the unique characteristics

of the Company’s diversified opera-

tions; (iv) individual compensation

highly correlated with personal

performance and shareholder value

creation; (v) programs that foster

executive movement across the

organization; and (vi) executive

development and succession planning

programs to provide long-term

organizational strength and flexibility.

As I have pointed out in my discussion of affiliated transactions, the Company is trying to improve earnings and cash flow through a strategic plan that emphasizes Part 64 (unregulated) and Title 62 products and services.  By introducing and selling new products the Company hopes to improve shareholders position.  Improving shareholders position in this fashion does not promote Title 61 performance.  If the Company is trying to improve shareholders position by increasing profits above the Return on Equity authorized by the Commission, I believe this would be in direct opposition to the best interests of the Title 61 customers.  Therefore, I believe that Bonuses and Team Awards based on earnings, cash flow and/or strategic goals are either a direct Title 62 assignment or the responsibility of shareholders.

Q.What did you find when you looked at the Compensation Plan?

A.At USWC I found the cash Compensation Plan had two basic components: (1) Base Pay, and (2) the Team Performance Award.  My research of confidential documents shows 80% of the Team Performance Award is based on creating shareholder value.  I believe that 80% of this cost should be directly assigned to Title 62 and/or classified as shareholder expense.  This results in a decrease in regulated expense of $797,431 to southern Idaho intrastate expenses before taxes.  Staff Exhibit No. 101, page 6, Column P, line 45.

In addition, the Short-Term Incentive bonus pool is limited to a percentage of “Cash Provided by Operating Activities.”  The pay portion of this pool is based on factors including the Company’s performance relative to preset financial, strategic and customer goals, as well as individual performance goals.  My research of confidential documents shows 80% of the Short-Term Incentive compensation is based on creating shareholder value.  I believe that the portion of the award that directly benefits shareholders should be directly allocated to Title 62 and/or paid by the shareholders who directly benefit.  This would result in a decrease in regulated expenses of $43,559 to southern Idaho intrastate before taxes.  Staff Exhibit No. 101, page 6, Column P, line 46.

Q.Are affiliated awards determined in the same manner as USWC?

A.No, BRI’s Team Awards are determined differently than USWC because they are a service organization.  I determined from examining confidential documents that 27% is based on improving shareholders benefits.  I believe that the portion of the award that directly benefits shareholders should be directly allocated to Title 62 and/or paid by the shareholders who directly benefit.  This would result in a decrease in regulated expenses of $25,182 to southern Idaho intrastate before taxes.  Staff Exhibit No. 101, page 6, Column P, line 47.

I believe that the Inc. team awards are based on the return to shareholders and improving shareholders benefits.  Based on an examination of confidential documents, I also determined that 20% or less should be allocated to Title 61 customers.  I believe that the portion of the award that directly benefits shareholders should be directly allocated to Title 62 and/or paid by the shareholders who directly benefit.  This results in a decrease in regulated expenses of $75,868 to southern Idaho intrastate before taxes.  Staff Exhibit No. 101, page 6, Column P, line 48.

The Inc. bonus (merit awards) are based on the return to shareholders and improving shareholders benefits.  Based on an examination of confidential documents, I determined that 20% or less should be allocated to Title 61 customers.  That the portion of the award that directly benefits shareholders should be directly allocated to Title 62 and/or paid by the shareholders who directly benefit.  This results in a decrease in regulated expenses of $14,382 to southern Idaho intrastate before taxes.  Staff Exhibit No. 101, page 6, Column P, line 49.

By examining confidential documentation, the Proxy Statement for shareholders meeting in June 1996, and the Board of Directors minutes, I found that all of the Executive incentive pay at Inc. is based on the return to shareholders and therefore, 100% of the incentive pay should be directly allocated to Part 64, Title 62 and/or shareholders who directly benefit.  I have removed 93% of executive costs at Inc.  Removing the remaining 7% of the executive incentive pay results in a decrease in regulated expenses of $7,159 to southern Idaho intrastate before taxes.  Staff Exhibit No. 101, page 6, Column P, line 50.

Q.Does this conclude your direct testimony in this proceeding?

A.Yes, it does.