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

A.My name is Sydney Lansing.  My business address is 472 W. Washington Street, Boise, Idaho.

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

A.I am employed by the Idaho Public Utilities Commission as a Staff Auditor in the Accounting Section.

Q.Give a brief description of your educational background and experience.

A.I graduated from San Jose State College, California in 1958 with a B.A. degree in Business Emphasis in Accounting.  I was licensed to practice as a Certified Public Accountant in 1960.  I was employed as an Auditor by Arthur Young and Company in San Francisco and by Roland Crabtree, CPA in Riverside, California.  I was the partner in charge of audits in the firm of Purl and Lansing in Riverside, California.  I have been hired several times to install accounting systems and I have been the Controller of two different organizations.  I have attended many seminars, classes and courses involving auditing, accounting and tax issues.

Q.What is the purpose of your testimony?

A.The purpose of my testimony is to discuss:

1.  Plant-in-service

2.  Working capital

3.  Uncollectibles

4.  Cost allocation

5.  Depreciation

6.  Income taxes

7.  Summarize Staff positions

SUMMARY

Q.Please summarize the revenue requested by

U S WEST and recommended by Staff.

A.The comparison of the Company’s recommendations and those of Staff at the Title 61 level are as follows: (all of these amounts have “000" omitted)

DescriptionU S WEST  STAFF

Plant-in-service$327,028$248,096

Other rate base(172,166)(168,266)

Total rate base 154,862  79,830

Overall rate of return   10.55%    8.66%

Revenue requirement 116,138  52,239

Total revenue  78,084  84,436

Revenue needed (excess)  38,054 (32,197)

Q.How did Staff present its financial recommendations?

A.Staff Exhibit No. 101 details Staff’s position related to the various components of revenue requirement.  There are several supporting schedules that provide details of the adjustments, assignments, and allocations related to the positions shown in Staff Exhibit No. 101.  Some of the supporting schedules were prepared by me, while other supporting schedules were prepared by other Staff members.  The following is a list of the supporting information:

Page 1 starts with U S WEST booked information at the intrastate level and summarizes the adjustments proposed by the Company to arrive at the totals proposed by U S WEST (Columns a, b,& c).  The next section (Columns d & e) shows Staff’s recommendations regarding the direct assignment of rate base items, expense items, and revenue items.  After the direct assignment items, Column f totals the amount of each rate base item, each expense item, and each revenue item available for allocation between Title 61 and Title 62.  That allocation is shown in Columns g & h.  Column i totals the Title 61 directly assigned items and the Title 61 allocated items to arrive at the total Title 61 amounts.

Column i, line 46 shows that U S WEST is earning in excess of its authorized rate of return, as proposed by Staff, by a total of $32.197 million.

Q.Please describe each of the other pages in Staff Exhibit No. 101 and indicate which Staff member sponsors that page.

A.Page 2 was prepared by me to summarize the adjustments to booked information presented by U S WEST witness Ms. Wright.

Page 3 was prepared by me to summarize the directly assigned rate base, expenses, and revenue items as recommended by Staff members.

Page 4 was prepared by me to detail the adjustments that I recommend to rate base.  The totals from page 4 are carried over to page 3 for inclusion in that summary.

Page 5 was prepared by me to detail the direct assignment of specific assets away from Title 61 assets.  The totals on page 5 are carried over to page 4.

Page 6 was prepared by Staff witness Faunce to detail the expenses from affiliated organizations that should be directly assigned away from Title 61.  The totals of page 6 are carried over to page 3.

Page 7 was prepared by me based on the recommendations of Staff witness Selwyn to calculate a proper depreciation expense on a going forward basis.  The total of the recommended depreciation is carried directly to page 1, line 30.

Page 8 was prepared by me to calculate an Idaho State effective income tax rate.

Page 9 was prepared by me to calculate an income to revenue multiplier to be used on page 1, Column i, line 13.

Page 10 was prepared by Staff witness Eastlake to calculate the expenses associated with the recently adopted EAS regions.  The total of page 10 is carried directly to page 1, line 28.  Page 10 is proprietary.

Page 11 was prepared by Staff witness Stockton to detail direct assignments of expenses to both Title 61 and Title 62.  Additionally, page 11 shows an imputation of revenue for telephone concessions.  The totals of page 11 are carried over to page 3.

Page 12 was prepared by Staff witness Schneider to detail adjustments to the pension asset and various expenses.  The totals from page 12 are carried over to page 3.

Q.Please describe the Company's case as filed.

A.U S WEST has proposed an increase in revenue totaling $38.054 million (Company Exhibit No. 25, page 1, Column f, line H).  U S WEST's case is based upon “actual” costs using a historic test year ended December 31, 1995.  Staff agrees with using 1995 as the test year.  The Company filed financial information based on the southern Idaho jurisdictional books as adjusted by Ms. Wright (Company Exhibit No. 25).  The information is changed by Ms. Wright from the jurisdictional books through the intrastate information to show a rate base and a related revenue requirement at the Title 61 allocation level.  This two step calculation was accomplished in the same calculation.  Staff agrees with the intrastate separations part of the calculation, but not with the Title 61 allocation part of the calculation.  I present in Staff Exhibit No. 101, page 1, Column a, the intrastate, separated account balances from U S WEST's southern Idaho books.  Therefore, I have removed the disputed Title 61 allocation from U S WEST's presentation, and I have left the non-controversial federal separations, thus creating a starting point for Staff adjustments and analysis.

Q.Please detail the various parts of

U S WEST's case and indicate Staff’s reaction.

A.See below:

U S WEST PRESENTATIONSTAFF RESPONSE

Plant-in-serviceStaff does not agree

(See testimony, Lansing)

Materials and suppliesStaff agrees

(See Working Capital

testimony, Lansing)

Cash Working CapitalStaff agrees

(See Working Capital

testimony, Lansing)

Pension assetsStaff does not agree

(See testimony, Schneider)

Accumulated depreciationStaff agrees

(adjusted only for plant in

service adjustments)

Deferred Income TaxStaff agrees

(Adjusted only for plant

in service adjustments)

Customer depositsStaff agrees

Adjusted average rate baseStaff agrees with method

Overall rate of returnStaff does not agree

(See testimony, Carlock)

Return on equityStaff does not agree

(See testimony, Carlock)

Gross-up for taxesStaff does not agree

(See testimony, Lansing)

General expensesStaff does not agree

(See testimony, Lansing,

Faunce, Stockton, and

Schneider; also Staff

Exhibit No. 101, page 3)

EAS costsStaff does not agree

(See Testimony, Eastlake)

DepreciationStaff does not agree

(See testimony, Selwyn and

Lansing)

Income TaxesStaff does not agree

(See testimony, Lansing)

Allocation to Title 61Staff does not agree

(See testimony, Baldwin,

Lansing, and Faunce)

Rate designStaff does not agree

(See testimony, Eastlake)

Directory RevenueStaff does not agree

(See testimony, Selwyn and

Carlock)

Q.Please describe how Staff has presented its case.

A.Each individual Staff member that recommends an adjustment to U S WEST's case prepared supporting documents.  Those documents are included as pages in Staff Exhibit No. 101 and summarized on page 1.

PLANT-IN-SERVICE

Q.How is plant-in-service presented in this case?

A.The balance of the plant-in-service accounts on U S WEST’s MR books (original entry books) totaled about $764.489 million at January 1, 1995 and approximately $820.749 million at December 31, 1995.

U S WEST calculates an average plant-in-service each month throughout the year and then an average of the monthly averages at year end.  U S WEST’s calculation of the year-end average of the monthly averages is about $793.525 million for 1995.  I agree that the average of the monthly averages method is appropriate.

Q.What are the issues with plant-in-service as reported on U S WEST’s books?

A.There are three major issues.  First, the amount reported in the General Ledger for Idaho at December 31, 1995 is not consistent with the detailed records of plant-in-service at the same date.  Second, the detailed records have a 1.89% error factor.  Third, there is fiber cable included in plant-in-service that is not used and useful for Title 61 services.

a.  General Ledger

Q.How do you know that the General Ledger does not match the detailed records?

A.I have a copy of the detailed records for southern Idaho and I also have a copy of the General Ledger for southern Idaho as of December 31, 1995.  The detail records add to $799.779 million and the General Ledger used by Ms. Wright has a balance of $829.451 million at the southern Idaho jurisdictional level.  That makes a difference of $29.672 million.  The overall separations factor for plant-in-service is 68.17%, which means that the $29.672 million above is actually $20.227 million for the southern Idaho intrastate jurisdiction.  This $20.227 million adjustment to plant-in-service is presented on line 3 of Staff Exhibit No. 101, page 4.

Q.Does the calculation of the adjustment to plant-in-service take into consideration the average plant-in-service not just the year-end plant-in-service?

A.The postings to plant-in-service during 1995 appear to be appropriate.  Therefore, the difference between the subsidiary ledger and the General Ledger are an accumulation over several years.  That means that the beginning balance, each monthly balance and the ending balance have the same error.  The calculation of the average consistently carries the error, so the average carries the same error factor.

Q.Does this affect accumulated depreciation or depreciation expense?

A.Depreciation expense is calculated at the balance of accounts in the General Ledger; therefore, there has been excess depreciation recorded during 1995 and probably other years.  Accumulated depreciation is just the sum of depreciation recorded, so that account carries the accumulated error factor.

I have calculated depreciation independently from the General Ledger (Staff Exhibit No. 101, page 7) so that this issue and others that will be discussed later by me and by other Staff witnesses has been removed from the revenue requirement.  I adjusted accumulated depreciation (Staff Exhibit No. 101, page 4) for the amount of depreciation recorded for 1995.  I did not adjust accumulated depreciation for additional years for two reasons.  First, I have no knowledge of exactly how long the error has been affecting the depreciation expense.  Second, adjusting previously recorded depreciation could be retroactive ratemaking.

b.  Error Factor

Q.How did you ascertain that there is a 1.89% error in the detail records for U S WEST’s plant-in-service?

A.I performed an audit of the plant-in-service inventory on twenty-two different central offices in the southern Idaho jurisdictional area.  This represents about one-third of all central offices and 20.45% of the plant-in-service in southern Idaho.  In each office I was accompanied by a U S WEST technical person who was knowledgeable about the equipment.  We had a list for each location detailing the equipment that should have been in service at that location.  In almost every location there was a difference between the actual equipment in service and the detailed records of the plant that should have been in service.  I examined a total inventory of plant-in-service of $163,530,900.  Of that amount I found that there was $3,085,657 in missing equipment.  Therefore, I concluded the error factor is 1.89%.  The missing inventory was not confined to any specific kind of assets or any specific location.  The errors appeared to be human errors of recording the removal of assets no longer in service.  It is appropriate to reduce the plant-in-service amount recorded in the detailed records as booked by $15.116 million ($799,779,111 X 1.89%).  The separations factor for plant-in-service is 68.17%; therefore, the intrastate adjustment amount is $10.304 million (Staff Exhibit No. 101, page 4).

Q.What other accounts does this adjustment to plant-in-service affect?

A.A reduction in plant-in-service related to removals has an impact on both the depreciation expense account and the accumulated reserve for depreciation.  There is an impact on the expense account because there is a lesser amount of assets on which to calculate depreciation, and there is an impact on the accumulated reserve account because the equipment should have been removed from both the asset account and the accumulated reserve at the same time for the same amount.  These adjustments to plant-in-service and accumulated depreciation are shown on line 7 of Staff Exhibit No. 101, page 4.

c.  Fiber Not Used and Useful

Q.Are all the fiber cable assets recorded in plant-in-service actually in service?

A.Not really.  U S WEST Communications’ ARMIS Operating Data Report states that, related to cable and wire facilities for Idaho, there are 123,280 km fiber deployed but only 12,766 km fiber is lit, i.e., used and useful for telecommunications services.  Therefore, only 10.355% of the fiber cable is used and useful.  The rest is plant held for future use (89.645%).

Q.What does “used and useful” mean?

A.Charles F. Phillips, the author of The Regulation Of Public Utilities Theory And Practice (1988 edition at 325) defined the phrase as follows:

Under traditional ratemaking

principles, public utilities are

entitled to recover “prudent”

investments when they become “used

and useful.”...For decades, used

and useful referred to needed

capacity; that is, a determination

as to whether a plant was actually

used in service and was useful in

providing service.  If not, or if

any expenditures were imprudent,

all or any part of the investment

in plant would be excluded from

rate base.

Phillips continues stating that some standards of economic desirability may also be included in a more modern definition of used and useful.

For Title 61 purposes there is no question that current plant-in-service does not need the 89% of additional fiber.  For additional information please see Susan Baldwin’s testimony regarding excess capacity.  Previously this Commission has prevented assets from inclusion in rate base for not being used and useful (Order Nos. 26588, 20267, 22186 and 22347).  Therefore, I recommend that about 89.645% of the plant recorded as fiber be considered plant held for future use and excluded from rate base.

Q.What is the amount of plant held for future use?

A.The Summary Extract Report for Idaho-South lists the following field reporting codes for plant accounts: field reporting code 85C at $9.592 million, field reporting code 845C at $4.616 million, field reporting code 852C at $0.115 million, and field reporting code 862C at $0.108 million all of which add to a total of $14.431 million.  Therefore, there is a total of $12.937 million not used and useful before separations ($14.431 million X 89.645%) and $9.122 million (Staff Exhibit No. 101, page 4, line 10) not used and useful after separations ($12.937 X 70.51%) at the southern Idaho intrastate jurisdiction level.

WORKING CAPITAL

Q.How is working capital presented in this case by Company witness Margaret J. Wright?

A.There are three parts to working capital presented by Ms. Wright:

1.Materials and supplies presented as a separate item in the calculation of rate base with an intrastate Idaho amount of $2.247 million.

2.Interest needed to carry short-term construction work in process - presented as adjustment 5 in “Commission Adjustments” in Company Exhibit No. 25, page 13, line 1, totaling $4.238 million but amounting to $3.773 million at the intrastate southern Idaho level.

3.Cash working capital - presented as a separate negative amount in the calculation of rate base amounting to ($2.071 million) at the intrastate Idaho level.

Q.Please discuss the Company’s working capital presentation by Ms. Wright.

A.Working capital represents the Company’s investment in short-term assets such as materials and supplies and cash to meet current obligations.  This Commission has traditionally required that working capital be calculated using the Balance Sheet method.  In this methodology all of the parts of working capital are included in one calculation, and all of the parts must be present in the Balance Sheet at the time of the calculation.  In this case the Balance Sheet method of calculation is impractical, because U S WEST does not prepare a Balance Sheet that is state specific for southern Idaho.  Therefore, all items on the Balance Sheet of U S WEST Communications, Inc. (the regulated telephone company) must be allocated in some way to southern Idaho at the intrastate level before the working capital calculation.  Ms. Wright chose to separate the various parts of working capital and present each part individually.  The third part of Ms. Wright’s presentation of working capital, working cash, was calculated utilizing a lead/lag study.  That approach, because the other parts had already been removed from the calculation and stated separately, calculated a negative amount for intrastate Idaho of ($2.071 million).

Q.How much working capital is included in rate base as presented by Ms. Wright (Company Exhibit No. 25, page 11)?

A.At the intrastate southern Idaho level the total is $3.949 million.

Q.Do you agree with the working capital amount presented by Ms. Wright?

A.The approach is slightly irregular, but I agree with the result.

Q.Please discuss the additional parts of rate base.

A.Pension Assets were included in the Company’s calculation of rate base as an adjustment proposed by Ms. Wright.  Staff disagrees with this addition to rate base and the issue is discussed in detail by Staff witness Schneider.

Accumulated depreciation is a component of rate base.  With the exception of the specific adjustments presented by Staff in Exhibit No. 101, page 1, line 5, Column e, Staff agrees with the Company’s presentation of accumulated depreciation.

Deferred Income Tax is also a component of rate base where Staff agrees with the Company regarding the amount.  I adjusted Deferred Income Tax by 9%, because that is the ratio of adjustments that I recommend related to plant-in-service.  It is possible that Internal Revenue Service normalization rules require this adjustment.

Customer Deposits are also a part of rate base.  Staff agrees that the amount of the deposits is correct.  Staff would prefer the Company directly assign to Title 61 and Title 62, the amount of the deposit related to each type of service.  However, customer deposits are recorded by customer not the type of services that the customer receives.  Any given customer could and probably does receive both Title 61 and Title 62 services; therefore, allocation of this part of rate base is necessary.

Adjust Average Rate Base (at Staff Exhibit No. 101, page 1, line 8) is an accumulation of adjustments proposed by Ms. Wright that affect several parts of rate base not specifically identified by account.  Staff agrees with those adjustments.

Q.What is the difference between the rate base proposed by U S WEST and that proposed by Staff?

A.U S WEST proposes a rate base of $242.962 million at the southern Idaho intrastate level (Staff Exhibit No. 101, page 1, Column -c-, line 9).  Staff proposes adjustments that net to $57.351 million to arrive at a proposed rate base of $185.611 million before allocation to Title 61 and Title 62.

Q.What is the difference between the Company’s proposed rate base for Title 61 and that proposed by Staff?

A.U S WEST proposes a southern Idaho Title 61 rate base of $154.862 million (see Company Exhibit No. 25, page 1 from testimony of Ms. Wright).  Staff proposes a southern Idaho Title 61 rate base of $79.830 million.  The difference is Staff adjustments and the difference between the allocation methodology proposed by U S WEST and that proposed by Staff.

Q.Do you agree with the reported revenues as presented by U S WEST?

A.Yes, I do for the amounts booked.  I performed audit procedures on the 1995 revenue as part of this case and as a part of the revenue sharing case.

U S WEST presents the revenue for this case at those amounts.

COST ALLOCATION - See Baldwin testimony for additional information.

Q.What are the issues surrounding cost allocation?

A.In this case there are two levels of allocation of great importance: first, the assignment of costs, expenses, and revenues to the southern Idaho jurisdiction, and second, after the amounts related to the southern Idaho jurisdiction have been established, the assignment of costs, expenses, and revenues between deregulated items and services related to Title 61 and Title 62 services.  Staff witnesses Faunce, Schneider and Stockton have addressed the reasonableness of costs assigned and allocated to Idaho operations and have identified costs that should be directly assigned to or away from Title 61 services.  Staff witness Baldwin addresses the allocation of joint and common costs between Title 61 and Title 62 services.

Q.What problems did you find in the Company’s assignment of costs to Idaho?

A.U S WEST does not try to make direct assignment of the southern Idaho specific costs or expenses from any associated company except BRI.  While at BRI some costs are directed to the responsible state, all other affiliates do not directly assign.  Advanced Technologies, U S WEST, Inc., and a separate allocation from U S WEST, Inc. Legal Services do not attempt to directly assign costs to specific states.

Additionally, this assignment issue is compounded because, there is no attempt at any level to directly assign costs or expenses to Title 61 or Title 62 services.  U S WEST’s Cost Accounting Allocation System (CAAS) neither examines documents of original entry nor does it examine detailed transactions to determine a direct assignment to Title 61 or Title 62.  The only direct assignment related to expenses is assigned because the account holding the expenses is Title 62 by definition.  That means, if the total account is not a Title 62 account, there is no attempt to directly assign expenses.

Q.Is revenue allocated the same way?

A.No, revenue is not allocated, but, is directly assigned as billed.

Q.Has this Commission said anything about the cost allocation methodology to be utilized in making cost allocations between Title 61 and Title 62 costs?

A.Yes, although U S WEST has asked for reconsideration (but was denied) the Commission said in Order No. 25826 at page 10 and carried over to page 11:

The following criteria or principles

should be followed in an allocation

method:

1) Title 62 services must not be

subsidized by Title 61 services,

pursuant to I.C. §62-613.

2) Title 62 services must be assigned

a reasonable portion of the common and

joint network costs as well as general

overhead costs.

3) Direct cost assignment must be used

when facilities or other operating

expenses are clearly necessary for only

Title 61 or Title 62 services; when the

level of costs is escalated beyond what

is necessary for Title 61 services alone,

the additional cost should be directly

allocated to Title 62.

Q.In your audit did you review the Company’s cost allocation manuals?

A.Yes, I did.

Q.What do they prescribe?

A.U S WEST has a cost allocation manual titled

“U S WEST COMMUNICATIONS ACCOUNTING SEGREGATION MANUAL.”  That manual Section 1, page 1 states:

The manual assigns cost using the

following casual or beneficial

relationships espoused by the Cost

Accounting Standards Board (CASB):

1.Direct identification of costs

with final cost objectives is required

when the beneficial or casual relation-

ship is clear and exclusive and the

amount is readily measurable.

Additionally, U S WEST has a manual designed to allocate costs to the various jurisdictions titled

“U S WEST COMMUNICATIONS JURISDICTIONAL ALLOCATION MANUAL.”  Section 1, page 1 of this manual states:

USWC first assigns costs directly to

states that cause those costs when

the benefit received is clear and

exclusive.

Q.Does U S WEST actually make direct assignment of costs to the various state jurisdictions?

A.No, it does not.  The IPUC Audit Staff discovered that many of the expenses that appeared to require direct assignment instead of a general allocation were not directly assigned to the state jurisdiction that required the work.  Specifically, the Audit Staff was concerned about legal expenses for sales of exchanges in Arizona, Colorado, Minnesota, North Dakota, and Washington states.  These expenses are extra ordinary and should be associated with the gain on the sale of the exchanges.  The Audit Staff discovered many other costs that should have been directly assigned but were not, such as a Utah PSC investigation into Utah Telephone.  As a result, Staff asked questions about the direct assignment requirements of the cost allocation manuals.  In response to Production Request No. 196, U S WEST responded:

Most legal expenses are incurred

on behalf of the whole corporation,

and are therefore allocated to all

of the states through a headquarters

prorate.  Some legal work is done on

behalf of specific states throughout

the region.  These legal expenses are

also allocated to all of the states

through a headquarters prorate since

extensive tracking would be required

to specifically bill each state.

...The company does not directly

assign many of its expenses at a state

specific basis.

Q.Is it important that U S WEST follow it’s cost allocation manual and the Commission’s criteria?

A.There are several reasons why U S WEST should be required to directly assign costs:

(1) Idaho customers should not be expected to pay for any costs that should be directly assigned to another jurisdiction;

(2) Cost allocations that do not follow the manual are an open invitation to create a result as opposed to achieving a fair allocation;

(3) Customers have a right to expect that their regulated utilities follow accepted procedures related to costs that those customers are expected to cover in rates, and

(4) Idaho Code has unique Title 61/62 features where Title 62 costs and services are not economically regulated.

Staff has found toll services, access charges, custom calling features, billing and collection, and directory assistance costs that should have been directly assigned to Title 62 rather than allocated to both Title 61 and Title 62.  Failure to identify and directly assign costs at the affiliate, headquarters, or corporate level is compounded at the jurisdictional level.  Once costs lose their identity it becomes very difficult to correctly allocate them between Title 61 and Title 62 services.

DEPRECIATION

Q.Have you incorporated the recommendations of Staff witness Selwyn in your calculation of revenue requirement?

A.Yes, I have.  Mr. Selwyn’s recommendations are summarized on Staff Exhibit No. 101, page 7.  They result in a reduction in depreciation expense at the southern Idaho intrastate level of $23.853 million (Staff Exhibit No. 101, page 1, Column -e-, line 30).  Additionally, Ms. Baldwin allocates $14.065 million of depreciation expense to Title 62 services to arrive at depreciation expense related to Title 61 services of $13.514 million.

INCOME TAXES AND GROSS UP

Q.Did you calculate an effective Idaho income tax rate for inclusion in calculating the gross-up factor for income taxes?

A.Yes, I did.  Staff Exhibit No. 101, page 8, details the calculation of an effective tax rate for Idaho state income tax.

Q.Why is an effective income tax rate necessary instead of the 8% statutory rate?

A.There are two different methods of allocating the net income to Idaho, one for income tax purposes and another for regulatory purposes.  For income tax calculation purposes the allocation is at 1.929% as calculated on the actual income tax return.  The overall allocation to Idaho for regulatory purposes I calculate to be 2.51%.  Both allocations start from the same amount at the total Communications company level, but at the state level the amount of net income will be different.  Therefore, the amount subject to the 8% statutory tax rate is less than the amount subject to regulatory “taxation.”  I calculate that the ratio of the actual tax to the regulatory taxable income yields an effective Idaho state income tax rate of 6.1482%.

Q.Has the Commission considered the issue of the difference of the statutory tax rate versus the effective tax rate?

A.Yes, in Order No. 22369, page 8, the Commission said:

This Commission has no authority

to set tax rates or enter compacts

with other States concerning

taxation of multi-state corporations.

It is not claiming to do so in this

or any other Orders.  What it is

claiming, however, is the ability

to recognize as a mater of fact that

state income tax liabilities of

multi-state companies on embedded

or increased revenues authorized

by this Commission differ from

the 8% Idaho statutory rate as a

result of the multi-state tax compact.

Furthermore, this commission is

entitled in its fact finding to

establish rates in recognition

of this fact and is not required by

the multi-state tax compact, the

State Tax Commission or any other

tax law to recognize taxes that are

not as a matter of fact actually paid.

Q.After you have calculated the Idaho State effective income tax rate, how do you use it?

A.I use that Idaho State effective tax rate in the calculation of the gross-up factor (Staff Exhibit No. 101, page 9, line 3).

Q.What is the purpose of the gross-up factor?

A.The gross-up factor calculates how much the gross revenue must be in order for the utility to collect and keep its authorized return after paying income taxes.  For ease of presentation it is more convenient to calculate a gross up that includes both Idaho State and Federal income taxes than it is to make separate calculations for each of the components.  Therefore, I calculate the gross-up factor to be 1.6392 (Staff Exhibit No. 101, page 9, line 11).

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

A.Yes, it does.