

01340

1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION  
2 COMMISSION

3 WASHINGTON UTILITIES AND )  
TRANSPORTATION COMMISSION, ) DOCKET NO. UT-950200  
4 )  
Complainant, ) VOLUME 17  
5 )  
vs. ) Pages 1340 - 1526  
6 )  
U S WEST COMMUNICATIONS, INC., )  
7 )  
Respondent. )  
8 -----)

9 A hearing in the above matter was held at  
10 10:10 a.m. on January 10, 1996, at 1300 South  
11 Evergreen Park Drive Southwest, Olympia, Washington  
12 before Chairman SHARON L. NELSON, Commissioners  
13 RICHARD HEMSTAD, WILLIAM R. GILLIS and Administrative  
14 Law Judge C. ROBERT WALLIS.

15

16 The parties were present as follows:

17 U S WEST COMMUNICATIONS, by EDWARD SHAW and  
DOUGLAS OWENS, Attorneys at Law, 1600 Bell Plaza,  
18 Seattle, Washington 98191 and JAMES VAN NOSTRAND,  
and SHERILYN PETERSON, Attorneys at Law, 411 - 108th  
19 Avenue Northeast, Bellevue, Washington 98004.

20 WASHINGTON UTILITIES AND TRANSPORTATION  
COMMISSION STAFF, by STEVEN W. SMITH and GREGORY  
21 TRAUTMAN, Assistant Attorneys General, 1400 South  
Evergreen Park Drive Southwest, Olympia, Washington  
22 98504.

23 FOR THE PUBLIC, DONALD TROTTER, Assistant  
Attorney General, 900 Fourth Avenue, Suite 2000,  
24 Seattle, Washington 98164.

25 Cheryl Macdonald, Court Reporter

1  
2  
3  
4  
5  
6  
7  
8  
9  
10  
11  
12  
13  
14  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25

APPEARANCES (CONT.)

AT&T, by SUSAN PROCTOR, Attorney at Law,  
1875 Lawrence Street, Denver, Colorado 80202.

DEPARTMENT OF INFORMATION SERVICES, by  
ROSELYN MARCUS, Assistant Attorney General, 1125  
Washington Street Southeast, PO Box 40100, Olympia,  
Washington 98504.

01342

1

I N D E X

2

	WITNESSES:	D	C	RD	RC	EXAM
3	WRIGHT		1343	1373	1391	
	DAWSON	1394	1396	1427		
4	GOBAT	1432				
	EVANS	1444	1446	1457		
5	HAACK	1460	1462	1487		1485 1494
6	VANSTON	1497	1508			
	CHRISTESEN	1513	1515			

7

	EXHIBITS:	MARKED	ADMITTED
8	196	1353	1356
	197	1353	1367
9	200C	1353	1353
	201T, 202-204	1394	1396
10	215T - 219	1432	1434
	190		1439
11	220, 221	1432	1443
	210, 211T	1443	1445
12	212	1443	1456
	213	1443	1450
13	172, 172C		1451
	205T	1460	1461
14	206	1460	1482
	207	1460	1484
15	208	1496	1496
	265T	1497	1499
16	266	1497	1499
	267T	1497	
17	268	1497	1499
	225T, 226	1513	1515
18	227	1513	1515
	228	1513	
19	229	1513	
	230	1513	
20	231	1513	
	232	1513	

21

22

23

24

25

01343

1 P R O C E E D I N G S

2 JUDGE WALLIS: Let's be back on the record,  
3 please, for our January 10, 1996 session in the matter  
4 of docket No. UT-950200, U S WEST Communications. At  
5 the conclusion of yesterday's session staff had  
6 completed its cross-examination of witness Wright, and  
7 public counsel was about to begin. Ms. Wright, I will  
8 just note for the record that you've previously been  
9 sworn and you may resume the stand at this time. And,  
10 Mr. Trotter, the ball is in your court.

11 MR. TROTTER: Thank you.

12 Whereupon,

13 MARJORIE WRIGHT,  
14 having been previously sworn, was recalled as a witness  
15 herein and testified further as follows:

16

17 CROSS-EXAMINATION

18 BY MR. TROTTER:

19 Q. Morning.

20 A. Morning.

21 Q. Ms. Wright, as a general matter would you  
22 agree that normalization type adjustments are  
23 appropriate when test year actual revenue or expense  
24 levels represent abnormally high or low levels which  
25 are not modified or adjusted through any annualization

01344

1 adjustments?

2 A. Within -- I would say that within -- are  
3 you talking about within a test period?

4 Q. Yes.

5 A. I would think that when you take a test  
6 period you may have some abnormally high revenues or  
7 expenses, but we're looking at a representative period  
8 here, and you could also have some low revenues and  
9 expenses, so you really want to look at a  
10 representative period, and you can have some highs and  
11 lows but they balance each other out and you look at  
12 that representative period and say that it would  
13 represent a future period.

14 Q. So if you found an expense in your results  
15 of operations that was abnormally high and was not  
16 expected to continue at that level or was abnormally  
17 low and was not expected to continue at that level you  
18 would just leave it?

19 A. Yes.

20 Q. You have made certain out of period  
21 adjustments in this case; is that correct?

22 A. That's correct.

23 Q. And you did so not because those particular  
24 items were imprudent but rather that they were not  
25 attributable to the test year; is that correct?

01345

1 A. Yes.

2 Q. Would you agree that annualization  
3 adjustments are appropriate when test year actual  
4 revenue expense levels do not fully reflect changes  
5 occurring either during the test year or within a  
6 specified known and measurable period?

7 A. Yes.

8 Q. And you would make such adjustment not  
9 because the as recorded costs were imprudent but  
10 rather that it's important to provide an ongoing  
11 representative level?

12 A. That's correct.

13 Q. So you would agree that in determining  
14 whether costs should be recognized for ratemaking  
15 purposes the prudence of the cost is not the only  
16 consideration?

17 A. That's correct.

18 Q. Like to talk about your restructuring  
19 nonadjustment, I guess. You did in your direct  
20 testimony have an adjustment PFA 9 that was for  
21 restructuring and you've withdrawn that; is that right?

22 A. Yes.

23 Q. And that decreases your revenue deficiency  
24 by?

25 A. Around 13 million.

01346

1 Q. Turn to page 9 of your rebuttal testimony.  
2 And here you testify on the subject of where the  
3 restructuring costs are occurring and that testimony  
4 continues over to page 10 and so on?

5 A. Yes.

6 Q. And your point here is that these types of  
7 costs will be incurred in the future?

8 A. That's correct.

9 Q. And you're not testifying that the test  
10 year level of costs will be recurring each year for  
11 the foreseeable period, are you?

12 A. What I'm stating here is 40 percent of the  
13 restructuring costs are system costs and our system  
14 costs have been increasing around 9 percent on an  
15 annual basis, and we continue to see -- we will  
16 continue to see that in the future. Also, in regard  
17 to severance pay that we have been having severance  
18 payments to employees leaving our business and we  
19 expect those to continue in the future, so I'm saying  
20 that these types of costs will continue in the future  
21 and if anything they will increase.

22 Q. I'm focusing on the types of costs versus  
23 the level of costs.

24 A. And again I'm stating the level of costs  
25 will continue in the future.

01347

1 Q. Take a look at page 10 of your testimony  
2 where you show here, are these total company work  
3 force reductions that you're showing on lines 1  
4 through 5?

5 A. Yes.

6 Q. So these are not Washington intrastate?

7 A. Right.

8 Q. And these are not, as you say later on this  
9 page, these are not -- these have not been offset by  
10 work force additions?

11 A. Right.

12 Q. In other words you have work force  
13 additions but they weren't reflected in these numbers?

14 A. That's correct.

15 Q. Now, with respect to the restructuring  
16 discussion here, your initial adjustment now withdrawn  
17 related to the company's restructuring effort which I  
18 believe began in the fall of 1993; is that correct?

19 A. The actual -- there was another program  
20 that we had in effect. We had a writeoff of some  
21 employee severance pay in 1991 which was in effect in  
22 part of the 1993 time frame, so the real restructuring  
23 costs began in 1994.

24 Q. And when you initiated this new program  
25 -- I think it's called Share the Vision. Is that



01348

1 right?

2 A. Well, again I refer to this particular  
3 adjustment as restructuring. As far as a corporate  
4 goal or some other label --

5 Q. Let me focus on something then apart from,  
6 start a new topic, call it a new topic at least. U S  
7 WEST has a Share the Vision restructuring program,  
8 does it not?

9 A. Well, again, there's many labels probably  
10 put on it. To me Share the Vision is just a sharing  
11 the vision of your company and that could be for  
12 anything.

13 Q. Let's talk about the program under which  
14 the company's board of directors authorized an \$880  
15 million commitment; do you have that in mind?

16 A. Yes.

17 Q. Is that called Share the Vision?

18 MR. TROTTER: May I approach the witness?

19 Q. I would refer you to your response to  
20 public counsel or the company's response to public  
21 counsel data request 884. This is a confidential  
22 document but can I ask you that to agree that the  
23 first page of that document refers to a reference to  
24 dear Share the Vision colleague and refers to an \$880  
25 million reserve commitment?

01349

1           A.     That's correct, but I believe that this  
2     characterization dear Share the Vision colleague is  
3     that we're sharing the vision of what we think the  
4     future of U S WEST will be.

5           Q.     Did prior restructuring programs involve a  
6     top to bottom redesigning of the company?

7           A.     I believe that we've been upgrading our  
8     systems for many, many years, and as far as the  
9     programs themselves it may not have been named in that  
10    manner but it is the same type of event, that in order  
11    to downsize you do have to relook at your systems.  
12    You cannot just downsize without changing the  
13    processes and systems in your company.

14          Q.     Did U S WEST prior to 1992 ever take a  
15    reserve of anywhere in the range of \$880 million for  
16    any specific restructuring effort?

17          A.     I don't have the numbers in front of me,  
18    but I believe no.

19          Q.     Now, it was and is a goal of the company  
20    through its \$880 million program to reduce costs; is  
21    that correct?

22          A.     That's part of the goal.

23          Q.     And it's also part of the goal to develop  
24    new revenue?

25          A.     It would be an indirect effect of what we

01350

1 are doing, yes.

2 Q. Again, I would refer you to the page of  
3 that confidential document, not getting into any  
4 numbers but do you agree that one of the strategic  
5 goals is to develop new revenues?

6 A. Yes. It says develop new revenues 5  
7 percent per year.

8 Q. I didn't ask you the number, but thank you.

9 Q. Turn to your Exhibit 170, and I believe  
10 it's the seventh page of that exhibit you have your  
11 restructuring activities as of year end '95. Do you  
12 see that. It actually contains several years but  
13 that's the title. Do you have that page?

14 A. That is restructure activities as of  
15 January 31, 1995.

16 Q. Yes. Is it true that this shows direct  
17 expenses more than offsetting the expenses savings in  
18 the early years but that trend reverses in the 1997  
19 time frame?

20 A. Yes.

21 Q. And is that the intent of this program, an  
22 intent of this program?

23 A. I can't answer that with a yes or no answer  
24 because as I stated yesterday one of the things you  
25 have to take into context is this is on a U S WEST

01351

1 Communications level and we're talking about  
2 Washington state here, and the experiences that we're  
3 having is we're not necessarily experiencing the same  
4 expense savings that we may have in other states. In  
5 fact the equivalent employees near the end of 1995 are  
6 higher than what they were at the beginning of the  
7 test period, so I think that's why you need to explain  
8 this. This is on a U S WEST Communications level not  
9 on a Washington state specific level.

10 Q. And your monthly equivalent head counts for  
11 U S WEST corporation -- excuse me, U S WEST  
12 Communications -- is higher in September '95 as  
13 compared to year end '94 as well; is that correct?

14 A. I don't have that data in front of me.

15 This shows that as of November '93 U S WEST  
16 C employees were 49,911.

17 Q. Thousand?

18 A. 49,911. At the time of September of '95  
19 the level was 47,841, which is about 2,000 employees  
20 lower. For the state of Washington as of November of  
21 '93 we had 7,582 equivalent employees and at the end  
22 of September '95 we had 7,699, so it's just the  
23 reverse situation.

24 Q. Would you read the figure for December '94  
25 for both U S WEST C and Washington?

01352

1           A.     For U S WEST C the number was 47,466, and  
2 for Washington was 7,287.

3           Q.     And the same numbers for the last figures  
4 you show for December of 1995. Excuse me, would that  
5 be September?

6           A.     Yes, September, and I just read those  
7 previously.

8           Q.     Is the restructuring program working, Ms.  
9 Wright?

10          A.     I'm not an expert in that area. We had a  
11 whole day of testimony from our officers in regard to  
12 our programs, and I really personally cannot tell you  
13 all of -- I would assume that the restructuring is  
14 helping the company, yes.

15          Q.     Is it helping Washington ratepayers?

16          A.     Yes. If it's helping the company it would  
17 be helping the Washington ratepayers.

18                   MR. TROTTER: Your Honor, I did not intend  
19 to offer this exhibit initially, but because of some  
20 of the responses of the witness I feel I should at  
21 this time.

22                   JUDGE WALLIS: Is that a document that has  
23 not been identified?

24                   MR. TROTTER: That's correct and this is a  
25 sheet from the company's response to public counsel

01353

1 request 884 which requested a copy of the Share the  
2 Vision, the transformation document, and this is a  
3 confidential exhibit, and the cover memo on the  
4 response is dated September 17 of '93.

5 JUDGE WALLIS: So the document that you're  
6 distributing now is a confidential document?

7 MR. TROTTER: It has been so labeled.

8 JUDGE WALLIS: The document as described is  
9 marked as Exhibit 200 for identification and I will  
10 ask the reporter at this point in the transcript to  
11 insert the identification of Exhibit Nos. 196 and 97  
12 for identification.

13 MR. TROTTER: 200C, Your Honor.

14 JUDGE WALLIS: 200C. Thank you.

15 (Marked Exhibits 196, 197 and 200C.)

16 Q. Would you accept subject to check that  
17 Exhibit 200C is page 43 from the company's response to  
18 public counsel data request 884?

19 A. Yes.

20 MR. TROTTER: Move the admission of Exhibit  
21 200C.

22 MR. VAN NOSTRAND: No objection.

23 JUDGE WALLIS: 200C is received.

24 (Admitted Exhibit 200C.)

25 Q. Turn to page 12 of your rebuttal testimony

01354

1 and like to discuss your OPEB curtailment loss and,  
2 Ms. Wright, I read your direct and your rebuttal and I  
3 don't think you ever defined what that acronym stands  
4 for, so for the record would you do so now?

5 A. OPEB stands for other post employment  
6 benefits.

7 Q. And you indicate that FAS 106 requires the  
8 immediate expensing of any unamortized transition  
9 benefit obligation attributable to pension eligible  
10 employees who leave the company's employment?

11 A. That's correct.

12 Q. And FAS 106 directs the recognition of post  
13 retirement benefits other than pensions for financial  
14 reporting; is that right?

15 A. Correct.

16 Q. FAS 106 does not contain any provisions that  
17 dictate regulatory treatment of the OPEB curtailment  
18 loss for ratemaking, does it?

19 A. No. Can I clarify that question?

20 Q. Please do.

21 A. The one thing that FAS 106 does state is  
22 that the company is obligated under FAS 106 to  
23 determine whether they do have an OPEB curtailment loss  
24 or gain on an annual basis and we're required to book  
25 it. Now, the regulatory treatment is not stated in

01355

1 that FAS 106.

2 Q. Turn to page 53 of your rebuttal where  
3 you're referring to the sharing adjustment and over on  
4 page 54, line 14, question and answer there, you  
5 indicate that the tax consequences logically flow from  
6 the transaction. Do you see that?

7 A. Yes.

8 Q. And that logical flow is the issue in this  
9 proceeding; is that right?

10 A. Correct. What we actually recorded on our  
11 books.

12 MR. TROTTER: Your Honor, like to mark for  
13 identification Exhibit 196. I believe it has been  
14 marked.

15 JUDGE WALLIS: Has been marked, yes.

16 Q. Do you have that in front of you?

17 A. Yes, I do.

18 Q. And this is your response to our request  
19 881?

20 A. Yes.

21 Q. And that request asked you to show how the  
22 sharing amounts were recognized in sharing  
23 calculations for subsequent AFOR plan years?

24 A. Yes.

25 MR. TROTTER: Move the admission of Exhibit



01356

1 196.

2 MR. VAN NOSTRAND: No objection.

3 JUDGE WALLIS: 196 is received.

4 (Admitted Exhibit 196.)

5 Q. According to the response on page 1 the  
6 sharing dollars which were used to credit the  
7 depreciation reserve account were called sharing in  
8 the calculations; is that right?

9 A. I state the AFOR contains an adjustment  
10 called sharing which include the rate case impacts of  
11 the sharing orders in 1990 and '91.

12 Q. And I apologize for the bad copy here.  
13 Should that be rate case or rate base?

14 A. The rate base.

15 Q. And 1990 was the first sharing year in  
16 which the company shared dollars otherwise payable to  
17 ratepayers to a credit to the depreciation reserve; is  
18 that right?

19 A. 1990 was our first sharing year.

20 Q. And similar sharing effects were recognized  
21 in subsequent years?

22 A. Correct.

23 Q. And none of the sharing calculations in  
24 Exhibit 196 recognized the deferred income tax reserve  
25 consequences which you testified logically flow from

01357

1 the transaction?

2 A. We revised our 1994 sharing when we  
3 discovered the error and corrected that in our 1994  
4 sharing filing.

5 Q. That was the first time?

6 A. Correct.

7 Q. Turn to the last page of this exhibit. The  
8 second to last page of the exhibit for 1994. Do you  
9 see that, the attachment?

10 A. Yes.

11 Q. Where is -- is the adjustment you're  
12 referring to on line 4?

13 A. This was -- this particular adjustment  
14 worksheet was on 3-31-95 we sent a letter to the  
15 Commission. I believe it was in the October time  
16 frame, either September or October making that  
17 revision, and that is not included here.

18 Q. And in U S WEST's original filing in this  
19 proceeding, filing of your testimony and exhibits, the  
20 debit deferred tax reserves were not recognized; is  
21 that correct?

22 A. For the sharing, yes.

23 Q. On page 55 of your rebuttal, you reference  
24 the effects of represcription and sharing on rate base  
25 by referring to your exhibit MJW-5; is that right?

01358

1 A. Yes.

2 Q. If you could turn to that exhibit, which is  
3 now --

4 MR. TROTTER: If Your Honor could help me,  
5 MJW-5.

6 JUDGE WALLIS: That is Exhibit 159.

7 Q. Do you have that exhibit?

8 A. Yes, I do.

9 Q. Was it your intention in this exhibit to  
10 illustrate by example the various entries recorded by  
11 the company to reflect the effect of the sharing  
12 adjustment?

13 A. Yes. It was a very simple example.

14 Q. Double entry accounting essentially  
15 requires accounting entries to result in debits  
16 equaling credits; is that right?

17 A. Correct.

18 Q. Do debits equal credits on your Exhibit  
19 159?

20 A. I do not believe that we have all the  
21 balance sheet entries on this particular page. It's  
22 just a very simple income statement and rate base  
23 entries. It does not -- I would say it does not  
24 include all of the entries, and I would have to sit  
25 down and do a T account to come up with all of those

01359

1 entries.

2 Q. So debits don't equal credits on this  
3 exhibit; is that right?

4 A. Well, associated entry with revenue is  
5 going to be accounts receivable and you're going to  
6 have some taxes payable. You just don't have all of  
7 your -- the piece parts here.

8 Q. So your answer is yes to my question?

9 A. Yes.

10 Q. Does the \$100 shown in the sharing column  
11 on the revenue line represent an increase to revenues?

12 A. No. It's a reversal -- yes, it is an  
13 increase because it's a reversal of the sharing  
14 accrual.

15 Q. Sharing doesn't increase upward any  
16 revenues, does it?

17 A. In the year of sharing you accrue for your  
18 liability, so you reduce your revenues. When we  
19 actually get the record from the Commission we then  
20 make the appropriate entries on our books which would  
21 offset the initial accrual.

22 Q. Where do you show the tax effect of this  
23 revenue entry?

24 A. At the time that we actually receive the  
25 revenue on our books before sharing we would pay

01360

1 current taxes on that revenue.

2 Q. And that's not shown here, is it?

3 A. Right.

4 Q. You also show a negative 35 in the  
5 accumulated deferred tax line. Do you see that?

6 A. Yes.

7 Q. Was that negative 35 -- again this is an  
8 example but conceptually was that flowed through as a  
9 refund to ratepayers as a part of the sharing process?

10 A. No.

11 Q. The company has actually credited revenues  
12 to its customers as part of the AFOR sharing process;  
13 is that right?

14 A. Yes. I believe that we -- there was at  
15 least one year where we had a credit to the customer.

16 Q. And those credits had no deferred income  
17 tax reserve implications, did they?

18 A. No, but I would like to clarify something.  
19 In the 1990 order from the Commission that states that  
20 they were ordering towards depreciation, and they  
21 state, "we believe this action together with U S WEST  
22 contribution"-- that's for depreciation -- "would  
23 produce a ratepayer benefit similar in magnitude to  
24 the negative surcharge benefit discussed later in this  
25 order." So the Commission was saying that because of

01361

1 the -- in regard to depreciation there's a company  
2 matching piece that in essence it compensates the  
3 ratepayer in the same manner as a credit.

4 Q. The credits have no deferred income tax  
5 reserve implications, did they?

6 A. No, but they also don't have any matching  
7 company funds.

8 Q. When using your example in Exhibit 159,  
9 would you agree that when recording a refund of  
10 revenues the company would effectively debit revenues  
11 \$100 and credit cash for \$100?

12 A. When we initially receive the revenues we  
13 receive the cash. We make an accrual at that point to  
14 reduce our revenue and when we get the order we  
15 reverse that accrual. That's not -- when we reverse  
16 the accrual there's no cash involved.

17 Q. So when you do a refund of revenues you do  
18 not debit revenues and credit cash. Is that your  
19 testimony?

20 A. We've collected the cash and we would be in  
21 essence reducing the customer's bills so we would be  
22 receiving less cash from the customer when we put the  
23 credit on the customer's bill.

24 Q. Again, using your example of an approach  
25 here, because these aren't actual numbers that are at

01362

1 issue in this proceeding. We're using this as an  
2 example?

3 A. Right, again, it's an example to compare  
4 what we do entries for represcription versus the  
5 depreciation entries for sharing.

6 Q. I want to talk about the simplified example  
7 where the company refunds revenues it would effectively  
8 debit revenues for \$100 and credit cash for \$100?

9 A. I don't think it's that simple. We've  
10 reversed the accrual on our books for that revenue and  
11 then we would put the credit on the customer's bills  
12 and we would receive less cash from the customer,  
13 because in essence a credit is just reducing the  
14 customer's bill, so, yes, when we actually received the  
15 payment from the customer we would receive less  
16 revenues than if the credit wasn't on the bill.

17 Q. Conceptually, would you agree you would  
18 debit revenues and credit cash?

19 A. Conceptually we will be receiving less  
20 cash, yes.

21 Q. If you debit revenues for \$100 would you  
22 agree that the tax impact would be a \$35 reduction to  
23 current income tax expense with a net effect of \$65?

24 A. I know there are particular tax provisions  
25 for when you can record taxes associated with sharing

01363

1 agreements, and there are specific tax laws, and I  
2 would like to have Julie Dawson respond to that  
3 because I think the year that you actually can take  
4 the tax benefit is -- I'm not sure which year you take  
5 that tax benefit in.

6 Q. Turn to page 72 of your testimony, rebuttal,  
7 and here you're talking about graphs in Mr. Carver's  
8 regarding employee head counts?

9 A. Correct.

10 Q. And Mr. Carver is a public counsel/TRACER  
11 witness in this docket?

12 A. Yes, he is.

13 Q. Isn't it correct on page 57 of Mr. Carver's  
14 direct testimony his graph of Washington employee  
15 counts shows both SITUS basis employees and equivalent  
16 employees?

17 A. I don't have that in front of me.

18 Q. (Indicating).

19 A. Yes, he does.

20 Q. Would you also accept that in Mr. Carver's  
21 schedules C 11 and C 12 and focusing on footnote G in  
22 both schedules he makes an adjustment, a net employee  
23 adjustment, which reflects SITUS and equivalent  
24 employees, I just excerpted it (indicating).

25 A. This is from his --



01364

1 Q. Schedule C 11 from his exhibit --

2 A. Yes. He's showing both SITUS and  
3 equivalent.

4 Q. Turn to page 30 of your rebuttal, and here  
5 you're discussing another public counsel/TRACER  
6 witness, Mr. Brosch, and his testimony regarding  
7 size-based allocators. Do you see that?

8 A. Yes, I do.

9 Q. And am I correct that your testimony that  
10 goes on from page 31 for several pages is intended to  
11 rebut his testimony on page 51 through page 53?

12 A. Yes.

13 Q. And on page 31 of your rebuttal you refer  
14 to lines 3 to 5 size-based allocators being well  
15 recognized with American industry and in the academic  
16 literature?

17 A. Correct.

18 Q. And you go and address that literature in  
19 the next couple of pages?

20 A. Right.

21 Q. You refer first to the SEC. The SEC  
22 does not prescribe accounting for telecommunications  
23 ratemaking, does it?

24 A. No, it does not.

25 Q. You also refer to the CASB. Does that

01365

1 board prescribe accounting for telecommunications  
2 ratemaking?

3 A. No, it does not, but again, I would like to  
4 just clarify my answer that these principles,  
5 accounting principles, are established by different  
6 groups and that is I would think in the regulated  
7 arena that good sound accounting principles would be  
8 something that we would want to follow.

9 Q. And on page 32 you give us a text from CASB  
10 standard 403; is that right?

11 A. That's correct.

12 Q. And that's a three factor formula you show  
13 beginning on line 20?

14 A. Right.

15 Q. U S WEST doesn't use that formula, does it?

16 A. No, it does not.

17 Q. On page 33 --

18 A. Can I clarify that? I do believe that, and  
19 I will let Doug McDonald, he can clarify this, but I do  
20 know that we use various allocators to allocate our  
21 expenses, say, from U S WEST Inc. and they do include  
22 looking at total operating revenues to the total  
23 operating revenues of U S WEST Communications, and I  
24 do think they also look at investment and head count,  
25 so some of these principles are used by U S WEST Inc.

01366

1 to allocate to U S WEST C.

2 Q. This wasn't used in terms of the allocation  
3 of the cost that you're addressing beginning on page  
4 30 of your testimony; is that right? Those are based  
5 on a revenue allocator only?

6 A. This is in regard to executive cost to  
7 subsidiaries. Those are based on total operating  
8 expense.

9 Q. Expense or revenue?

10 A. Expense.

11 Q. On page 33 you're referring to SEC docket  
12 86-11 and you indicate that the SEC has recognized  
13 that where no causation allocator would be available an  
14 overall allocator might be used even though no specific  
15 relationship could be demonstrated; is that right?

16 A. That's correct.

17 Q. Is that the reason that U S WEST uses the  
18 relative size-based allocation factor that you're  
19 talking about here in your testimony?

20 A. I believe so. I didn't write the cost  
21 manual for U S WEST Inc. I don't have all the details.  
22 If you would like more specifics on that maybe Mr.  
23 McDonald can address that question.

24 Q. Your testimony is about using overall  
25 allocation factors; is that right?

01367

1 A. That's right.

2 Q. And the allocation factor that U S WEST  
3 used is what you're addressing in this testimony?

4 A. That's correct.

5 Q. You refer to Exhibit 197 for  
6 identification. Is this a page from your company's  
7 accounting segregation manual? Would you accept that  
8 subject to your check?

9 A. Yes.

10 Q. And this shows four criteria that that  
11 manual uses to guide cost allocation decisions; is  
12 that right?

13 A. Yes.

14 MR. TROTTER: Move for the admission of  
15 Exhibit 197.

16 MR. VAN NOSTRAND: No objection.

17 JUDGE WALLIS: 197 is received.

18 (Admitted Exhibit 197.)

19 Q. On page 80 --

20 JUDGE WALLIS: Excuse me, Mr. Trotter. In  
21 the copying it appears that one of the lines in  
22 paragraph 1 is illegible. Could you read for the  
23 record the next to the bottom line in that section.

24 MR. TROTTER: On section 1?

25 JUDGE WALLIS: Yes.

01368

1                   MR. TROTTER: "As a practical matter  
2 relationships are sought to relate the cost objective  
3 and the cost incurred. The preferable relationship or  
4 cost function is one that helps the predictions of  
5 changes in total cost."

6                   JUDGE WALLIS: Thank you.

7           Q.       Turn to page 80 of your rebuttal, and here  
8 starting on page 79 you're referring to the public  
9 counsel adjustment RSA -- public counsel position  
10 regarding your adjustment RSA 3?

11           A.       Yes.

12           Q.       You state that your booked results of  
13 operations for the test period include all growth in  
14 revenues and loss in revenues that occurred for the  
15 period. Do you see that?

16           A.       Yes.

17           Q.       And what you mean by that is that your  
18 booked results of operations are based upon the  
19 average numbers of customers during the test year and  
20 their related usage?

21           A.       That's part of the question, but I mean  
22 growth in revenues can be new products or services  
23 that we're introducing so there's various factors that  
24 would cause you to have growth in revenues.

25           Q.       And it's based on your average number of

01369

1 customers during the test period? I will withdraw the  
2 question and ask it in a different way. You don't  
3 mean by your testimony here that you took -- let me  
4 start over. Do you mean by your statement that all  
5 growth in revenues and loss in revenues that occurred  
6 for the period as is reflected do you mean by that  
7 statement that booked revenues are based upon approved  
8 tariffs times actual volumes sold in each month of the  
9 test year?

10 A. Yes. I would like to clarify that.  
11 Basically I'm saying that these are the revenues that  
12 were booked on a monthly basis on our books and it's  
13 an accumulation of all those revenues and it includes  
14 growth.

15 Q. And it's actual volume sold times the  
16 tariff rate?

17 A. Correct.

18 Q. And so, for example, a new customer added  
19 in the last month of the test period would cause the  
20 booked results of operations to include only that  
21 customer's usage for that month of the test period?

22 A. It would also include in our booked results  
23 the cost to put in that new access line, and so you  
24 need to look at both the relationship between  
25 increases in revenues and increases in expenses, and

01370

1 so that relationship needs to be both considered, and  
2 we're looking at a representative period here and when  
3 you prepare a test period you try to do a  
4 representative period that will give you the revenues  
5 in that period and the associated expenses.

6 Q. If a customer were connected in the middle  
7 of the test year your booked results would reflect one  
8 half of a year's annual revenue for that customer?

9 A. It would and it would also include the  
10 expenses associated with bringing in that new  
11 customer.

12 Q. The company has not annualized the revenues  
13 associated with all customer growth through the test  
14 year?

15 A. No, and I would like to clarify we do not  
16 annualize the expenses either.

17 Q. Is your rate base higher -- is your rate  
18 base increasing or decreasing going forward?

19 A. Our rate base has been decreasing but  
20 projecting out in the future whether that rate base  
21 will continue to decrease I can't forecast that.

22 Q. On page 82 of your testimony you show a  
23 chart that you created; is that right?

24 A. Yes.

25 Q. And over on page 81 you indicate that that

01371

1 chart includes central office features revenues not a  
2 part of the rate reduction ordered by the Commission.

3 Do you see that?

4 A. Yes, but I would like to read the whole  
5 context here. "Shown below is a graph that  
6 illustrates that Mr. Brosch is proposing to consider  
7 only volume and price level changes for local  
8 service revenue," and then I put in parentheses  
9 "excluding central office feature revenues" because  
10 they were not part of the rate reduction offered by the  
11 Commission that's the rate reduction that we're talking  
12 about here.

13 Q. Isn't it correct that the local revenues  
14 amounts being adjusted by Mr. Brosch included  
15 feature revenues?

16 A. Yes, it is.

17 Q. And your chart does not reflect feature  
18 revenues; is that right?

19 A. That's because there was no rate reduction  
20 in the central office features that we're adjusting  
21 here.

22 Q. So your answer is yes?

23 A. Yes, that's not included.

24 Q. And the graph would look different if it  
25 was included, wouldn't it?



01372

1           A.     Yes, but that's not the point here. The  
2 point is this was adjustment for our rate adjustment  
3 that was ordered by this Commission and they did not  
4 adjust our central office feature prices so it's  
5 really not included -- it should not be included in  
6 this adjustment.

7           Q.     Your feature revenues have increased,  
8 haven't they?

9           A.     I'm assuming they have.

10          Q.     And you're showing also the dashed line is  
11 toll revenue percentage changes; is that right?

12          A.     That's right.

13          Q.     And does this reflect your adjustment RSA  
14 9, the primary toll carrier adjustment?

15          A.     No. It concludes the ICO.

16          Q.     What is ICO?

17          A.     Independent companies.

18          Q.     So this chart does not reflect toll revenue  
19 reductions due to the primary toll carrier are  
20 arrangement approved by the Commission and reflected  
21 in your RSA 9?

22          A.     It doesn't include any of the revenues  
23 before or after. It's exclusively U S WEST C's  
24 intraLATA toll.

25                 MR. TROTTER: Those are all my questions.

01373

1 Thank you.

2 JUDGE WALLIS: Commissioners.

3 CHAIRMAN NELSON: Pass.

4 COMMISSIONER HEMSTAD: I don't have any.

5 COMMISSIONER GILLIS: None.

6 THE WITNESS: Gee, I'm disappointed.

7

8 REDIRECT EXAMINATION

9 BY MR. VAN NOSTRAND:

10 Q. Ms. Wright, if we could turn first to some  
11 of the exhibits that Mr. Trotter discussed with you  
12 this morning. Turning first to Exhibit 197, one page  
13 document which is from the company's cost allocation  
14 manual I believe is how it is described?

15 A. Yes, I do have it here.

16 Q. Looking at the four factors listed at the  
17 top of the page, is it possible to apply each of these  
18 factors in every instance?

19 A. Yes.

20 Q. Turning next to his Exhibit 200C which was  
21 distributed this morning regarding the Share the Vision  
22 plan. In fact the program which Mr. Trotter refers is  
23 called Share the Vision 3; is that correct?

24 A. That's correct.

25 Q. And can you describe how we get to Share

01374

1 the Vision 3 as compared to just Share the Vision?

2 A. I'm assuming there was a Share the Vision 1  
3 and Share the Vision 2 and Share the Vision 3, so if  
4 this is -- again, I can't explain that.

5 Q. And this particular document, according to  
6 Mr. Trotter, was provided in response to public counsel  
7 data request 884; is that correct? I'm going to hand  
8 you a copy of 884. If we could focus for a minute on  
9 some of the other strategic goals identified in Exhibit  
10 200C. The first item is identified as build customer  
11 loyalty; is that correct?

12 A. That's correct.

13 Q. Are you familiar with the goal to achieve  
14 75 percent A CSM ratings?

15 A. Yes, I am.

16 Q. And referring to page 2 of the public  
17 counsel 884, can you describe what else is meant in  
18 terms of the goal of building customer loyalty?

19 A. Well, I will state what this document says.  
20 Says U S WEST Communications is defending its market  
21 by using voice of the customer research to achieve  
22 excellence in customer service as defined by the  
23 customer, equally important designing and operating a  
24 network that ultimately does not fail." And he goes  
25 on to say these changes are managed by four core

01375

1 process teams and he names four teams. And it goes on  
2 to say whenever possible we will improve our existing  
3 processes to meet customer expectations. However,  
4 there are cases where it's clear that no amount of  
5 simple improvement can meet customer needs. That's  
6 when we must completely redesign the process from  
7 scratch using re-engineering techniques to develop  
8 entirely new ways of serving the customer.

9 Q. On the section regarding creating new  
10 centers to provide better service to the customer, what  
11 does the document indicate as far as the goal of  
12 building customer loyalty?

13 A. Again, some of the statements say that the  
14 mass markets and design service fields have the goal  
15 of developing service, delivering service assurance  
16 processes that are uniquely configured to satisfy the  
17 needs of each customer on his or her terms and not  
18 ours. The new customer operations centers will be  
19 created in which all support work for null configured  
20 service delivery and service assurance process will be  
21 carried out.

22 Q. If we could turn for a moment to some of  
23 the issues discussed with Mr. Trautman yesterday. One  
24 of the issues discussed was the system X deferred tax,  
25 in particular Exhibit 167. Could you get that exhibit

01376

1 in front of you, please.

2 A. Yes, I have that in front of me.

3 Q. Is this the only source of information  
4 which staff had to rely on in understanding the system  
5 X deferred tax factor adjustment?

6 A. No. In particular I know this question  
7 came up in the informal earnings investigation that  
8 the staff had. That would have been in the fall of  
9 '94, and I know that we brought the staff to Seattle  
10 and various times they in fact asked this question. I  
11 know one of the staff members asked a question and we  
12 did respond to staff in regard to this and explained  
13 that in November of '93 there was a difference because  
14 in our allocations for deregulated products and  
15 services there was some offsets -- the bottom line was  
16 correct but that it caused some distortions on some of  
17 the lines because we had a large represcription entry  
18 that -- had an entry that went retroactive back to the  
19 beginning of the year. So this was again explained at  
20 various times. We met with the staff many days before  
21 the staff filed their testimony in this case going  
22 through this material.

23 Q. And you sought an opportunity yesterday to  
24 attempt to explain a little bit in more user friendly  
25 language some of the concepts discussed here in

01377

1 Exhibit 167. Could you briefly describe what 167 is  
2 saying regarding the system X deferred tax factor?

3 A. Yes. Again, the way we keep our books is  
4 we have our recorded expenses and revenues and taxes  
5 for the state of Washington and as required by the FCC  
6 we take out the preemptively deregulated products and  
7 services before we have the amount subject to  
8 separation which is then separated between interstate  
9 and intrastate. And if you look at the adjustment in  
10 our test period for preemp deregulated products and  
11 services, our preemptive deregulated products and  
12 services is approximately 5 percent of our operations,  
13 and the bottom line of our taxes if you take all the  
14 puts and takes of the taxes that we removed is  
15 approximately \$2 million. And if you look at our total  
16 taxes as booked \$2 million is approximately 5 percent  
17 of the normalized operating FIT of \$44 million. It's  
18 very reasonable. It's just that in order to produce  
19 the A 61 we had to make some adjustments in certain  
20 lines but they were offsetting, and again, for staff to  
21 pick one line and not consider the other lines that  
22 were offsetting is just not fair and reasonable. The  
23 bottom line is correct. To just pick a piece of it is  
24 not fair.

25 Q. Staff also directed your attention on page

01378

1 2 of Exhibit 167 to the distortive impact depreciation  
2 represcription entries would have on line 159. Can  
3 you provide an explanation for that?

4 A. We're now looking at Exhibit 167, the  
5 second paragraph on page 2?

6 Q. Yes.

7 A. Again, as I just stated, if you look on 159  
8 of our A 61 which we don't have here in front of us,  
9 but you would see a very large number, and also the  
10 offset to that is on line 164, and that's the amount  
11 that staff is disallowing, but again, I would like to  
12 direct you to line 172 which is the total taxes  
13 removed for preemptive deregulated products and line  
14 179. Those numbers are around \$2 million, which is 5  
15 percent of our taxes. So a very reasonable check  
16 would say that if you remove 5 percent of your  
17 revenues and expenses you would remove 5 percent of  
18 your taxes, so the bottom line that we've removed from  
19 our results of operation is fair and reasonable.

20 Q. You indicated yesterday your Exhibit MJW-4,  
21 which is now Exhibit 158, provides an explanation of  
22 this system X deferred tax adjustment, and staff in  
23 particular directed your attention to page 3 which  
24 refers to an amount approximately 50 times larger than  
25 normal. Could you provide an explanation for this

01379

1 discussion in your exhibit?

2 A. Again, staff is referring to line 164, but  
3 if you look at line 159 and 160, you will see the same  
4 distortion. It's very large compared to previous  
5 months and those lines offset each other, and again,  
6 the bottom line is \$2 million which is a reasonable  
7 amount.

8 Q. Turning to the issue of the separation  
9 factor which you discuss on page 24 of your testimony.  
10 This issue involves, if you will recall, the use of  
11 December 1994 data for the separation adjustment  
12 rather than the test period data; is that correct?

13 A. That's correct.

14 Q. And the fact that staff used December 1994  
15 was not the only basis on which your testimony states  
16 that this adjustment is inappropriate; is that right?

17 A. That's right.

18 Q. And what are the other reasons that you  
19 take issue with staff's adjustment?

20 A. Let me get that testimony in front of me.  
21 Some of the other reasons were that we have never used  
22 this type adjustment before -- this is cost study  
23 change. The adjustments for separations that we've  
24 used in the past has been based on FCC mandatory  
25 changes, but again here the issue is staff is



01380

1 stretching out to December of '94 to come up with  
2 allocation factors for intrastate purposes while we  
3 have used the actual 12 months in the test period  
4 which is an average of all of the allocation factors  
5 for the period. And that would be a much more  
6 comprehensive look at overall what the intrastate  
7 factor was, and I think we should be looking at the  
8 usage-based allocators in the test period rather than  
9 going outside the test period.

10           The other issue here at stake is that it  
11 seems to be that staff in some cases goes back four  
12 years, say on capitalization, and uses the previous  
13 four years for the capitalization rate. For overtime  
14 they go back two years and use the previous two years  
15 for the overtime rate and here staff is again jumping  
16 ahead into December of '94 and using allocation  
17 factors for intrastate, and it's very inconsistent.  
18 It seems to be manipulating the revenue requirement  
19 because all of them decrease our revenue requirement.  
20 They're not consistent in how they apply these  
21 changes.

22           Q.     With respect to the issue of the separation  
23 factor would you say generally that one month is  
24 better than 12 months as a reasonable measure of  
25 relative use?

01381

1           A.     Yes, definitely.  These factors do vary  
2 month by month.

3           Q.     Would you say one month is better or 12  
4 months is better?

5           A.     12 months is better, which we have used in  
6 our test period.

7           Q.     If we could look at the rural sales  
8 adjustment for one minute, I believe Mr. Trautman  
9 noted at the time of that transaction the tax  
10 depreciation was not equal to the book depreciation,  
11 that there was a \$5 million difference.  Do you recall  
12 that?

13          A.     Yes.

14          Q.     Do you believe that \$5 million difference  
15 to be unusual?

16          A.     No.

17          Q.     Would you explain how that \$5 million would  
18 arise?

19          A.     Would you repeat the question again.

20          Q.     How do you get a \$5 million difference  
21 between the depreciation for tax purposes versus the  
22 depreciation for booked purposes on the assets involved  
23 in the rural sales?

24          A.     We would always have tax timing difference  
25 between our books and our taxes for tax purposes,

01382

1 because of the lives used for what we book for -- or  
2 what we would pay for taxes versus what we would  
3 actually have on our books.

4 Q. If you could turn to Exhibit 171 for a  
5 moment. And this is the press release issued by the  
6 company with respect to the restructuring.

7 MR. TROTTER: What's the exhibit?

8 MR. VAN NOSTRAND: 171.

9 Q. Do you recall Mr. Trautman directed you to  
10 a line particularly at the very last page of that  
11 exhibit regarding the company's reference to a one  
12 time item. Do you recall that?

13 A. Yes, I do.

14 Q. And could you please describe how this  
15 relates to your position regarding the recurring  
16 nature of this restructuring?

17 A. Again, this is referring to a one-time  
18 charge. My -- I would like to describe the  
19 restructuring expenses and have described them as  
20 ongoing because they are indeed upgrades to our system,  
21 severance pays that we continue to have, retraining of  
22 our employees. These are ongoing expenses that will  
23 continue. Whether they're named restructuring or not  
24 is another question, but the events will still occur.

25 Q. Has the company prior to this had charges

01383

1 to financial statements for similar activities?

2 A. Yes, we have.

3 Q. When was that?

4 A. I believe it was 1991.

5 Q. If you could look at the working capital  
6 issue for a moment, in particular your Exhibit MJW-3,  
7 which is now Exhibit 157. There seems to be some  
8 confusion as far as why this exhibit was included in  
9 your testimony. Could you explain why you included  
10 Exhibit MJW-3 with your testimony?

11 A. MJW-3 was developed from the staff  
12 worksheet that has been used by the staff evidently in  
13 many cases. We developed it to show what the  
14 calculations would be on a Washington state basis  
15 instead of using this calculation. We have done a very  
16 similar approach, a comprehensive approach in that we  
17 have included three items, pension asset, cash working  
18 capital and materials and supplies, and if you take  
19 those three overall items you will have a total working  
20 capital adjustment. Those are the adjustments that are  
21 currently booked for FCC purposes. It's another way of  
22 looking at the calculation as made by the staff and,  
23 again, if you look at the staff calculation and take  
24 the intrastate portion of that that's about \$97 million  
25 and indeed our adjustments, if you combined them all is

01384

1 a lesser amount. We're at about it looks like a little  
2 over 70 million adjustment that we're making to the  
3 rate base, so we felt it was very fair to use the three  
4 adjustments versus including them in a total overall  
5 adjustment as the staff has used in the past, but  
6 again, our three adjustments is an overall package that  
7 shows all of the cash working capital adjustments.

8 Q. Now, in a related point, could you please  
9 refer to Exhibit 174 which was the Commission order on  
10 implementation of FAS 106. On page 7 of that order  
11 the order states that "the Commission finds it  
12 inappropriate to identify one item out of total  
13 investor-supplied working capital and propose an  
14 adjustment without doing a comprehensive review of all  
15 items." Is that what the company is doing in its  
16 working capital calculation in this case?

17 A. Yes. It is looking at all items.

18 Q. So it's responding to the Commission's  
19 statement that you shouldn't just look at the pension  
20 asset alone but you need to look at all working  
21 capital together?

22 A. Yes.

23 Q. Moving on to Exhibit 178, which contains a  
24 reference to the prepaid pension asset. Is it your  
25 testimony that the prepaid assets shown on the balance

01385

1 sheet is the amount of the overfunding of the pension  
2 fund?

3           A.     No. I would like to clarify what I stated  
4 yesterday. The amount that's currently on the  
5 Washington state balance sheet that we're suggesting  
6 to be included in our rate base here is the amount  
7 associated with the pension credit. The amount in the  
8 U S WEST Inc. annual report is an annual look at the  
9 funding status of the plans, so depending on -- it  
10 looks at the accumulated benefit obligations or the  
11 liability to the company and then the fair value of  
12 the plan assets, and so depending on what would happen  
13 in the marketplace this prepaid pension asset could  
14 vary from what we would have on our books. This is  
15 just an annual determination of the status of the  
16 pension fund versus the liability.

17           Q.     While we're on the issue of pension, there  
18 were also a couple of exhibits submitted yesterday  
19 that it was your testimony from prior proceedings,  
20 Exhibit 193 and 194. Would you refer to those,  
21 please. And it was your testimony according to  
22 Exhibit 193 that prior to 1987 the ratepayer and the  
23 shareholder were kept whole. Is that what that  
24 exhibit states?

25           A.     Yes.

01386

1 Q. Is that the case since 1987?

2 A. No. Since 1987 we have booked pension  
3 credits on our books. Again, we were not allowed to  
4 remove that amount from the pension fund because of  
5 tax law so we set up an asset on our books. Pension  
6 asset is shareholder funds and the shareholder should  
7 be allowed a return on that pension asset.

8 Q. Turning for a moment to the capitalization  
9 issue of the benefit expense adjustment. Could you  
10 describe how the capitalization rate is determined on  
11 the company's books?

12 A. The capitalization rate is what is recorded  
13 by our employees. The employees record their work and  
14 their hours and depending on what type of work they do  
15 would determine whether it's capitalized or whether  
16 it's expensed, and if you had more maintenance work you  
17 have more expense on your books. We do not make this  
18 up. This is what's actually recorded on the books.

19 Q. Turning to Mr. Trautman's questions  
20 yesterday regarding your adjustment for the market  
21 research group on page 97 of your testimony. The  
22 question concerned whether the company had petitioned  
23 for special accounting treatment. Do you recall that?

24 A. Yes, I do.

25 Q. And has the company asked for special

01387

1 accounting treatment for the market resource group  
2 other than what was required by part 32 of the FCC  
3 account?

4 A. No.

5 Q. And has the company recently changed its  
6 accounting procedures for the market resource group?

7 A. We have not.

8 Q. Is it your understanding that the  
9 Commission readopted the 1993 version of part 32 and  
10 in the current Washington Administrative Code, the  
11 1991 version?

12 A. Yes. WAC 480-120-031 was effective October  
13 1, 1991 for the accounting rules associated with part  
14 32.

15 Q. Turn for a moment to staff's testimony on  
16 the calculation of the sharing adjustment, in  
17 particular Mr. Twitchell's supplemental testimony,  
18 revised testimony, submitted on March 20. That  
19 testimony suggested \$50 million in excess earnings in  
20 the sharing years would be grossed up so that the  
21 accumulated depreciation reserve would be --

22 MR. TRAUTMAN: Your Honor, is this  
23 testimony in the record yet, Mr. Twitchell's  
24 testimony? To which question is this redirect directed  
25 at?



01388

1                   JUDGE WALLIS: Technically, the exhibit is  
2 not in the record, but in similar circumstances we've  
3 allowed reference to it subject to receiving it later,  
4 and if it is not received then allowing persons to fix  
5 up the record.

6                   MR. TRAUTMAN: To which cross question is  
7 this redirect directed at?

8                   MR. VAN NOSTRAND: It's directed towards  
9 testimony that was filed since Ms. Wright submitted  
10 her rebuttal testimony and to which we have a right to  
11 rebut. The issue is do we get a right to respond now  
12 or do we wait until Mr. Twitchell takes the stand or  
13 recall Ms. Wright in a couple of weeks to do that, but  
14 we have a right to respond to Mr. Twitchell's testimony  
15 to which I'm referring was filed on -- dated on  
16 December 20, was filed on December 29.

17                   MR. TRAUTMAN: Is this referring to what  
18 was in the bench request?

19                   MR. VAN NOSTRAND: Yes. We don't wish  
20 to waive our objection to the admissibility of that  
21 testimony at the time but at the same time we don't  
22 want to have to recall Ms. Wright assuming that  
23 testimony is admitted.

24                   MR. TRAUTMAN: I guess it would be more  
25 efficient to do it now but it wasn't clear to me that

01389

1 it was directed to cross. It appeared to be more a  
2 cross question for Mr. Twitchell. It didn't -- it  
3 wasn't evident to me how it responded to the cross of  
4 yesterday.

5 MR. VAN NOSTRAND: I don't know that it  
6 does. I don't know that I want to represent that it  
7 does.

8 JUDGE WALLIS: The net result is that it  
9 sounds like we're agreed that the question may be  
10 asked today.

11 MR. TRAUTMAN: If the alternative is to  
12 bring Ms. Wright back.

13 Q. Are you familiar with Mr. Twitchell's  
14 revised testimony dated December 20?

15 A. Yes.

16 Q. And on page 6 of that revised testimony he  
17 suggested that the \$50 million in excess earnings in  
18 the sharing years would be grossed up so that the  
19 accumulated depreciation reserve would be reduced by  
20 \$85 million?

21 A. I believe he says that the rate base --  
22 yes. The reserve would be reduced by 85 million, yes.

23 Q. And are there \$85 million in shared amount,  
24 shared earnings to be -- are there \$85 million in  
25 excess earnings to be shared?

01390

1 A. No.

2 Q. Is it appropriate to do what Mr. Twitchell  
3 is proposing to do in his revised testimony?

4 A. No. And I think one of the things that  
5 staff forgets is that there was matching company  
6 dollars associated with this depreciation that we  
7 booked, and that again that was stated in the 1990  
8 order that because the Commission says they believe  
9 that together with U S WEST contribution will produce  
10 a ratepayer benefit similar to a credit, I think when  
11 you look at that \$50 million you really have to look  
12 at what was the ratepayer portion and what was the  
13 company portion, and the company match for '90 and 91  
14 was over \$15 million, actually more than the ratepayer  
15 portion. And so you have to take that in context  
16 instead of -- we do have to book our deferred taxes  
17 associated with these entries, but with the company  
18 match we're showing a very fair benefit here to the  
19 ratepayer versus a credit or one of the other  
20 operations that could have been chosen to use the  
21 sharing dollars for.

22 MR. VAN NOSTRAND: I have no further  
23 questions.

24 MR. TRAUTMAN: Your Honor, we would like to  
25 reserve the right on redirect when Mr. Twitchell takes

01391

1 the stand to address what Ms. Wright has just referred  
2 to.

3 JUDGE WALLIS: Yes. Do you have any  
4 follow-up questions at this time?

5 MR. TRAUTMAN: Yes.

6

7 RECROSS-EXAMINATION

8 BY MR. TRAUTMAN:

9 Q. Can you state the dollar amount that was  
10 charged to the 1991 U S WEST financial statement for a  
11 prior year restructure?

12 A. It was a multi-million number. I don't  
13 have that right at my fingertips.

14 Q. You can't be any more specific?

15 A. No.

16 MR. TRAUTMAN: No further questions.

17

18 RECROSS-EXAMINATION

19 BY MR. TROTTER:

20 Q. Can you give us a range? Was it under \$100  
21 million?

22 A. For some reason the number right now  
23 doesn't come to me. I know it was a very large  
24 number. I remember the announcement being made but I  
25 just can't recall the exact number.

01392

1 Q. Would you accept subject to your check that  
2 in your response to our request 884, page 1 in the  
3 upper right-hand corner, which I think is the page  
4 prior to what your counsel examined you on, company  
5 characterizes the current restructuring program as  
6 massive?

7 A. (No response.)

8 Q. Referring you to the actual document, would  
9 you just read the title on that page unless you  
10 believe it's confidential?

11 A. U S WEST Communication launches --

12 Q. Could you just read it?

13 A. "U S WEST Communication launches massive  
14 customer service improvement plan."

15 Q. Thank you.

16 A. Again, I would like to qualify that by  
17 saying that there's lots of changes going on in our  
18 business. We've been having, you know, major changes  
19 in our business since divestiture and even before, and  
20 just to say that this particular activity, it may have  
21 been slightly larger than some of the other events  
22 that have occurred, but we see massive changes  
23 occurring in the future too, so I don't consider this  
24 change a lot different than all of the other changes  
25 we have been making all along and will continue in the

01393

1 future.

2 JUDGE WALLIS: Are there any further  
3 questions for the witness? It appears that there are  
4 none. Ms. Wright, thank you for appearing. You're  
5 excused from the stand at this time. Let's be off the  
6 record for a moment.

7 (Recess.)

8 JUDGE WALLIS: Let's be back on the record,  
9 please. During the break the company indicated that it  
10 waives the request for confidential as to Exhibit 200.  
11 Is that correct?

12 MR. VAN NOSTRAND: Yes, Your Honor.

13 JUDGE WALLIS: So I will remove the C from  
14 my designation on that exhibit and we will include it  
15 as a regular as opposed to a confidential exhibit.

16 Company's next witness is Ms. Dawson and  
17 I'm going to ask Ms. Dawson to take the stand at this  
18 time and be sworn.

19 Whereupon,

20 JULIE DAWSON,  
21 having been first duly sworn, was called as a witness  
22 herein and was examined and testified as follows:

23

24 JUDGE WALLIS: In conjunction with Ms.  
25 Dawson's appearance we have previously marked four

01394

1 documents, Exhibits 201T through 204, and I will  
2 request that the court reporter insert the designations  
3 for those documents at this point in the transcript.

4 (Marked Exhibits 201T, 202 - 204.)

5

6 DIRECT EXAMINATION

7 BY MR. VAN NOSTRAND:

8 Q. Ms. Dawson, could you state your name and  
9 spell it for the record, please.

10 A. Yes. My name is Julie J U L I E A.  
11 Dawson, D A W S O N.

12 Q. Do you have before you what's been marked  
13 for identification as Exhibit 201-T?

14 A. Yes, I do.

15 Q. Do you recognize that document as your  
16 prefiled rebuttal testimony in this case?

17 A. I do.

18 Q. Was this document prepared under your  
19 direction and supervision?

20 A. Yes, it was.

21 Q. Do you have any additions or corrections to  
22 make to Exhibit 201-T at this time?

23 A. Yes, I do. On page 10, line 18, with my  
24 apologies I've cited a revenue ruling, a private  
25 letter ruling instead. Instead of 93-1300 that cite

01395

1 should read 92-9040 and that's where the quote is  
2 derived.

3 Q. Does that complete your additions or  
4 corrections?

5 A. Yes, it does.

6 Q. As corrected if I asked you the questions  
7 as set forth in 201-T would you give the answers as  
8 set forth in that exhibit?

9 A. I would with the exception that this  
10 testimony was prepared in my capacity as director of  
11 tax planning and research. I am no longer in that  
12 capacity today, but I'm appearing here today in that  
13 capacity so I believe we let it stand.

14 Q. So with that understanding your answer to  
15 the question is yes?

16 A. Yes, it is.

17 Q. You also have before you what's been marked  
18 for identification as Exhibits 202 through 204?

19 A. I do.

20 Q. Were these exhibits prepared under your  
21 direction or supervision?

22 A. Yes, they were.

23 Q. Do you have any additions or corrections to  
24 make to those exhibits?

25 A. No, I do not.



01396

1 Q. Are they true and correct to the best of  
2 your knowledge?

3 A. Yes, they are.

4 MR. VAN NOSTRAND: Your Honor, move  
5 admission of 201-T and 202 through 204.

6 JUDGE WALLIS: There being no objection the  
7 exhibits are received.

8 (Admitted Exhibits 201-T, 202 - 204.)

9 MR. VAN NOSTRAND: Ms. Dawson is available  
10 for cross-examination.

11 JUDGE WALLIS: Mr. Trautman.

12

13 CROSS-EXAMINATION

14 BY MR. TRAUTMAN:

15 Q. Good morning.

16 A. Good morning.

17 Q. I was going to start with a number of  
18 questions that Ms. Wright deferred over to you  
19 yesterday. And the first question is, will you accept  
20 subject to check that an increase to booked  
21 depreciation expense with no increase in revenues has  
22 no effect on current federal income taxes or the taxes  
23 actually paid to the IRS?

24 A. Yes, I will accept that. I would like to  
25 qualify in the sense that the adjustment I'm here to

01397

1 talk about today did have revenues associated with it,  
2 and so on a purely hypothetical matter, yes, that is  
3 correct, but the hypothetical does not apply to this  
4 instance as I see it.

5 Q. Would you agree that if the company had not  
6 received sharing dollars, and this was as defined in  
7 the AFOR agreement -- excuse me, if the company had  
8 not received excess profits as defined in the AFOR  
9 agreement, do you agree that the company's current  
10 federal income taxes would have been less?

11 A. Less than what?

12 Q. Less than what the company paid on the  
13 books with the excess earnings?

14 A. Let me restate the way I understand your  
15 question. Do I agree that if we had not had  
16 additional revenues we would not have paid additional  
17 taxes associated with those revenues? Yes.

18 Q. Do you agree that the excess revenues did  
19 not cause any change to the deferred federal income  
20 taxes?

21 A. They did not. However, the depreciation  
22 entry does.

23 Q. Do you agree that the total reduction to  
24 accumulated depreciation caused by the agreement in  
25 the AFOR is approximately 50.6 million and would you

01398

1 accept that subject to check? And this is according  
2 to the company's response to data request 318 and it's  
3 now -- it's been admitted as Exhibit 164, if you can  
4 have a reference to that?

5 A. If you don't mind my restating again, I  
6 agree that the negotiated -- that the settled upon  
7 amount for the reduction in the depreciation -- the  
8 increase in the depreciation reserve was something in  
9 the range of 50 million, and yes, I would agree subject  
10 to check with your number.

11 Q. And do you agree that this 50.6 million of  
12 depreciation has been received by the company as  
13 excess revenues during the AFOR?

14 A. Has been received by the company?

15 Q. Yes.

16 A. I would agree that we've booked it. I  
17 would say we didn't receive the depreciation. I would  
18 agree that we earned excess revenues of \$50 million  
19 under the revenue sharing arrangement.

20 Q. Do you agree that the company paid  
21 approximately an additional \$17.7 million in current  
22 federal income taxes associated with this \$50.6  
23 million and that is at a tax rate of 35 percent?

24 A. Our taxes are not really computed at 35  
25 percent, but in the most simple case if you presume a

01399

1 tax rate of 35 percent I would agree that if we earned  
2 \$50 million of excess revenues we would have paid an  
3 additional \$17 million of tax.

4 Q. Well, do you agree, then, that the company  
5 did pay this amount or not?

6 A. I would agree that the company relative to  
7 what the company would have paid had they not had the  
8 revenues the company paid at least that much in  
9 additional tax.

10 Q. Do you agree that these current taxes were  
11 included as operating expenses charged in rates to the  
12 ratepayers?

13 A. I really don't know. I don't know the  
14 separations booking of these amounts.

15 Q. Do you agree that if the company now books  
16 depreciation expense of 50.6 million that the company  
17 will be able to reduce its deferred federal -- will be  
18 able to deferr its deferred federal income tax expense  
19 by approximately \$19 million?

20 A. I not only agree that it will be able to,  
21 but I believe that it must.

22 Q. Do you agree that this 19.9 million change  
23 in deferred federal income taxes should flow to the  
24 ratepayers?

25 A. I am really not in a position to say what

01400

1 should happen to that. As a tax professional I don't  
2 make those decisions.

3 Q. Would you agree that the ratepayer should  
4 not be charged this 50.6 million increase in  
5 depreciation expense because they have already paid  
6 for it?

7 A. No, I don't think I would agree to that.

8 Q. And why not?

9 A. Because I'm thinking I probably don't  
10 understand your question but I believe that they had  
11 not already paid for it. Perhaps I need you to  
12 clarify your meaning. If they had paid for it it  
13 would have already been in the accumulated  
14 depreciation reserve.

15 Q. Is it correct that the company has had 50.6  
16 million in excess profits?

17 A. I do not know. It is correct that the  
18 company has had excess profits under the AFOR. I'm  
19 not sure I understand the mechanics of the company  
20 match and the portion that is actually due to the  
21 ratepayers. I believe that a portion of that 50  
22 million under the AFOR plan is a portion we were  
23 entitled to and a portion we were required to refund in  
24 some mechanism.

25 Q. Is the total tax depreciation expense on

01401

1 plant items equal to the total booked depreciation  
2 expense on those same plant items?

3 A. I would say qualifiedly no, and if it were  
4 so it would be serendipitous.

5 Q. How much difference would you expect to  
6 see?

7 A. On a company-wide basis? I would have  
8 absolutely no idea state of Washington. I deal with  
9 numbers at a corporate level and the differences are  
10 quite large.

11 Q. What would cause the difference between the  
12 tax depreciation and the book depreciation?

13 A. Well, any number of things. Are you  
14 talking about accumulated depreciation or current  
15 depreciation? The reference was to one piece of plant  
16 that is depreciated?

17 A. And this is the accumulated amounts at a  
18 point in time or the amounts that are taken as  
19 expense.

20 Q. Over the life of the plant?

21 A. Over the life of the plant?

22 Q. Yes.

23 A. Over the life of the plant you're saying  
24 would I expect booked and tax depreciation to differ?

25 Q. I was asking what would cause the

01402

1 difference and then you indicated a number of items.

2 A. Over the life of the plant the only thing  
3 that would cause the difference is if there were  
4 different capitalization mechanisms going on in the  
5 plant. For instance, perhaps a booked capitalization  
6 of AFUDC equity or perhaps additional tax  
7 capitalization. As a general rule I thought we were  
8 talking about depreciation expense or an accumulation  
9 at a point in time not over the life of the plant. Am  
10 I misunderstanding your question?

11 Q. No, that's fine. These are additional  
12 questions that Ms. Wright deferred to you. Is it true  
13 that the company normalized the taxes on the pension  
14 asset previous to the 1994 sharing?

15 A. I wish she hadn't deferred that to me. In  
16 the state of Washington?

17 Q. Yes.

18 A. I really don't know. I'm sorry.  
19 I can try to answer the question if you would like me  
20 to.

21 Q. If you don't know --

22 A. I really don't know.

23 Q. I would rather you not speculate.

24 These questions were also deferred. They relate  
25 to what was admitted as Exhibit 169, and it was the

01403

1 003 prior period income tax worksheet. Do you have  
2 that exhibit now?

3 A. I do.

4 Q. Referring first to column H of the  
5 worksheet, is it true that lines 4 and 5 of this  
6 column have an adjustment to deferred federal income  
7 taxes?

8 A. Yes. That's true.

9 Q. Is it true that when you record an amount  
10 to deferred income taxes that you must also record the  
11 same amount to accumulated deferred income taxes?

12 A. Yes.

13 Q. And is it true that deferred income taxes  
14 is an account that is included in the income statement  
15 as operating taxes?

16 A. It's true that there is an account in the  
17 income statement that is included in the operating  
18 taxes that is deferred federal income taxes or  
19 deferred income taxes. It's my understanding there is  
20 also a nonoperating account, and I'm sorry to say that  
21 I do not know whether 7250.1 is operating or  
22 nonoperating.

23 Q. Is it true that accumulated deferred income  
24 taxes is a balance sheet account included in the rate  
25 base for regulation purposes?



01404

1           A.     The answer, I believe, would be comparable.  
2 Accumulated deferred income taxes is in fact a balance  
3 sheet account that is included in the rate base. I  
4 believe that there is a segregated deregulated factor  
5 there and I don't know whether it's a separate account  
6 or whether it's done simply by separations.

7           Q.     Is it proper -- do you know whether it is  
8 proper to restate the rate base for an adjustment to  
9 deferred income taxes?

10          A.     To the extent that the adjustment to  
11 deferred income taxes relates to a property item that  
12 is otherwise included in the rate base it is not only  
13 proper, it is required.

14                    May I clarify a minute because I've said  
15 this a couple of times? My testimony that's been  
16 submitted is on a fairly narrow issue and that being  
17 the application of the normalization requirements of  
18 the tax law to the revenue sharing adjustment to  
19 deferred taxes, and the settlement amount related to  
20 the rural exchange sales and that adjustment to  
21 deferred taxes, so when I say it is required what I  
22 mean is it is required to comply with the normalization  
23 requirements of tax law in order to avoid any penalty  
24 that might be associated with a violation of those  
25 requirements.

01405

1 Q. Could you now turn to page 3 of your  
2 rebuttal testimony and this is your testimony  
3 concerning the sharing adjustment, and is it your  
4 testimony on page 3, lines 5 through 9 that the sharing  
5 adjustment should only adjust for the 1990 and 1991  
6 AFOR years?

7 A. No. It's my testimony that that's what I  
8 am addressing. I don't have any idea what years  
9 should or should not be adjusted. I assume that  
10 that's taken care of with the settlement process with  
11 the Commission.

12 Q. Are you aware that the sharing declaration  
13 for the 1993 AFOR year also increased the depreciation  
14 reserve to result in long-term benefits to ratepayers?

15 A. No. I'm not aware of whether that has been  
16 stipulated or not. I don't know that.

17 Q. Would you accept subject to check that the  
18 amount of sharing dollars for 1990, '91 and '93 to  
19 increase the accumulated depreciation expense is 50.6  
20 million?

21 A. Yes.

22 Q. Are you familiar with Ms. Wright's rebuttal  
23 testimony, and this is on page 17, lines 16 through 20  
24 where she states that the staff concluded that the  
25 criteria under which sharing revenues are determined

01406

1 are not inconsistent with the staff recommendations in  
2 the current rate case?

3 A. If you don't mind I would like to look at  
4 it. I've only read segments of her testimony.

5 Q. I see that those words are here. I don't  
6 know what I have to add to them. I'm really not  
7 prepared to testify with regard to the pension asset or  
8 the normalization of taxes. I've done no work on this.

9 Q. Is it your understanding that the AFOR  
10 allowed for the increase of accumulated depreciation  
11 expense but did not address accumulated deferred  
12 taxes?

13 A. Could you repeat that.

14 Q. Is it your understanding that the AFOR  
15 allowed for the increase of accumulated depreciation  
16 expense but did not address accumulated deferred  
17 taxes?

18 A. I think it's my understanding that the AFOR  
19 itself merely addresses possible dispositions of  
20 sharing revenue, and I don't know that I would expect  
21 it to do that in any great detail. I have not read  
22 the AFOR.

23 Q. Is it your understanding that the company  
24 in its original computation of the increase of  
25 accumulated depreciation expense did not address the

01407

1 accumulated deferred taxes?

2 A. It's my understanding our original  
3 schedules inadvertently omitted this, yes.

4 Q. If the company now wishes to recalculate  
5 the depreciation adjustment in the AFOR using your  
6 additional criteria from its original filing, would  
7 you agree that the company should petition the  
8 Commission for that consideration so that all parties  
9 could address that issue?

10 A. No, I would not, but this is strictly in my  
11 capacity as a tax person. I'm not an expert on  
12 process in this area, but to the extent that the staff  
13 and the company agreed to dispense with the net excess  
14 revenues in a certain manner and the fact that they  
15 grossed up that amount for taxes and agreed on a  
16 number that was grossed up leads me to believe that it  
17 was implicit in that computation that people  
18 understood there will be a tax impact, and it was only  
19 by virtue of error that this was not error. I can't  
20 speak for their state of mind at the time.

21 Q. Is it your understanding that deferred  
22 taxes are used to reduce the rate base because the  
23 ratepayers have paid rates that include deferred taxes  
24 as part of the cost of service?

25 A. No, that's not the way that I would word

01408

1 it. It's my understanding that deferred taxes reduce  
2 rate base because they constitute an interest free  
3 loan to the federal government who has provided  
4 accelerated depreciation methods to encourage  
5 investments in plant, and they've merely been deferred  
6 to provide that tax benefit to ratepayers as the  
7 associated depreciation was charged.

8 Q. Referring to your rebuttal testimony on  
9 page 5 at lines 1 through 8, is it true that  
10 depreciation expense of \$50.6 million must be recorded  
11 as an operating expense for ratemaking purposes?

12 A. I do not know. I'm going to assume that  
13 since it was a disposition of excess revenues that  
14 were subject to regulatory jurisdiction that it makes  
15 sense it would be an operating expense but I can't  
16 tell you if it must be.

17 Q. Is it your testimony that ratepayers should  
18 not receive reduced rates because of the tax effect of  
19 writing off excess earnings to accumulated depreciation  
20 expense?

21 A. No. I don't have any testimony that  
22 reflects on whether I think ratepayers should get  
23 reduced rates or not. I assumed that that was all  
24 handled in the settlement negotiations that gave rise  
25 to the depreciation adjustment.

01409

1 Q. How will ratepayers be benefited by your  
2 recommendation if the tariffs are not reduced, the  
3 depreciation expense and the accumulated depreciation  
4 expense are increased, and the deferred taxes and  
5 accumulated deferred taxes are decreased?

6 A. Are we talking about the entry related to  
7 the disposition of excess revenues here?

8 Q. Yes.

9 A. I would presume that the ratepayers are  
10 benefited by virtue of this entry because the rate  
11 base is reduced by the increase to accumulated  
12 depreciation and future depreciation charges are  
13 reduced because a portion of the depreciation has been  
14 absorbed by the excess revenues, and furthermore the  
15 company has provided its own match that has ancillary  
16 effects, effects very much like this and that's how I  
17 would assume the ratepayer would be benefited.

18 Q. Referring to page 4 of your rebuttal  
19 testimony, and is it your testimony that the  
20 Commission cannot increase the accumulated  
21 depreciation expense to adjust for excess earning in  
22 the AFOR and still have the company in compliance with  
23 the IRS code unless the deferred taxes are also  
24 adjusted?

25 A. That is my testimony.

01410

1 Q. Referring now to page 15 of your rebuttal  
2 testimony, the last sentence begins, "If the issue is  
3 treated above the line the consistency requirements  
4 dictate is that there be consistent treatment of  
5 depreciation expense, tax expense and the reserve for  
6 deferred taxes." Do you see that?

7 A. Yes.

8 Q. Now going back to page 5 on lines 2 and 3  
9 you state, "Any adjustment to this reserve,  
10 depreciation reserve, recognizes explicitly or  
11 implicitly a charge for depreciation." Do you see  
12 that?

13 A. Yes.

14 Q. So if there is an adjustment which credits  
15 regulated operating intrastate depreciation reserve as  
16 stated, for example, in the sale of exchanges  
17 settlement agreement, if there was that type of  
18 adjustment, are you saying that implicitly there  
19 has also been a charge to depreciation expense?

20 A. Yes.

21 Q. Would not it follow logically then that  
22 since the depreciation reserve is regulated and  
23 operating that the implied depreciation expense is  
24 also operating?

25 A. One would think so, yes. It's my

01411

1 understanding that that depreciation expense is being  
2 used to absorb the settlement amount or the excess  
3 revenues and that's how I'm viewing this equation,  
4 that this is a charge that offsets an item of revenue  
5 that is also operating revenue.

6 Q. Therefore, is it correct that ratepayers  
7 are literally receiving credit for this implied  
8 depreciation expense as part of their benefit  
9 negotiated in the sale of exchanges settlement  
10 agreement?

11 A. I believe that's true, if I understand your  
12 question correctly.

13 Q. It is true, though, is it not, that in the  
14 sale of exchanges docket that staff took the position  
15 that all of the gain on sale should be passed on to  
16 the ratepayers above the line for ratemaking, but that  
17 through the settlement agreement that concern was  
18 addressed in part by U S WEST's commitment to credit  
19 intrastate depreciation reserves?

20 A. I don't know what are in those dockets. I  
21 haven't read them. I assume that's correct.

22 Q. You would agree that depreciation reserve  
23 and deferred tax reserves are treated as operating for  
24 ratemaking purposes; is that correct?

25 A. At least a portion of them, yes.



01412

1 Q. Therefore, if the depreciation reserve is  
2 an operating expense, the related implied depreciation  
3 expense as you refer to it on page 5, line 3 of your  
4 testimony, is also implicitly above the line; is that  
5 correct?

6 A. Can be, yes.

7 Q. Therefore applying your logic and the  
8 normalization rules of the tax code there must be  
9 consistent treatment of the depreciation expense, tax  
10 expense and the reserve for taxes; is that correct?

11 A. Yes.

12 MR. TRAUTMAN: That's all the questions I  
13 have.

14 MR. TROTTER: I just have a couple.

15

16 CROSS-EXAMINATION

17 BY MR. TROTTER:

18 Q. Ms. Dawson, there were permanent rate  
19 changes under the AFOR plan; isn't that right?

20 A. I'm sorry. I have my little issue and  
21 that's really all I'm prepared to talk about.

22 Q. Turn to page 12 of your testimony.

23 A. Thank you.

24 Q. Maybe I should have referred this to you  
25 first. You say line 6, "This is the first rate filing

01413

1 by the company since the 1990 sharing plan year. All  
2 rate determinations prior to this rate filing have  
3 been consistent with the code." Do you see that?

4 A. Yes.

5 Q. And if you would accept subject to your  
6 check that there were permanent rate reductions  
7 associated with the sharing plan between 1990 and this  
8 test year at issue in this proceeding, why was  
9 compliance with the Internal Revenue code not required  
10 when that occurred?

11 A. I got to tell you I'm not familiar with the  
12 nature of those ongoing reductions to the extent there  
13 were any, and so I can't answer that question without  
14 knowing what type of reductions were in the  
15 incorporated year.

16 Q. Would you please tell me what you meant by  
17 final rate determination?

18 A. I mean an order of the Commission setting  
19 rates going forward, based on a cost of service or  
20 rate of return basis. To the extent that there may  
21 have been a refund of excess revenues I do not view  
22 that as a final rate determination but I don't know. I  
23 have no knowledge of the thing you're talking about, so  
24 I don't know what it is.

25 Q. Well, would you consider a review of the

01414

1 company's earnings under the AFOR and the result being  
2 the Commission ordering a reduction in residential  
3 exchange rates on a permanent basis, not just for the  
4 sharing year not just a credit but rather a permanent  
5 change in a residential rate, would that be a final  
6 rate determination by a regulatory body for purposes  
7 of your testimony on page 12?

8 A. It could be. I don't know. I really would  
9 have to see the nature of the order. I don't know and  
10 I apologize.

11 Q. What types of final rate determinations  
12 fall under the phrase that you use on line 4 of your  
13 testimony?

14 A. As I mentioned it will be an order by this  
15 Commission setting rates going forward.

16 Q. Some questions were deferred by Ms. Wright.  
17 If customers receive a refund would the correct  
18 accounting for tax purposes be to debit revenues for  
19 -- and let's just say 100 is our amount -- debit  
20 revenues for \$100, credit cash for \$100, decrease  
21 current tax expense by \$35 and debit current income  
22 tax liability by \$35?

23 A. I did hear that exchange and in the most  
24 simple possible example, that is, assuming that the  
25 revenue refund is going to be provided in cash in a

01415

1 fairly short period of time, yes, I believe that would  
2 be the answer and ignoring accruals or receivables or  
3 that type of thing. A cash basis.

4 Q. And there's no deferred tax issue  
5 associated with that type of accounting, is there?

6 A. With a refund of revenues, say, tomorrow I  
7 give you a hundred dollars, no.

8 Q. And there's no depreciation reserve impact?

9 A. That's correct.

10 MR. TROTTER: That's all I have. Thank  
11 you.

12 JUDGE WALLIS: I'm going to suggest in  
13 light of the hour that we take our noon recess at this  
14 point. I do have a couple of administrative matters  
15 to talk with counsel about off the record but let's be  
16 in recess. Let's go off the record for scheduling  
17 discussion.

18 (Recess.)

19 JUDGE WALLIS: We'll resume the hearing  
20 itself at 1:30 but we will get together with counsel  
21 to premark exhibits a little bit earlier than that.  
22 We'll determine that time off the record.

23 (Lunch recess taken at 12:05 p.m.)

24

25

01416

1

AFTERNOON SESSION

2

1:30 p.m.

3

JUDGE WALLIS: Let's be on the record,  
4 please, for a pre-hearing marking conference for  
5 exhibits for the next few witnesses. Let me ask  
6 first, are there any additional documents that will  
7 come in through witness Dawson? I am hearing no  
8 affirmative comment. Let's move on to Donald E. Haack,  
9 and his testimony is marked as Exhibit 205T for  
10 identification, and document entitled rebuttal  
11 testimony, and is there any document to be offered  
12 through Mr. Haack?

13

MR. TRAUTMAN: We have two exhibits.

14

JUDGE WALLIS: Could you describe the first  
15 one, please.

16

MR. TRAUTMAN: First one is the company  
17 response to staff request WUT-01-481.

18

JUDGE WALLIS: That document is marked as  
19 Exhibit 206 for identification.

20

MR. TRAUTMAN: And the second one is staff  
21 response to USWC data request No. 7.

22

JUDGE WALLIS: That's marked as 207 for  
23 identification, multi-page document. Mr. Trotter,  
24 do you have any documents for Mr. Haack?

25

MR. TROTTER: No.

01417

1                   JUDGE WALLIS: Any other party have  
2 documents for Mr. Haack? Let the record show that  
3 there is no response.

4                   Let's move on to Judith Hand, and the  
5 company has advised us that because of Ms. Hand's  
6 unavailability Mary Evans will be sponsoring Ms.  
7 Hand's testimony. Let me mark as Exhibit No. 210 for  
8 identification a single page document entitled  
9 background and qualifications of Mary Evans. Marking  
10 as 211T for identification the rebuttal testimony of  
11 Judith Hand. And are there documents to be offered  
12 through Ms. Evans?

13                   MR. TRAUTMAN: Staff has two. It has the  
14 staff data request No. 465 along with two others, that  
15 being the relevant one. Let's be off the record for  
16 just a moment.

17                   (Discussion off the record.)

18                   JUDGE WALLIS: Back on record. I'm marking  
19 as Exhibit 212 for identification a single page  
20 document bearing the designation data request No. 465.  
21 Marking as 213 for identification a document  
22 consisting of multiple pages designated working papers  
23 October 6, 1995, rebuttal testimony of Judith A. Hand.  
24 Public counsel have any documents?

25                   MR. TROTTER: No.

01418

1                   JUDGE WALLIS: Marking as Exhibit 215T, a  
2 multi-page document designated the rebuttal testimony  
3 of Paul E. Gobat. Marking as 216 a document  
4 designated PEG-1 benchmark average. 217 for  
5 identification is document designated PEG-2 variable  
6 pay program. 218 for identification is a document  
7 designated PEG-3 variable cash plans. 219 for  
8 identification is a document designated PEG-4 variable  
9 pay program. Does staff have any documents to be  
10 entered through this witness?

11                   MR. TRAUTMAN: For Mr. Gobat, yes, we have  
12 two exhibits. The first one is the company response  
13 to staff data request WUT-01-416.

14                   JUDGE WALLIS: Single page document as  
15 described is marked as Exhibit 220 for identification.

16                   MR. TRAUTMAN: And the second one is the  
17 company response to data request WUT-01-462 single  
18 page.

19                   JUDGE WALLIS: The document as described is  
20 marked as 221 for identification. Public counsel have  
21 documents for this witness?

22                   MR. TROTTER: No.

23                   JUDGE WALLIS: Do staff or public counsel  
24 have documents relating to the testimony of witness  
25 Vanston?

01419

1 MR. TROTTER: No, I don't.

2 JUDGE WALLIS: Marking as Exhibit 225T a  
3 document designated rebuttal testimony of Ann Koehler  
4 Christensen. 226 for identification is a document  
5 designated AKC-1 resume and 227 for identification  
6 is a document designated AKC-2, '89-94 advertising  
7 revenue. Does staff have documents to be introduced  
8 through this witness.

9 MR. SMITH: Yes. The first is three-page  
10 -- excuse me, two page document marked request No. PC  
11 01-151.

12 JUDGE WALLIS: That document is marked as  
13 Exhibit 228 for identification.

14 MR. SMITH: And the second is a one-page  
15 document. The top has the logo of U S WEST Direct and  
16 it's the Yellow Pages advertising.

17 JUDGE WALLIS: The document as described is  
18 marked as Exhibit 229 for identification.

19 MR. TROTTER: Are you done?

20 MR. SMITH: Yes.

21 MR. TROTTER: We have three data responses.  
22 The first is response to public counsel response 380.

23 JUDGE WALLIS: Let's get that one first.

24 What was the number?

25 MR. TROTTER: 380.



01420

1 JUDGE WALLIS: Marking as 230 for  
2 identification a document designated request No. PC  
3 01-380.

4 MR. TROTTER: The second is a response to  
5 public counsel request 381.

6 JUDGE WALLIS: 231 for identification is  
7 single page document designated request No. PC 01-381.

8 MR. TROTTER: And the last is a response to  
9 public counsel request 991.

10 JUDGE WALLIS: 232 for identification is a  
11 single page document designated request No. PC 01-991.  
12 Anything further for this witness?

13 Moving on to Margaret A. Barrington.  
14 Marking as Exhibit 235T for identification a document  
15 designated rebuttal testimony of Margaret A.  
16 Barrington. 236 for identification is a document  
17 designated MAB-1 Washington staff recommended  
18 disallowance. 237 for identification is a document  
19 designated MAB-2 system operations project. 238 for  
20 identification is a document designated MAB-3 direct  
21 funded project and 239 is a document designated MAB-  
22 4 corporate R and D projected synopses. Does staff  
23 have documents to be entered through this witness?

24 MR. TRAUTMAN: No.

25 JUDGE WALLIS: Public counsel.

01421

1                   MR. TROTTER: Yes. Company response to  
2 public counsel data request 997.

3                   JUDGE WALLIS: Multi-page document  
4 designated request No. PC 01-997 marked as Exhibit 240  
5 for identification.

6                   MR. TROTTER: Is that the only one I handed  
7 out? The second is response to public counsel request  
8 452.

9                   JUDGE WALLIS: Document is marked as  
10 Exhibit 241 for identification. Anything further  
11 for this witness?

12                   MR. TROTTER: No.

13                   JUDGE WALLIS: Let's move, then, to  
14 Lawrence D. McDonald. Marking as Exhibit 21T the  
15 direct testimony of Lawrence McDonald. 22 is a  
16 document designated LDM-1. 23 a document designated  
17 LDM-2. 24 a document designated LDM-3. 25 is a  
18 document designated LDM-4. 26 a document designated  
19 LDM-5. 27 is a document designated LDM-6. 28 is a  
20 document designated LDM-7 and 29 is a document  
21 designated LDM-8. I'm marking as Exhibit 245T for  
22 identification a document designated rebuttal testimony  
23 of Lawrence D. McDonald. 246 is LDM-9 RCW80.16.030.  
24 247 is a document designated LDM-10 Bellcore rate case  
25 result. 248 is a document designated LDM-11 Bellcore

01422

1 proposed disallowance. 249 is a document designated  
2 LDM-12 Bellcore project example. 250 is a document  
3 designated LDM-13 Bellcore benefit analysis and 251 a  
4 document designated LDM-14 November 22, 193 news  
5 release. Does staff have documents to be entered  
6 through Mr. McDonald?

7 MR. TRAUTMAN: Yes, we do, although we do  
8 not have them for distribution yet.

9 JUDGE WALLIS: How many documents?

10 MR. TRAUTMAN: I believe we have nine.

11 JUDGE WALLIS: And public counsel.

12 MR. TROTTER: We have two.

13 JUDGE WALLIS: The first is?

14 MR. TROTTER: Is the deposition of Lawrence  
15 McDonald.

16 JUDGE WALLIS: Marking as Exhibit 261 for  
17 identification a multi-page document designated  
18 deposition upon oral examination of Lawrence McDonald.

19 MR. TROTTER: And the next is the company's  
20 response to public counsel request 1003.

21 JUDGE WALLIS: And a single page document  
22 as described is marked as Exhibit 262 for  
23 identification. Has there been any closure on the  
24 matter of Mr. Vanston's?

25 MS. PETERSON: I think we have an agreement

01423

1 subject to one area that we will want to take up with  
2 the Commission. Just one area of one of their  
3 testimonies that I think is in dispute.

4 MR. SMITH: We've narrowed the dispute  
5 considerably to I think about 20 pages of testimony.  
6 I think we've gone as far as we can with it.

7 JUDGE WALLIS: Very well. When Mr. Vanston  
8 is called we will call attention to the document or  
9 documents that have been identified, and have him  
10 qualified, his name and so on, and then we will ask  
11 counsel to describe exactly what it is that is going to  
12 be offered and exactly what it is that will be objected  
13 to and the basis for the objection.

14 MS. PETERSON: Your Honor, the description  
15 of exhibits that is currently in the exhibit list is  
16 not exactly right probably because they were filed a  
17 little bit funny. Perhaps we could go through now and  
18 get the exhibit numbers accurately marked. For  
19 example, what shows as LVK-6 shows as an exhibit to  
20 the prior testimony when actually it's an exhibit to  
21 the rebuttal testimony.

22 JUDGE WALLIS: What page is that in the  
23 exhibit list?

24 MS. PETERSON: 31. We have a summary that  
25 if Your Honor found it helpful I could pass out. It

01424

1 sort of breaks down the exhibits between what is in  
2 the testimony in this case and what is in the  
3 testimony that has been incorporated from the prior  
4 case or I can just -- if we just walk through them I  
5 can tell you what I think is the proper designation.

6 JUDGE WALLIS: If you have the document I  
7 think it would be helpful to pass it out.

8 MS. PETERSON: Sure. There are two primary  
9 differences. The main difference, what was marked  
10 on exhibit list page 31 LVK-2 substitution analysis is  
11 actually the entire testimony of Mr. Vanston from  
12 docket 940641, and then there are exhibits to that.  
13 There is -- well, actually those exhibits 1 through 5  
14 are all exhibits to the prior testimony and perhaps  
15 the problem is the prior testimony itself has not been  
16 indicated here as Exhibit 2 to the rebuttal testimony.

17 JUDGE WALLIS: So what I hear you saying is  
18 that you have the rebuttal testimony dated October 3.

19 MS. PETERSON: Correct.

20 JUDGE WALLIS: You have one attachment  
21 LKV-1, the resume.

22 MS. PETERSON: Right.

23 JUDGE WALLIS: And LKV-2 should include  
24 the testimony and five exhibits also including a  
25 resume?

01425

1 MS. PETERSON: Correct. That's right.  
2 That may be partly where the confusion came up.

3 JUDGE WALLIS: And then LKV-3 would be a  
4 document designated transforming the local exchange  
5 network.

6 MS. PETERSON: That's right, and it's  
7 currently referred to as LVK-6 on the exhibit list  
8 page 31 and that is not accurate. Should be Exhibit 3  
9 to the rebuttal testimony.

10 JUDGE WALLIS: I am marking as Exhibit 265T  
11 for identification the rebuttal testimony of Lawrence  
12 K. Vanston. Marking as 266 a document designated  
13 LKV-1, Mr. Vanston's resume. Marking as 267 for  
14 identification a document designated LKV-2 consisting  
15 of Mr. Vanston's testimony from proceeding UT-940641,  
16 including the attachments and exhibits to that  
17 testimony. And I'm marking as 268 for identification  
18 a document designated LKV-3 transforming the local  
19 exchange network.

20 Mr. Smith, can you specify at this time  
21 what portion of the document you will be objecting to?

22 MR. SMITH: Ms. Peterson and I have worked  
23 out our differences on Mr. Vanston's testimony, and  
24 she has agreed to withdraw as evidence all of Exhibit  
25 -- what is now marked as Exhibit 267T including the

01426

1 five exhibits, and with that I have no objection to  
2 the testimony and other exhibits of Mr. Vanston.

3 MS. PETERSON: We'll be making an offer of  
4 proof on that.

5 JUDGE WALLIS: Very well. Would it be  
6 feasible to take the offer of proof at the conclusion  
7 of today's proceedings or would you like to do that  
8 whenever Mr. Vanston is on the stand?

9 MS. PETERSON: Whatever is your preference.

10 JUDGE WALLIS: My preference would be to do  
11 it at the end of today when everyone will be  
12 available.

13 MR. TROTTER: Isn't the offer of proof just  
14 the exhibit?

15 MS. PETERSON: Yes, and the statement of  
16 the record.

17 JUDGE WALLIS: Very good. I want to thank  
18 you all and --

19 MS. PETERSON: Your Honor, one other  
20 matter. I was wondering if you want to address Mr.  
21 Easton's identification of exhibits because we have a  
22 very similar problem to that that we had with Mr.  
23 Vanston or if you prefer to wait.

24 JUDGE WALLIS: Due to the hour and the fact  
25 that we're a half hour behind our target anyway, if it

01427

1 doesn't make any difference for today's session my  
2 preference would be to put it off to morning and maybe  
3 give ourselves some extra time in the morning to walk  
4 through it. I do appreciate all the effort that you  
5 undertook to clarify this for us, and that was very  
6 helpful. If you do have a document such as this for  
7 Mr. Easton if you want to pass it on before the end of  
8 the day then we can look at things overnight and that  
9 would help us prep for the session in the morning.

10 MS. PETERSON: We do have one and we'll  
11 pass it out.

12 JUDGE WALLIS: Thank you very much.

13 (Recess.)

14 JUDGE WALLIS: Let's be back on the record,  
15 please, following our noon recess. We had completed  
16 the cross-examination by parties of Ms. Dawson. Let  
17 me double-check and see if the commissioners have  
18 questions.

19 CHAIRMAN NELSON: No.

20 JUDGE WALLIS: It appears that there are no  
21 questions from commissioners. Redirect.

22

23 REDIRECT EXAMINATION

24 BY MR. VAN NOSTRAND:

25 Q. Ms. Dawson, do you recall some questions



01428

1 from staff regarding your testimony at the top of page  
2 16 regarding the consistency requirements as between  
3 depreciation expense, tax expense and the reserve for  
4 taxes?

5 A. I do.

6 Q. Do those consistency requirements govern the  
7 issue of whether or not an item is recorded as  
8 operating versus nonoperating?

9 A. Not strictly speaking. No. Those  
10 consistency requirement really govern the fact that  
11 for ratemaking purposes if you use any kind of  
12 procedure or adjustment that affects tax expense,  
13 depreciation expense or the reserve for deferred taxes  
14 you must use the same procedure or adjustment with  
15 respect to the other two items and with respect to  
16 items in the rate base. The consistency requirements  
17 don't imply that if an item is treated as operating on  
18 one side or nonoperating then all other piece parts  
19 must be operating or nonoperating. It's really a  
20 concept of matching and the integrity of the reserve.

21 What I want to make clear is that when you  
22 make a depreciation entry you must relieve the  
23 operating deferred tax reserves to avoid violating the  
24 normalization requirements, and my testimony I believe  
25 is fairly specific in laying out the fact that it

01429

1 doesn't matter whether your depreciation entry is made  
2 to operating or nonoperating expense. The operating  
3 deferred tax reserve must be relieved and there are  
4 private letter rulings interpreted to this effect.

5 Q. To clarify your testimony on the issue of  
6 the settlement agreement on the sale of rural  
7 exchanges, staff asked you some questions about what  
8 that agreement said, and I think staff specifically  
9 asked you a question as to whether or not the  
10 settlement agreement reflected an agreement as to how  
11 the tax item was to be treated. You're not testifying  
12 about what was said in the settlement agreement  
13 regarding the tax treatment, are you?

14 A. No. I've never seen the settlement  
15 agreement.

16 Q. Your testimony on page 12 which was  
17 discussed with you with Mr. Trotter concerned the  
18 issue of whether or not a final rate determination is  
19 involved. You're aware that there was a rate  
20 reduction order in connection with the 1992 sharing,  
21 aren't you?

22 A. Yes, I am now.

23 Q. And if that rate reduction is not based on  
24 a total cost of service revenue requirement filing,  
25 can it be in violation of the normalization

01430

1 requirements?

2           A.     It's not likely. My testimony on page 2  
3 discusses two different issues, whether or not you  
4 have a final rate determination and whether or not  
5 that rate determination is inconsistent with  
6 normalization requirements. You can have some sort of  
7 rate setting and still not have it be inconsistent  
8 with normalization requirements, particularly if the  
9 rate setting was not based on a cost of service rate  
10 of return formula, and as I understand this rate  
11 setting it was a sharing of the ratepayer share of  
12 excess. We still had plenty of excess in the company  
13 retention to insure that we recognized our authorized  
14 rate of return and covered our costs. That's the way  
15 I understand it right now.

16           Q.     Is it your testimony then if the rate  
17 reduction is merely a payback of the ratepayer's share  
18 it's not necessarily inconsistent with the  
19 normalization requirements?

20           A.     That's correct.

21           Q.     Why generally should the ratepayers care if  
22 the company is in violation of the Internal Revenue  
23 code on these points?

24           A.     If the company were in violation of the  
25 normalization requirements the company would be

01431

1 precluded from the use of accelerated depreciation for  
2 tax purposes on all of its plant from that point  
3 forward which means that there would no longer be any  
4 accumulation in the operating deferred taxes. There  
5 would no longer be any zero cost capital, so I believe  
6 it's in everyone's best interests to see that no  
7 violation occurs.

8 MR. VAN NOSTRAND: I have no further  
9 questions, Your Honor.

10 JUDGE WALLIS: Follow-up questions.

11 MR. TRAUTMAN: No.

12 JUDGE WALLIS: Mr. Trotter.

13 MR. TROTTER: No.

14 JUDGE WALLIS: Anyone? Ms. Dawson, thank  
15 you very much for appearing here today. You're  
16 excused from the stand.

17 MR. VAN NOSTRAND: Your Honor, would there  
18 be any objection if we took Mr. Gobat out of order in  
19 order to get Mr. Gobat and Evans out of here, took Mr.  
20 Gobat and Evans and Mr. Haack after those two?

21 JUDGE WALLIS: No.

22 MR. VAN NOSTRAND: We would like to call  
23 Mr. Gobat next.

24 Whereupon,

25 PAUL GOBAT,

01432

1 having been first duly sworn, was called as a witness  
2 herein and was examined and testified as follows:

3 JUDGE WALLIS: I will ask the reporter to  
4 insert at this point in the transcript the  
5 identification of Exhibits 215T through 221.

6 (Marked Exhibits 215T - 221.)

7

8 DIRECT EXAMINATION

9 BY MR. VAN NOSTRAND:

10 Q. Mr. Gobat, would you state your name and  
11 spell it for the record.

12 A. My name is Paul G. Gobat, P A U L,  
13 G O B A T.

14 Q. Do you have before you what's been marked  
15 for identification as Exhibit 215-T?

16 A. I do.

17 Q. Do you recognize that document as your  
18 prefiled rebuttal testimony in this case?

19 A. Yes, I do.

20 Q. Do you have any additions or corrections to  
21 make to Exhibit 215T?

22 A. Yes. There are a few changes to the  
23 exhibit numbers that are noted in the testimony. On  
24 page 8, line 2 that should be instead of Exhibit 4  
25 that should be Exhibit 1. On page 8, line 18 that

01433

1 should be Exhibit 2 and on line 23 that should be  
2 Exhibit 2 as well. Page 9, line 16 should be Exhibit 3  
3 and on page 10, line 2, that should be Exhibit 4.

4 MR. VAN NOSTRAND: Does that complete your  
5 additions or corrections?

6 A. Yes, it does.

7 Q. As corrected if I asked you the questions  
8 as set forth in Exhibit 215T would you give the  
9 answers as set forth in that exhibit?

10 A. Yes, I would.

11 Q. Do you have Exhibits 216 through 221?

12 A. Yes, I do.

13 Q. Or 216 through 219?

14 A. Yes.

15 Q. Are these exhibits prepared under your  
16 direction and supervision?

17 A. Yes, they were.

18 Q. Do you have any addition or corrections to  
19 make to these exhibits?

20 A. No, I do not.

21 Q. Are they true and correct to the best of  
22 your knowledge?

23 A. Yes.

24 MR. VAN NOSTRAND: Move the admission of  
25 Exhibits 215T and 216 through 219.

01434

1 JUDGE WALLIS: Is there an objection?

2 MR. VAN NOSTRAND: Mr. Gobat is available  
3 for cross-examination.

4 JUDGE WALLIS: It appears that there is no  
5 objection and the exhibits are received.

6 (Admitted Exhibits 215T and 216 - 219.)

7

8 CROSS-EXAMINATION

9 BY MR. TRAUTMAN:

10 Q. Good afternoon.

11 A. Good afternoon.

12 Q. Like to refer first back to a pair of  
13 exhibits for which we were going to ask Ms. Wright  
14 questions and she deferred them to you and they are  
15 Exhibits 189 and 190. 189 is the company's response  
16 to data request 33 -- to staff data request 33. 190  
17 is the company's response to staff data request 34.  
18 Do you have those?

19 A. Yes, I do.

20 Q. Referring to each of these exhibits, does  
21 the response to these data requests clearly  
22 distinguish between team as opposed to merit awards?

23 A. I believe that the attachments to 133  
24 distinguish between team award and merit award.

25 Q. So your responses in Exhibit 189 for that

01435

1 exhibit, the answer would be yes, that they do  
2 distinguish between the two types of awards?

3 A. The attachment A, which I believe is the  
4 1994 management compensation plan for U S WEST  
5 Communications, does not use the term merit awards in  
6 the plan document. Merit awards as the term is used  
7 in the plan is a special compensation pool.

8 Q. With regard to Exhibit 190, does that  
9 response clearly distinguish between team as opposed  
10 to merit awards?

11 A. I am not sure of the request. The request  
12 on 190, there is no such thing as a merit award for  
13 occupational employees that I am aware of.

14 Q. Is that a yes or a no?

15 A. Would you repeat the question.

16 Q. Does the response to the data request in  
17 Exhibit 190 clearly distinguish between team as  
18 opposed to merit awards?

19 A. Yes.

20 Q. Turning to page 4, lines 5 through 8 of  
21 your rebuttal testimony and regarding a U S WEST  
22 management compensation plan you state these plans are  
23 designed to drive behavior and results which directly  
24 contribute to overall USWC goals and strategies that  
25 serve the needs of customers, share owners and



01436

1 employees. Do you see that?

2 A. Yes, I do.

3 Q. Are you proposing that the entire  
4 performance award that was paid to employees be  
5 allowable for ratemaking purposes?

6 A. Yes, I am.

7 Q. On page 4, lines 24 to 25 regarding team  
8 performance awards you state, "the TPA is designed to  
9 reward employees when USWC meets or exceeds its  
10 service and financial goals. Is that your testimony?

11 A. Yes, it is.

12 Q. If financial goals are met but service  
13 goals are not met are employees eligible for team  
14 performance award relating to achieving the financial  
15 goals?

16 A. For which particular year are we speaking?  
17 There's two plans under the test year, the 1993 plan  
18 and the 1994 plan. Under the 1994 plan that is true.

19 Q. And what about under the 1993 plan?

20 A. That is not true.

21 Q. If you could refer to Ms. Wright's rebuttal  
22 testimony this was a question that she deferred to  
23 you. Turning to page 40, and I am referring  
24 specifically to a table on pages 40 and 41?

25 A. Page 40? I'm sorry, Counsel, which page?

01437

1 Q. It's page 40 to 41.

2 A. I see the table.

3 Q. And on that table it shows the breakdown of  
4 team performance work payouts. Does this entire table  
5 pertain to one specific business unit?

6 A. The lines above where it says U S WEST  
7 Communication business unit are USWC business unit,  
8 that particular line there, all of the data above that  
9 refers to U S WEST Communications as a corporate  
10 entity. And that will be --

11 Q. So for all of what's above the words USWC  
12 business unit, did you state that does -- that refers  
13 to one specific business unit?

14 A. No, no. I said that on the U S WEST  
15 Communication net income, the CSM, the quality  
16 indicators and then the lines below quality indicators,  
17 those would be common to all the business units of U S  
18 WEST Communications.

19 Q. Going back to page 5, lines 14 to 17 of  
20 your testimony, and there you quote the Washington  
21 Natural Gas order in docket UG-920840?

22 A. Yes.

23 Q. And speaking of incentive plans you state,  
24 "plans which do not tie payments directly to goals that  
25 clearly and directly benefit ratepayers will face

01438

1 disallowance in future proceedings." Do you see that?

2 A. Yes, I do.

3 Q. And on lines 18 to 19 do you state that  
4 providing good customer service is a criteria for  
5 paying out the incentive awards?

6 A. Yes, I do.

7 Q. And on lines 22 to 23 do you state that the  
8 TPA plan meets these criteria?

9 A. Yes, I did say that.

10 Q. Is the payout of performance awards based  
11 on meeting the goal or setting the goal?

12 A. Would you repeat the question.

13 Q. Is the payout of performance awards based  
14 on meeting the goal or setting the goal?

15 A. They're based on meeting the goal, but if  
16 you note on line 18 the Commission also said that goals  
17 found acceptable included controlling costs as well as  
18 providing goods, customer service and promoting safety,  
19 for example.

20 MR. TRAUTMAN: Before I go further I would  
21 like to go back and move for admission of Exhibits 189  
22 and 190.

23 MR. VAN NOSTRAND: No objection as to 190,  
24 Your Honor. I would like to reserve the right to look  
25 at 189 and determine if the company wishes to add as

01439

1 part of that exhibit attachment A, the cover page has  
2 been included, but I'm not sure how much has been added  
3 to the record by including the response and not any  
4 portion of the facilities, particularly if the exhibit  
5 is being offered for the point of staff not  
6 understanding the difference between team and merit  
7 awards, which is what I understand this data request to  
8 be directed at, Mr. Gobat's testimony is that  
9 attachment A does make that distinction. Like to be  
10 able to reserve the right to make sure we have  
11 attachment A in there so the exhibit serves the purpose  
12 for which it is intended.

13 JUDGE WALLIS: 190 is received and ruling  
14 is reserved on 189.

15 MR. TRAUTMAN: I would not object to that  
16 if they want to add the attachment.

17 JUDGE WALLIS: Very well. Please just  
18 indicate later, Mr. Van Nostrand, what your pleasure  
19 is.

20 (Admitted Exhibit 190.)

21 Q. If you could now refer to what has been  
22 marked as Exhibit 221, and this is the company  
23 response to staff data request 462. Do you have that?

24 A. Yes, I do.

25 Q. And does the first sentence of the

01440

1 company's response read, "there is no specific  
2 criteria for payout of merit awards"?

3 A. That is true.

4 Q. Referring back to your testimony on page 6,  
5 lines 14 to 15 you state, "staff witness Erdahl errs  
6 in assuming that the entire business unit results  
7 component is a financial component." Is that your  
8 testimony?

9 A. Yes, it is.

10 Q. Are you stating that Ms. Erdahl does not  
11 address quality of service with regard to business  
12 units component?

13 A. I did not see anything in Ms. Erdahl's  
14 testimony that says anything about business unit  
15 quality component. In fact, her rebuttal testimony,  
16 her revised testimony of December 29, I believe,  
17 revises her original testimony and does include --  
18 does make some corrections to her original testimony  
19 and appears to indicate that she has taken into  
20 account the business unit quality portion. She did  
21 not make any changes to the numbers based on that, but  
22 it appears that she did at least understand that the  
23 business units may have a quality portion of their --

24 Q. So is that a yes or no to the question are  
25 you stating that Ms. Erdahl does not address quality of

01441

1 service with regard to business unit component?

2 A. I believe that she did not in her original  
3 testimony.

4 Q. Is it true that if quality of service  
5 decreases that this will affect the financial  
6 situation of the company?

7 A. That would call for a personal opinion on  
8 my part, and I believe if quality of service declines I  
9 would expect the financials to decline as well.

10 Q. Is there a component of the business unit  
11 performance award payout that relates to quality of  
12 service?

13 A. Yes.

14 MR. TRAUTMAN: I would move for admission  
15 of Exhibit 221.

16 MR. VAN NOSTRAND: No objection.

17 Q. Turning now to what's been marked as  
18 Exhibit 220, and this is the company's response to  
19 staff data request 416, dated July -- does not have a  
20 date. It reads, the request states, "please identify  
21 the test year amount of any pay incentive, team awards  
22 and bonuses which were awarded on the basis of service  
23 quality in Washington," is that correct?

24 A. That's correct.

25 Q. And you agree the response states that "U S

01442

1 WEST Communications does not segregate or single out a  
2 geographic region when paying out incentives, team  
3 awards or bonuses"?

4 A. U S WEST does not calculate the team  
5 performance award. Let me rephrase. It calculates --

6 Q. Do you agree that that's what the response  
7 says?

8 A. I agree that's what it says.

9 Q. Would you agree that there are incentives,  
10 team awards and bonuses included in the test year on a  
11 Washington state and Washington intrastate basis?

12 A. Would you rephrase the question, please.

13 Q. I can repeat it.

14 A. Would you repeat it.

15 Q. Would you agree that there are incentives,  
16 team awards and bonuses included in the test year on a  
17 Washington state and Washington intrastate basis?

18 A. I'm not sure I understand the question.

19 Q. You can't answer that yes or no?

20 A. If you are asking whether the expenses --  
21 if you're asking that the team award payments that  
22 we've paid out are in the 1993 and 1994 test years I  
23 would say yes, if that's what you're asking, but I'm  
24 not sure what you're asking.

25 Q. That's fine.

01443

1 MR. TRAUTMAN: I will move for admission of  
2 Exhibit 220.

3 MR. VAN NOSTRAND: No objection.

4 JUDGE WALLIS: Exhibits 220 and 221 are  
5 received.

6 (Admitted Exhibits 220 and 221.)

7 MR. TROTTER: No questions.

8 JUDGE WALLIS: Commissioners.

9 CHAIRMAN NELSON: No.

10 COMMISSIONER HEMSTAD: No.

11 COMMISSIONER GILLIS: No.

12 JUDGE WALLIS: Mr. Van Nostrand.

13 MR. VAN NOSTRAND: No redirect.

14 JUDGE WALLIS: Mr. Gobat, thank you very  
15 much for visiting with us today and you're excused  
16 from the stand.

17 Whereupon,

18 MARY EVANS,

19 having been first duly sworn, was called as a witness  
20 herein and was examined and testified as follows:

21 JUDGE WALLIS: Going to ask that the court  
22 reporter insert at this point in the transcript the  
23 identification of Exhibits 210 through 213.

24 (Marked Exhibits 210 - 213.)

25 (Recess.)



01444

1                   MR. VAN NOSTRAND: Your Honor, by way of  
2 effecting the substitution of witnesses, on page 1 of  
3 Exhibit 211T we would delete lines 2 through 4 and 7  
4 through 15 and then in effect substitute Exhibit 210  
5 which states the background and qualifications of Ms.  
6 Evans.

7                   JUDGE WALLIS: Correction is noted.

8                   MR. VAN NOSTRAND: And then I believe an  
9 additional correction would be on page 2, the answer  
10 on lines 8 through 18, strike that except for the word  
11 "yes" on line 8.

12

13                                   DIRECT EXAMINATION

14 BY MR. VAN NOSTRAND:

15           Q.     Ms. Evans, could you state your name and  
16 spell it for the record, please.

17           A.     Yes. Mary, M A R Y, Evans, E V A N S.

18                   JUDGE WALLIS: Excuse me, Mr. Van Nostrand,  
19 I'm having trouble hearing you. If you could pull the  
20 Mike up a little bit closer I would appreciate it.

21           Q.     Do you have before you what's been marked  
22 for identification as Exhibit 211T?

23           A.     Yes, I do.

24           Q.     Do you recognize that as the rebuttal  
25 testimony of Judith Hand which you are adopting for

01445

1 purposes of this proceeding?

2 A. Yes.

3 Q. And do you have any additions or  
4 corrections to make to that testimony other than as we  
5 just discussed?

6 A. No, I do not.

7 Q. Do you understand that your Exhibit 210  
8 stating your background and qualifications will be  
9 substituted for the background and qualifications of  
10 Ms. Hand on page 1 of that testimony?

11 A. Yes.

12 Q. And if I asked you the questions set forth  
13 in Exhibit 211T today, would you give the answers as  
14 set forth in that exhibit?

15 A. Yes.

16 MR. VAN NOSTRAND: Your Honor, move the  
17 admission of Exhibit 211T and Exhibit 210.

18 JUDGE WALLIS: Is there any objection?  
19 There being no objection those exhibits are received.

20 (Admitted Exhibits 210 and 211T.)

21 MR. VAN NOSTRAND: She is available for  
22 cross-examination.

23

24 CROSS-EXAMINATION

25 BY MR. TRAUTMAN:

01446

1 Q. Good afternoon, Ms. Evans.

2 A. Good afternoon.

3 Q. Could you turn to page 3 of Ms. Hand's and  
4 now I guess your rebuttal testimony, and starting at  
5 line 8 of the testimony you state, "staff mistakenly  
6 claims that U S WEST has not tracked the revenue  
7 contribution for most of its advertising revenue." Do  
8 you see that testimony?

9 A. Yes, I do.

10 JUDGE WALLIS: Excuse me, did you mean to  
11 say expense rather than revenue.

12 Q. Advertising expense. With that correction,  
13 do you see that?

14 A. Yes.

15 Q. And I believe Ms. Wright yesterday deferred  
16 questions on what has previously been marked as  
17 Exhibit 172, which is the company response to staff  
18 data request 169. I believe you're the appropriate  
19 witness to answer that question. It pertains to  
20 advertising?

21 A. All right.

22 Q. Do you have that?

23 A. I don't have that. Yes, I do now.

24 Q. Did the company supplement or change its  
25 response to this data request during this case?

01447

1 A. Yes.

2 Q. So it is true that this response was the  
3 information that the company had provided to the  
4 parties regarding product advertising costs prior to  
5 the filing date of staff's testimony; isn't that  
6 correct?

7 A. Yes.

8 Q. Turning to data request 169, can you please  
9 read for me item C, D and E in the request portion.

10 A. Just one moment.

11 Q. It's on the first page.

12 A. I see. See Exhibit 11, Exhibit 10, this  
13 data is not --

14 Q. No. Looking at the request, do you see  
15 that the request on item C states "provide a copy of  
16 the advertising materials?"

17 A. Yes.

18 Q. And it did states, "identify any  
19 expenditures which were allocated and the basis for the  
20 allocation"?

21 A. Yes.

22 Q. And E states, "provide any documentation  
23 showing how regulated revenues changed as a result of  
24 the advertising."

25 A. Yes.

01448

1 Q. And is it true that the response to the  
2 request provided information for four segments of the  
3 business in four separate attachments?

4 A. Yes.

5 Q. And is it true that in attachment A of the  
6 exhibit the company did provide revenue information  
7 for business and government services?

8 A. Yes.

9 Q. Now, turning to attachment B to the  
10 response to data request 169 regarding home and  
11 personal services, and in response to question E which  
12 was provide any documentation showing how regulated  
13 revenues changed as a result of the advertising, is it  
14 not correct that the answer to E is "this data is not  
15 available"?

16 A. Yes.

17 Q. And turning to attachment C to the response  
18 to this data request dealing with public access lines  
19 and pay phones, is it also true that the response to  
20 question E was, "The revenue impacts were not tracked  
21 for this advertising. This advertising was to promote  
22 brand awareness. The results were compiled rather  
23 than revenue impacts."

24 A. Yes.

25 Q. Turning to attachment D regarding the small

01449

1 business group, is it correct that the company's  
2 answer was revenues are not tracked to advertising?

3 A. Yes.

4 Q. So for three of the four segments of  
5 service that this data request response addressed, the  
6 company's answer to staff is that the data is not  
7 available or that the revenues related to the  
8 advertising were not tracked; is that correct?

9 A. At this request time, yes.

10 Q. And the response was not updated? You  
11 previously stated that as well?

12 A. The response was updated.

13 MR. VAN NOSTRAND: If you listen to her  
14 answer she did say that the response was updated. She  
15 answered yes to that question.

16 Q. What time was that updated?

17 A. October 6.

18 Q. Turning to your testimony on page 6 you  
19 listed several consumer and business promotions which  
20 are part of the total company budget for advertising.  
21 You also listed expenses and revenues which the  
22 company claims was produced from the advertising?

23 A. That's correct.

24 Q. Did you provide work papers to support the  
25 dollar amounts shown on the table on page 6?

01450

1 A. Yes.

2 Q. And do the work papers filed -- do the work  
3 papers filed support each expense and revenue amount  
4 shown on page 6?

5 A. To the best of my knowledge.

6 Q. To the best of your knowledge they all do?

7 A. The working papers I was just introduced  
8 to.

9 Q. But to the best of your knowledge they do  
10 and they have been previously identified as I don't  
11 have the exhibit?

12 A. 213.

13 MR. TRAUTMAN: I would move for admission  
14 of Exhibit 213.

15 MR. VAN NOSTRAND: No objection.

16 JUDGE WALLIS: 213 is received.

17 (Admitted Exhibit 213.)

18 JUDGE WALLIS: Let's be off the record for  
19 just a moment.

20 (Recess.)

21 JUDGE WALLIS: Let's go ahead and designate  
22 Exhibit 213 as 213C.

23 MR. VAN NOSTRAND: Portions of 172 are  
24 confidential as well so it should be 172C.

25 JUDGE WALLIS: My notes indicate that 172

01451

1 has not yet been offered but what I would like to do,  
2 if it is offered, is separate the confidential  
3 portions from the public portions and receive the two  
4 as 172 and 172C if that would be acceptable to the  
5 parties.

6 MR. VAN NOSTRAND: Okay.

7 JUDGE WALLIS: Thank you. Excuse me for  
8 interjecting.

9 MR. TRAUTMAN: I would move for admission  
10 of Exhibit 172.

11 MR. VAN NOSTRAND: No objection.

12 JUDGE WALLIS: 172 is received subject to  
13 the segregation of the public and the confidential  
14 portions, and it will be received as 172 and 172 C.

15 (Admitted Exhibits 172 and 172C.)

16 MR. VAN NOSTRAND: Your Honor, is it our  
17 task to make that segregation?

18 JUDGE WALLIS: Yes.

19 MR. TRAUTMAN: Your Honor, Exhibit 213 was  
20 admitted.

21 JUDGE WALLIS: Yes.

22 Q. Looking at the testimony on page 6 and in  
23 particular the line that states "in state long  
24 distance," can you list the work papers for which the  
25 totals on the work papers will add up to the line



01452

1 totals on page 6?

2 A. As a consumer promotion I'm not that  
3 familiar with it, but if I can go through this.

4 Q. How long will that take you to do that?

5 A. It shouldn't take too long.

6 JUDGE WALLIS: Ms. Evans, I'm having a  
7 little bit of trouble hearing you and I wondered if  
8 you would pull the mike as close as you're comfortable  
9 with?

10 A. I don't know if they are in this packet of  
11 information.

12 Q. Looking at the total of expenses on line 6  
13 of your testimony and the total of expenses listed is  
14 \$6,875,206?

15 A. That's correct.

16 Q. Are all of these amounts included in the  
17 books in account 6613?

18 A. I don't know that.

19 Q. Again, on page 6 of your testimony, are the  
20 expenses that you listed for promotions total company  
21 or intrastate amounts?

22 A. Total company.

23 Q. And what about the dollar amounts provided  
24 in the response to data request 169 which is Exhibit  
25 172, is that total company or intrastate?

01453

1 A. That is intrastate.

2 Q. Would you accept subject to check that the  
3 total amount of advertising expense shown in account  
4 6613 is over \$10 million for the test year on a total  
5 company basis?

6 A. Not having that in front of me if that's  
7 what you would say. However, that would probably be  
8 including all of advertising, informational and other  
9 units that would not be reflected here.

10 Q. So the list of revenues and expenses does  
11 not include all of the advertising expenses included  
12 in account 6613?

13 A. I'm not familiar with account 6613.

14 Q. As for promotional advertising, that's the  
15 account. Are you familiar with that account?

16 A. I wasn't familiar with the account number.

17 Q. Are you familiar with that account?

18 A. No.

19 Q. So do you know why the company did not  
20 include the expense and associated revenues for the  
21 other three and a half to four million dollars in  
22 advertising expenses in that account?

23 A. It was my understanding that the request --  
24 I assisted Ms. Hand in putting this together -- that  
25 she was putting it together for the communications

01454

1 side which would be the small business, consumer, home  
2 office and large business.

3 Q. Other than the listing of the figures in  
4 the exhibit on page 6, is there documentation to back  
5 up those figures?

6 A. For expenses for both --

7 Q. For revenues and expenses, for both?

8 A. I believe Ms. Hand put those figures  
9 together as a result of numbers in Exhibit 213C.

10 Q. But you're not able to explain those  
11 figures.

12 MR. VAN NOSTRAND: Objection. She stated  
13 she was not able to explain them on the stand. She  
14 indicated she would be willing to provide that but she  
15 was unable to put the numbers together on the stand.  
16 Not a fair reading of her prior response.

17 MR. TRAUTMAN: Well, this was related again  
18 to my question of why the company did not include the  
19 expense in the associated revenues for the other 3.5  
20 to \$4 million in advertising expenses in that account  
21 and then the witness referred to Exhibit 213.

22 Q. I wanted to clarify that you have not  
23 documented that, that would explain the discrepancy?

24 A. No, I have not documented that. In account  
25 6613 for promotional advertising my assumption would

01455

1 be that there would be other entities that would be  
2 representative in that category.

3 Q. And are you familiar with staff data  
4 request 465? And I believe that's been marked as  
5 Exhibit No. --

6 MR. TRAUTMAN: Is it 212?

7 JUDGE WALLIS: 212.

8 Q. -- 212.

9 A. Yes. I just received this.

10 Q. And subject to check, would you agree that  
11 this data request was sent to the company on October  
12 10 of 1995 with a due date of October 24, 1995?

13 A. Yes.

14 Q. And what was the company's response to this  
15 data request?

16 A. I don't know.

17 Q. Would you accept that it was never  
18 responded to?

19 A. I can't answer that.

20 Q. On page 6 again of your testimony you list  
21 a number of promotions for consumers and business. Do  
22 any of these promotions include nonregulated products  
23 or services?

24 A. The one that stands out would be voice  
25 messaging.

01456

1 Q. And that stands out as a nonregulated  
2 service?

3 A. Yes.

4 Q. If it's a nonregulated service would you  
5 agree that it should not be included as an expense for  
6 determining the company's revenue requirement?

7 A. Yes.

8 Q. When you referred to voice messaging would  
9 that also include the business voice messaging under  
10 small business promotions?

11 A. Yes.

12 Q. That again would be nonregulated?

13 A. Yes.

14 MR. TRAUTMAN: No further questions: I  
15 have to move for the admission of Exhibit 212.

16 MR. VAN NOSTRAND: No objection.

17 JUDGE WALLIS: 212 is received.

18 (Admitted Exhibit 212.)

19 JUDGE WALLIS: Mr. Trotter, you have no  
20 questions.

21 MR. TROTTER: Correct.

22 JUDGE WALLIS: Commissioners.

23 CHAIRMAN NELSON: No.

24 COMMISSIONER HEMSTAD: No.

25 COMMISSIONER GILLIS: No.

01457

1 JUDGE WALLIS: Mr. Van Nostrand.

2

3 REDIRECT EXAMINATION

4 BY MR. VAN NOSTRAND:

5 Q. Ms. Evans, just going back briefly to  
6 Exhibit 172 which you have before you and the  
7 company's response which indicated that those revenues  
8 were not tracked, and your testimony which tracks  
9 incremental revenues and expenses related to  
10 particular programs, would you reconcile your  
11 testimony with the response given by the company in  
12 the earlier data request?

13 A. Yes. In the first request, when it was  
14 asked if we track revenues by advertising the request  
15 came through the advertising group. The advertising  
16 or marketing communications group in any one of these  
17 entities is not the depository of tracking, and from a  
18 tracking standpoint the advertising that was being  
19 referred to as far as the positioning of the small  
20 business group could not be tracked back on a per  
21 product basis, as it was general awareness of a new  
22 group that was coming in to U S WEST, small business  
23 group, so people could not actually go back and track  
24 revenues, and from an advertising standpoint I don't  
25 know anyone who can dollar for dollar, when you build

01458

1 in general awareness or product knowledge, are able to  
2 track that in detail. Product promotions are  
3 generally tracked by, A, the product manager if it's  
4 an individual product organization or if it's multiple  
5 project by a project leader, and after going back and  
6 resurrecting that information that's where we obtained  
7 it.

8 Q. Would you also say there was a distinction  
9 between tracking revenues for handling the impact on  
10 regulated revenues versus tracking particular  
11 programs? Just comparing the question that staff was  
12 asking in its data request 169 where it asked you to  
13 track the impact on regulated revenues versus your  
14 testimony which describes tracking of results of  
15 particular programs, is there a distinction between  
16 what was being asked in that data request versus what  
17 your testimony addresses?

18 A. Could you ask me that again.

19 Q. Your testimony -- is it fair to say your  
20 testimony is directed towards how the advertising for a  
21 particular program is tracked and evaluated?

22 A. Right.

23 Q. And would you see that as necessarily the  
24 same sort of analysis as staff was asking for in its  
25 data request 169 which was asking for some sort of

01459

1 impact on overall regulated revenues?

2 A. Yes. Promotions are tracked -- and this  
3 was in the original testimony -- whether it's multi  
4 product or individual product by specific sales codes  
5 or numbers that we refer to as band numbers, and those  
6 would be given to either a regulated or a nonregulated  
7 product.

8 Q. And you are not an accountant, are you Ms.  
9 Evans?

10 A. No, I'm not.

11 Q. Was your testimony directed towards whether  
12 or not these accounts or these expenses should be  
13 allocated as regulated versus nonregulated?

14 A. For the expense in revenues in the page 6  
15 of my testimony?

16 Q. Right. Does your testimony address whether  
17 or not these expenses should be allocated as regulated  
18 versus nonregulated?

19 A. No.

20 Q. Is your testimony directed towards which  
21 particular account these accounts should be recorded  
22 into?

23 A. No.

24 Q. Is it fair to say your testimony is merely  
25 directed toward the tracking and evaluations the



01460

1 company does to determine that its promotional  
2 advertising is effective?

3 A. Yes.

4 MR. VAN NOSTRAND: I have no further  
5 questions, Your Honor.

6 JUDGE WALLIS: Any follow-up questions? It  
7 appears that there are none. Ms. Evans, thank you for  
8 appearing. You're excused from the stand. Mr. Haack  
9 will be the next witness.

10 Whereupon,

11 DONALD HAACK,

12 having been first duly sworn, was called as a witness  
13 herein and was examined and testified as follows:

14 JUDGE WALLIS: I will ask the court  
15 reporter to insert at this point in the transcript the  
16 identification of Exhibits 205T, 206 and 207.

17 (Marked Exhibit 205T, 206-207.)

18

19 DIRECT EXAMINATION

20 BY MR. VAN NOSTRAND:

21 Q. Mr. Haack, could you state your name and  
22 spell it for the record, please.

23 A. My name is Donald E. Haack, last name  
24 spelled H A A C K.

25 Q. Do you have before you what's been marked

01461

1 for identification as Exhibit 205T?

2 A. Yes, I do.

3 Q. And do you recognize that document as your  
4 prefiled rebuttal testimony in this case?

5 A. Yes, it is.

6 Q. Do you have any additions or correction to  
7 make to Exhibit 205T?

8 A. There's one minor correction. On page 11,  
9 line 19, there is a number there, 15.8757. It really  
10 should be 15.9068.

11 Q. Does that complete your revision?

12 A. Yes, it does.

13 Q. As corrected if I asked you the requests as  
14 set forth in Exhibit 205T would you give the answers  
15 as set forth in that exhibit?

16 A. Yes, I would.

17 MR. VAN NOSTRAND: Your Honor, move the  
18 admission of Exhibit 205T.

19 JUDGE WALLIS: Is there objection? It  
20 appears that there is no objection and the exhibit is  
21 received.

22 (Admitted Exhibit 205T.)

23 MR. VAN NOSTRAND: Mr. Haack is available  
24 for cross-examination.

25

1 CROSS-EXAMINATION

2 BY MR. TRAUTMAN:

3 Q. I would like to begin with a number of  
4 questions that Ms. Wright deferred to you yesterday.  
5 If you could refer to Exhibit 157 which was MJW-3 and  
6 it's entitled calculation of average investor-supplied  
7 working capital. Do you have that?

8 A. It is somewhere. Found it.

9 Q. I believe yesterday that Ms. Wright  
10 indicated that this exhibit, although it's under her  
11 exhibit, that it was prepared by you; is that correct?

12 A. I believe I at least contributed to it,  
13 yes.

14 Q. Did you both contribute to it?

15 A. I probably gathered all the information and  
16 then faxed it to Seattle. This one was really  
17 prepared by someone there.

18 Q. And looking to the exhibit, the date on the  
19 upper right-hand corner indicates that this exhibit  
20 was revised on July 27, 195. Do you see that?

21 A. I see that.

22 Q. Can you explain what change had occurred to  
23 make a revision necessary?

24 A. I cannot.

25 Q. Will you accept subject to check that this

01463

1 exhibit has not changed since Ms. Wright filed her  
2 direct testimony?

3 A. I would accept that.

4 Q. And in this calculation has the pension  
5 asset been treated as directed by the Commission's  
6 order in I believe it's docket No. UT-930074, and  
7 this was previously admitted -- or referred to as  
8 Exhibit 124?

9 A. I believe it has. However, as Marjorie  
10 Wright said yesterday, this exhibit was merely  
11 prepared as a sanity check more or less. It is not  
12 the basis for any rate base suggestion in this case.

13 Q. But was your answer yes to the question of  
14 whether in this exhibit is the pension asset treated  
15 as directed by the Commission's order?

16 A. Yes. In the Commission's order they said  
17 that the pension asset should be treated as an element  
18 of a working capital analysis. I believe that was  
19 done.

20 Q. Is it your testimony that the total  
21 investor-supplied working capital at line 34 of this  
22 exhibit includes the pension asset?

23 A. Yes, it does.

24 Q. And you agree that since this calculation  
25 is done on a Washington state basis that the amount of

01464

1 pension asset included in line 34 is approximately \$96  
2 million?

3 A. That cannot be determined from this, but  
4 that seems like a reasonable number.

5 Q. Would you also agree that the intrastate  
6 amount of the pension asset as reflected in the  
7 proforma adjustment PFA No. 3 is only approximately  
8 \$70 million?

9 A. I would -- I would accept that subject to  
10 check, yes. That's Marjorie Wright's number.

11 Q. Is it true that performing this investor  
12 supplied working capital calculation that the company  
13 used an example from a recent Puget Power case?

14 A. Yes, we did.

15 Q. Would you accept subject to check that the  
16 Puget Power case in question -- and I believe it's  
17 noted in footnote 2 of the Commission order that I  
18 referred to -- was consolidated docket UE-920433?

19 A. Your question was I accept that subject to  
20 check.

21 Q. That that is the correct order?

22 A. Sure.

23 Q. How did you apply the Puget Power case  
24 example to U S WEST?

25 A. The exhibit from the Puget Power case was

01465

1 obtained and based upon the line descriptions which is  
2 all that was available to us there. We reflected  
3 corresponding amounts for U S WEST combined  
4 Washington.

5 Q. Is this calculation taken from your  
6 Washington balance sheet?

7 A. We do not maintain a Washington balance  
8 sheet.

9 Q. And where did you get the plant in service  
10 accounts, which is on line 15?

11 A. From a specific general ledger account with  
12 a Washington indicator.

13 Q. Is it true that in the vested capital  
14 portion you relied on witness Mr. Cummings for the  
15 determination of the capital accounts for debt and  
16 equity for Washington state?

17 A. Yes. The same methodology that's used in  
18 determining what our capital structure is and  
19 therefore the amount that we would be allowed to earn  
20 was mirrored in the preparation of this.

21 Q. Are you aware that Mr. Cummings through his  
22 rebuttal testimony has revised the associated debt and  
23 equity amounts for Washington, but that these  
24 revisions are not reflected in this exhibit?

25 A. I am not aware he revised it or how he

01466

1 revised it or whether it should impact this.

2 Q. Now, yesterday Ms. Wright testified that  
3 the Washington balance sheet does not include all of  
4 the company's accounts and she also testified that  
5 although the Washington balance sheet did not include  
6 temporary cash investments -- she also testified that  
7 the Washington balance sheet did not include temporary  
8 cash investments or investments in affiliated  
9 companies. Do you recall that?

10 A. I think I was here.

11 Q. Is that true?

12 A. There is no Washington balance sheets.

13 Q. Should temporary cash investments be  
14 treated as average vested capital in an  
15 investor-supplied working capital calculation?

16 A. Would you repeat your question, please.

17 Q. Should temporary cash investment be treated  
18 as average vested capital in an investor-supplied  
19 working capital calculation?

20 A. And temporary cash investments would be  
21 bonds? I'm asking. I don't know what are you asking.

22 Q. Certificates of deposit, for example,  
23 interest bearing accounts.

24 A. If you're asking me should it be treated as  
25 an element of working capital for the determination of

01467

1 rates of a regulated entity then, no,

2 Q. I'm asking whether it should be treated as  
3 average vested capital as that term is listed on the  
4 exhibit?

5 A. And where is that?

6 Q. It's listed above line 1 on Exhibit 157,  
7 the first major heading is average investor capital  
8 and the question -- do you need to repeat the  
9 question?

10 A. Please.

11 Q. The question is should temporary cash  
12 investments be treated as average vested capital in an  
13 investor supplied working capital calculation?

14 A. No. The average invested capital portion  
15 of this worksheet deals with those elements included  
16 in the capital structure, equity amounts, long-term  
17 debt amounts.

18 Q. Should temporary cash investments be  
19 treated as operating average -- average operating  
20 investment in an investor-supplied working capital  
21 calculation?

22 A. We do not use this as the basis for our  
23 working capital adjustment.

24 Q. Well, is the answer yes or no?

25 A. I don't do any adjustment. That's why it's



01468

1 not the basis for any adjustment in this case.

2 Q. Should temporary cash investments be  
3 treated as a nonoperating average investment in an  
4 investor-supplied working capital calculation?

5 A. That's how staff treated it in their  
6 similar calculation. I'm not going to make -- we did  
7 not use this methodology to determine our working  
8 capital adjustment.

9 Q. Can you give a yes or no answer to the  
10 question?

11 A. That's where staff included it.

12 Q. To your knowledge, did the Puget Power  
13 case, which you relied upon, did that include  
14 temporary cash investments as a nonoperating average  
15 investment?

16 A. I don't know that that term was  
17 specifically used in Puget Power.

18 Q. And subject to check, would you agree that  
19 investments in affiliated companies should be treated  
20 as a nonoperating average investment in an  
21 investor-supplied working capital calculation?

22 A. I have no objection to its treatment as  
23 such on this type of analysis.

24 Q. Now, in this exhibit you have allocated  
25 vested capital to Washington state. But isn't it true

01469

1 that you have not allocated either temporary cash  
2 investments or investment in affiliated companies to  
3 Washington state?

4 A. They're not listed here.

5 Q. But you have allocated capital accounts to  
6 Washington; is that correct?

7 A. That's correct.

8 Q. Would you agree that the total average  
9 vested capital on this exhibit is the average net  
10 amount of the vested capital supplied by the investors  
11 and available for use for the test period which has  
12 hand associated cost or requires a return?

13 A. Would you repeat the question, please.

14 Q. Would you agree that the total average  
15 vested capital --

16 A. Line 14.

17 Q. Correct.

18 -- is the average net amount of invested  
19 capital that is supplied by investors and available  
20 for use for the test period which has an associated  
21 cost or requires a return?

22 A. Yes. It's a Washington combined number.

23 Q. Do you also agree that the funds included  
24 in total average vested capital can be used to fund  
25 operating investment for rate base which are those

01470

1 assets which are used and useful in providing utility  
2 service?

3 A. Would you repeat the question, please.

4 Q. Do you also agree that the fund included in  
5 total average invested capital --

6 A. Same line.

7 Q. -- can be used to fund operating investment  
8 for rate base which are those assets that are used and  
9 useful in providing utility service?

10 A. Yes.

11 Q. Would you also agree that the funds  
12 included in total average invested capital -- again  
13 line 14 -- can be and in fact are used to fund  
14 nonoperating investments which include but are not  
15 limited to items such as nonoperating plant, either  
16 deferred debit, temporary cash investment and  
17 investments in affiliate companies.

18 A. I don't know that that determination can be  
19 made from this form, and I'm saying that because we do  
20 not maintain a Washington intrastate balance sheet that  
21 is specifically Washington intrastate. We're talking  
22 about an allocation of accounts here.

23 Q. And you did not allocate the accounts?

24 A. Which accounts?

25 Q. The accounts I referred to as examples such

01471

1 as nonoperating plant, other deferred debits,  
2 temporary cash investments and investments in  
3 affiliated companies?

4 A. You wouldn't want to unless you knew for a  
5 fact that the capital did include that, which I don't  
6 think we were to determine, then the nonoperating  
7 stuff gets backed out here on the bottom.

8 Q. Do you agree that the total average  
9 investment, which is line 27, is the average amount of  
10 net investments, both operating and nonoperating,  
11 which have the opportunity to earn a return or should  
12 return a return for the investors?

13 A. No. This was not completed off of a  
14 balance sheet. We were trying to mirror an exhibit  
15 that staff prepared in a Puget Sound case based purely  
16 on descriptions, line descriptions. It's not based  
17 from the balance sheet.

18 Q. That wasn't the question. The question was  
19 yes or no, do you agree that total average investment  
20 is the average amount of net investments both operating  
21 and nonoperating which have the opportunity to earn a  
22 return for the investors?

23 A. No, I'm not going to agree.

24 Q. Is it your testimony that the pension asset  
25 is an investment of the company?

01472

1 A. It is.

2 Q. Ms. Wright testified yesterday that if the  
3 Commission were to use the calculation in Exhibit 157  
4 for intrastate ratemaking purposes --

5 A. 157 being this same MJW-3.

6 Q. Correct. If the Commission were to do this  
7 it would have to perform some sort of allocation to  
8 arrive at a level that excluded the interstate  
9 jurisdiction and that would be somewhat less than the  
10 \$135 million figure at the bottom of the exhibit. Is  
11 that correct?

12 A. Yes. This exhibit was not presented as our  
13 working capital adjustment, but if you --

14 Q. Ms. Wright also testified that Exhibit 177,  
15 which was I believe admitted yesterday, would provide  
16 for a 71.79 percent allocation to the intrastate  
17 jurisdiction, would you agree to that subject to  
18 check?

19 A. I do not have 177 in front of me. What is  
20 it.

21 Q. This is company's response to AT&T data  
22 request 012?

23 A. Okay.

24 Q. And would you agree with Ms. Wright that  
25 this exhibit would provide for approximately a 71.79

01473

1 percent allocation to the intrastate jurisdiction?

2 A. Subject to check, yes.

3 Q. And you would get that by dividing the 97  
4 million figure by 135,000 on line 34?

5 A. Yes, I agree.

6 Q. Turning to your rebuttal testimony on page  
7 8, the last sentence of the page and referring to  
8 investor-supplied working capital you state, "staff's  
9 position is plainly contrary to prior Commission  
10 rulings on this issue." Do you see that?

11 A. I see the sentence, yes.

12 Q. And will you accept subject to check that  
13 the Commission has adopted the investor-supplied  
14 working capital method in at least seven prior cases,  
15 four of which are telecommunications cases?

16 A. I would accept that statement subject to  
17 check, yes.

18 Q. Referring to your testimony at page 6 on  
19 line 3 you state that, "U S WEST does not maintain  
20 jurisdictional balance sheets." Do you see that?

21 A. Yes, I see that and that is a correct  
22 statement.

23 Q. And does that mean that U S WEST does not  
24 maintain a balance sheet for the state of Washington?

25 A. That's correct.

01474

1 Q. Turning to page 16, line 7 and 8 you state  
2 that as the situation exists today the ratepayer is  
3 earning on the funds which have been contributed to  
4 the external fund?

5 A. Yes.

6 Q. And this is referring to the pension asset.  
7 Do you see that?

8 A. Yes, it is.

9 Q. How does the ratepayer actually earn on  
10 these funds?

11 A. In a rate of return environment rates are  
12 set to recover expenses. Expenses are reduced by the  
13 amount of earnings. In the external fund that benefit  
14 flows directly to the ratepayer. Company does not  
15 receive earnings on that fund.

16 Q. How much have the ratepayers earned?

17 A. Pardon me.

18 Q. How much have the ratepayers earned?

19 A. I have no idea.

20 Q. Staying on that page of your testimony,  
21 lines 19 and 20 you state that "changes in expense  
22 levels therefore result in offsetting changes in  
23 revenue levels." Do you see that?

24 A. Yes, I do.

25 Q. Can you explain to me how this would occur

01475

1 if there is not a rate case every time the company  
2 experiences a change in an expense level?

3 A. It wouldn't. There is regulatory lag. It  
4 goes both ways.

5 Q. Is it not true that in order to change  
6 revenue levels that rates must change?

7 A. Repeat that, please.

8 Q. Isn't it true that in order to change  
9 revenue levels in this example --

10 A. In this example.

11 Q. -- that rates must change?

12 A. That is correct.

13 Q. Would you not agree that there is not a  
14 rate case each year that the expense would be reduced,  
15 the revenues would stay the same and the net income  
16 would therefore have to go up?

17 A. Would I not agree?

18 Q. Would you agree?

19 A. Would you repeat that, please.

20 Q. Would you agree that if there is not a rate  
21 case each year that the expenses would be reduced but  
22 the revenues would stay the same and therefore the net  
23 income would have to go up?

24 A. All other things being equal, yes.

25 Q. And if the net income increases isn't this



01476

1 a direct benefit to the shareholders?

2 A. If net income increases, yes.

3 Q. Turning to page 14 of your rebuttal  
4 testimony and you state starting at line 9, "the  
5 Commission directed that the inclusion of the pension  
6 asset in rate base should be done as one element of a  
7 total working capital analysis." Do you see that?

8 A. Yes, I do.

9 Q. I'm now turning to the order of the  
10 Commission to which you refer and was previously  
11 identified as Exhibit 174, would you accept subject to  
12 check that the order on page 7 states, "the Commission  
13 finds it inappropriate to identify one item out of a  
14 total investor-supplied working capital and propose an  
15 adjustment without doing a comprehensive review of all  
16 items?

17 A. Yes. I would accept that and that is the  
18 reason that we presented a working capital adjustment  
19 and supply adjustment in addition to the pension asset  
20 adjustment.

21 Q. And so your testimony refers to the  
22 Commission as speaking of a total working capital  
23 analysis, but is it not correct, subject to check, that  
24 the order refers to a total investor-supplied working  
25 capital?



01478

1 please.

2 (Recess.)

3 JUDGE WALLIS: Let's be back on the record,  
4 please, following an afternoon recess. Mr. Trautman.

5 Q. I believe the last question I asked  
6 referred to proforma adjustment No. 5, and would you  
7 agree that this adjustment for materials and supplies  
8 includes materials and supplies directly in the rate  
9 base?

10 A. Yes, it does, and that was one of the three  
11 parts I mentioned. We included materials and  
12 supplies. We calculated working capital and we added  
13 the pension asset.

14 Q. And so each of those individual items were  
15 included directly in the rate base; is that correct?

16 A. Yes. The working capital became an  
17 adjustment to rate base. Materials and supplies are an  
18 adjustment to rate base, yes. Separately identified.

19 Q. Would you agree subject to check that the  
20 order we referred to earlier states in part on page 7  
21 that the Commission finds it inappropriate to identify  
22 one item out of total investor-supplied working  
23 capital and propose an adjustment without doing a  
24 comprehensive review of all items?

25 A. Yes, and that's why we've included the

01479

1 three items.

2 Q. So you included three items?

3 A. Yes.

4 Q. And only three items; is that correct?

5 A. As contrasted to your one item  
6 investor-supplied working capital.

7 Q. On page 14 of your testimony you state that  
8 staff claimed that U S WEST -- USWC was not entitled  
9 to earn on the pension asset. Do you see that and  
10 that's at the very bottom of page 14?

11 A. Page numbers must be different.

12 Q. Page 14. The sentence starts on line 20.  
13 It says, "the staff has excluded the pension asset  
14 from its working capital amount. This was  
15 accomplished by categorizing the amount as a  
16 nonoperating investment and then claiming that U S  
17 WEST was not entitled to earn on this amount."

18 A. I see that.

19 Q. Where specifically did staff claim this in  
20 their testimony?

21 A. Further back I reference Zawislak on page  
22 25 and Twitchell on page 45.

23 Q. So it is your testimony that staff is  
24 claiming that U S WEST is not entitled to earn on the  
25 pension asset?

01480

1 A. Yes, it is.

2 Q. In your testimony at page 11 on line 19,  
3 and I believe you revised the number today, you used  
4 15.9068 percent as a 1994 allocation of capital to  
5 Washington; is that correct?

6 A. Yes.

7 Q. Now, if we were to multiply this figure by  
8 the 71.79 percent figure that was taken from Exhibit  
9 177 from Ms. Wright, could we arrive at the cap -- at  
10 the company's preferred intrastate capital allocation  
11 factor?

12 A. No.

13 Q. The number listed there is the allocation  
14 factor that was used.

15 Q. So if you were to multiply the 15.9068  
16 percent figure by 71.79 percent, again it's your  
17 testimony that one would not arrive at the company's  
18 preferred intrastate capital allocation factor?

19 A. The number listed here is a Washington  
20 combined, and that's a number that we use.

21 Q. Well, is the answer yes or no to my  
22 question?

23 A. Your question is not clear. I cannot  
24 answer it.

25 Q. My question is, if you take 15.9068 and you

01481

1 multiply it by 71.79 would you arrive -- would you  
2 arrive at the company's preferred intrastate capital  
3 allocation factor?

4 A. The company's -- what was the next word?

5 Q. Preferred intrastate capital allocation  
6 factor.

7 A. I don't believe last time you put  
8 intrastate in there. I think you added that word.

9 Q. It was not an omission by choice. Would we  
10 arrive at the company's preferred intrastate capital  
11 allocation factor?

12 A. No way do we attempt to allocate capital  
13 below a state level.

14 Q. If you were to multiply those two  
15 percentages together would the resulting figure be  
16 more -- which is 11.42 percent, would that be more  
17 acceptable to the company than the calculation done by  
18 staff?

19 A. The company objects to the approach taken  
20 by staff to calculate working capital. The company  
21 presented a lead lag study to calculate the working  
22 capital adjustment.

23 Q. Like to refer you to the company's response  
24 to staff data request 481, and that's been identified  
25 as Exhibit 206. And was this prepared by you or under

01482

1 your supervision?

2 A. Yes, it is.

3 Q. And is it true and accurate to the best of  
4 your knowledge?

5 A. Yes, it is.

6 MR. TRAUTMAN: Move for admission of  
7 Exhibit 206.

8 MR. VAN NOSTRAND: No objection.

9 JUDGE WALLIS: 206 is received.

10 (Admitted Exhibit 206.)

11 Q. Now, I believe in this exhibit your  
12 response also relies on staff's response to data  
13 request No. 7. Do you see that?

14 A. It so states.

15 Q. And that has been identified as Exhibit  
16 207. Do you have that now?

17 A. Yes, I do.

18 Q. Referring to attachment A of this data  
19 request staff's result using an allocation factor of  
20 11.18 percent is a negative \$46,480,902; is that  
21 correct?

22 A. Your line 34 of --

23 Q. Of page 1 of 1 on attachment A, lines 33  
24 and lines 34?

25 A. Yes.

01483

1 Q. And what is the sum of the company's  
2 proposed working capital adjustments, namely, PFA 3, 4  
3 and 5?

4 A. I don't have those numbers right in front  
5 of me. It's approximately, I believe, \$69 million.

6 Q. Do you agree that dividends are a return on  
7 an investor's investment?

8 A. Yes, I do.

9 Q. Does the company pay interest on dividends  
10 payable?

11 A. No, they do not.

12 Q. If dividends are declared, is it correct  
13 that retained earnings is debited and dividends  
14 payable is credited?

15 A. Payable or accrued, yes.

16 Q. Would you agree that dividends payable is a  
17 short-term liability and therefore due and payable  
18 within 12 months or less?

19 A. It is classified as such on the balance  
20 sheet, but it still does not change the fact that it  
21 is investor money.

22 Q. The question was is it --

23 A. I said it was classified as such on the  
24 balance sheet.

25 Q. And the company does not pay interest on



01484

1 dividends payable?

2 A. We've already established that.

3 MR. TRAUTMAN: Move for the admission of  
4 Exhibit 207.

5 MR. VAN NOSTRAND: I would object to 207.  
6 That's a staff work paper and merely because Mr. Haack  
7 has incorporated some of the numbers from 207 in  
8 preparing what's now been admitted as 206 does not  
9 warrant inclusion of the entire document which can be  
10 offered through staff if staff wishes to include that  
11 as part of the record.

12 MR. TRAUTMAN: In addition Mr. Haack has  
13 relied upon and commented on staff data request No. 7  
14 in his own rebuttal testimony on page 11. He has  
15 relied on the exhibit in preparing his own testimony.  
16 He has commented on the exhibit and it's appropriate  
17 for admission.

18 MR. VAN NOSTRAND: I think the exhibit  
19 should be offered through the witness who can properly  
20 sponsor it and lay a foundation for it which is not  
21 Mr. Haack.

22 JUDGE WALLIS: The document has been  
23 referenced and used by the witness and on that basis  
24 it will be accepted.

25 (Admitted Exhibit 207.)

01485

1 Q. Are you aware that there have been recent  
2 Commission decisions that state that dividends payable  
3 should be excluded from invested capital?

4 A. Yes, I am.

5 MR. TRAUTMAN: I have no further questions.

6 JUDGE WALLIS: Commissioner Gillis.

7

8 EXAMINATION

9 BY COMMISSIONER GILLIS:

10 Q. I do have one question. This may be a  
11 naive question but I was surprised that you don't  
12 maintain a jurisdictional specific balance sheet. That  
13 seems like it's a pretty basic financial document if  
14 you want to understand your divisional entities. You  
15 have no need for that?

16 A. The company maintains a balance sheet, of  
17 course, and we maintain jurisdictional income  
18 statements, but the asset and liability entries  
19 associated with those things do not get booked by  
20 jurisdiction. For example, debt is issued at a C  
21 level. It's not issued at a Washington intrastate  
22 level. Same way with stock. It's issued at a  
23 corporate level. Accounts payable, it appears at a  
24 corporate level. We don't have an accounts payable,  
25 Washington accounts payable. We have an accounts

01486

1 payable.

2 Q. But for management purposes you have no use  
3 for a jurisdictional specific balance sheet?

4 A. No. Those types of things that become  
5 parts of a rate base are maintained jurisdictionally,  
6 so plant in service is maintained by state, but a lot  
7 of them -- if there's no reason to identify it there's  
8 no reason to split every payment of my salary to 14  
9 different balance sheets or the accrual of my wages.  
10 It's just a wage payable.

11 Q. It could be I was just surprised. A  
12 related statement, too, along these same lines, and  
13 again it may be just naive, but you stated no way would  
14 we attempt to allocate capital below a state level.  
15 Maybe that's just in the context of what you were  
16 talking about but somebody must allocate capital below  
17 a state level. You're talking about an accounting  
18 sense? Somebody has to make an allocation decision for  
19 working capital or any other capital within the state.  
20 Who does that?

21 A. We were talking about an accounting  
22 allocation of U S WEST Communications debt down to  
23 Washington.

24 Q. That was the context of what you were  
25 talking about?

01487

1           A.     I was not talking about where plant would  
2 be built or anything like that.

3           Q.     Thank you.

4                    JUDGE WALLIS: Redirect.

5

6                                REDIRECT EXAMINATION

7 BY MR. VAN NOSTRAND:

8           Q.     Mr. Haack, if I could refer you back to a  
9 couple of questions from Mr. Trautman. First in  
10 discussing your testimony on page 8 he directed you to  
11 a particular statement on lines 22 and 23 about  
12 whether staff's position is contrary to the Commission  
13 precedent. Do you recall that?

14          A.     Yes, I do.

15          Q.     And is your statement regarding staff being  
16 contrary to Commission precedent, does that refer to  
17 the particular methodology used by staff in its  
18 working capital analysis or the Commission precedent  
19 regarding whether staff can submit its own approach to  
20 working capital in lieu of what the company actually  
21 submits?

22          A.     I was talking about their substitution of  
23 methods of calculating the working capital adjustment,  
24 the second of what you said.

25          Q.     And it's your testimony that on that point

01488

1 staff is contrary to Commission precedent?

2 A. Yes, it is.

3 Q. And another issue raised by Mr. Trautman was  
4 what the Commission's order which has been included as  
5 Exhibit 174, what the order states regarding the  
6 appropriateness of doing -- of including the pension  
7 asset in the context of a total working capital  
8 analysis. Do you recall those questions?

9 A. Yes, I do.

10 Q. And your testimony, as I recall, was that  
11 you were citing from the Commission order to the  
12 effect that the inclusion of the pension asset in rate  
13 base should be done as one element of a total working  
14 capital analysis?

15 A. That's right.

16 Q. And where does that language appear on that  
17 Commission order?

18 A. It's on page 7, the second paragraph,  
19 approximately the middle of that paragraph.

20 Q. And what does that sentence state?

21 A. It says, "the inclusion in rate base of  
22 this asset even if otherwise appropriate should be  
23 done as one element of a total working capital  
24 analysis."

25 Q. Is it your testimony that that is what the

01489

1 company is attempting to do in this filing is  
2 presenting total working capital analysis?

3 A. Yes. We presented a lead lag study which  
4 was the basis for our working capital adjustment and  
5 we added the pension asset as a separate item and  
6 materials and supplies as a separate item.

7 Q. Turning back to the series of questions  
8 regarding Exhibit 157 which is Ms. Wright's Exhibit 3,  
9 and as I recall there were a number of questions  
10 regarding whether it was appropriate or not to include  
11 or exclude certain items in that analysis. Do you  
12 recall those questions?

13 A. Yes.

14 Q. And are your answers -- could your answers  
15 be viewed according to that -- should your answers be  
16 viewed in the context of that particular approach and  
17 whether or not you agree that that particular approach  
18 should be used?

19 A. Yes. I feel they should. That whole line  
20 of questioning directed to that exhibit, that exhibit  
21 is not used as our working capital adjustment.

22 Q. And even though the company disagrees with  
23 that particular exhibit, does it show if properly  
24 adjusted for the intrastate effect, does it show that  
25 there is an operating working capital of about \$97

01490

1 million?

2           A.     Yes, allocation of inter/intrastate was  
3 made, 71 percent, it would come out 90 some million  
4 dollars.

5           Q.     Is this capital available to meet the  
6 company's working capital needs?

7           A.     That's what that format would imply.

8           Q.     And to the extent that approach is seen to  
9 be a comprehensive working capital analysis as  
10 contemplated on the Commission's order, does that  
11 evidence show that the company specific -- does that  
12 particular analysis show that the company specific  
13 working capital needs are being met with  
14 investor-supplied funds?

15          A.     Yes.

16          Q.     Is it your testimony that what's being  
17 offered in Exhibit 157, MJW-3, is not the approach  
18 advocated by the company; is that right?

19          A.     That's correct. The company is advocating  
20 a lead lag methodology for determining working  
21 capital.

22          Q.     And how is the pension asset treated under  
23 the company approach which is how it's treated under  
24 the staff analysis?

25          A.     Under the company's approach the pension

01491

1 asset is added as a separate item to rate base just as  
2 the FCC requires. In the staff approach the staff  
3 categorized it as a nonoperating asset thereby  
4 excluding it from working capital and said we were not  
5 entitled to earn on it.

6 Q. And how were materials and supplies treated  
7 under company's approach versus staff approach?

8 A. Under the company's approach materials and  
9 supplies were listed as a separate line item to rate  
10 base. Under staff approach, it, by not being detailed,  
11 by default became a piece of what they call  
12 investor-supplied working capital.

13 Q. Would you explain what you mean by not  
14 being detailed or by default?

15 A. Yes. I would like to draw a very simple  
16 picture and kind of clarify the difference between  
17 working capital and investor-supplied working capital  
18 and cash working capital. Can I do that?

19 MR. VAN NOSTRAND: Would it be helpful,  
20 Your Honor, if he used a chart?

21 JUDGE WALLIS: Yes.

22 A. I'm going to draw just a very simple  
23 balance sheet. In this example I've got debt of 400,  
24 equity of 600, accounts payable of 20. I got net  
25 plant of 1010 and accounts receivable of 10. Both



01492

1 sides equal the same, hence a balance sheet. Working  
2 capital is a very -- is an accounting term that means  
3 very simply the difference between current assets and  
4 current liabilities. That is reflected here as the  
5 accounts receivable and accounts payable. That's what  
6 working capital is.

7           Staff uses a term called investor-supplied  
8 working capital and what they do is say -- they go to  
9 the balance sheet and they pick off capital so they  
10 say capital is 100 -- or 1,000. Investments are  
11 1,010. They subtract this from this and say  
12 investor-supplied working capital is a negative 10. I  
13 said they back into the working capital amount because  
14 they could have got the same answer by going to the  
15 same balance sheet and picking up the accounts payable  
16 and accounts receivable and that's what working  
17 capital is.

18           The company proposed a working capital  
19 adjustment based upon a lead lag. This method, I  
20 think, is relatively simple. It would be a great  
21 method to use if we maintained a Washington intrastate  
22 balance sheet, but because we don't, at the bottom of  
23 the exhibit, TWZ-1, which was part of 207, they  
24 allocate -- after they do this on a C basis, they  
25 allocate 11.18 percent of all accounts receivables for

01493

1 U S WEST C and the payables 11.18 percent based upon a  
2 relative rate base factor and while rate base does --  
3 there is a relationship between rate base and accounts  
4 receivables through revenues. It's not a one for one  
5 relationship. It doesn't take into account that there  
6 could be considerable differences from state to state  
7 on their capital recovery policies, authorized rates  
8 of return and that sort of thing.

9           It also creates some big problems on this  
10 side because not all states choose to raise their  
11 revenues the same way. There's different mixes of  
12 property taxes, sales taxes, income taxes and the  
13 allocation at the bottom assumes basically that that's  
14 the same throughout our area.

15           Cash working capital is another way of  
16 determining working capital, and this method looks at  
17 revenues and then they take studies to see how long  
18 does it take us to collect those revenues. The  
19 revenues is multiplied by that delay and collection  
20 becomes a calculation of accounts receivables, and the  
21 same thing is done on the accounts payable side. We  
22 eliminate the allocation problem that we see here  
23 because we're using separated income statements and  
24 we're dealing with just Washington intrastate  
25 revenues, Washington intrastate expenses. They're all

01494

1 the same, working capital, working capital. These are  
2 more the method used (indicating) to determine the  
3 amount.

4 MR. VAN NOSTRAND: Those are all my  
5 questions.

6 JUDGE WALLIS: Mr. Gillis.

7

8 EXAMINATION

9 BY COMMISSIONER GILLIS:

10 Q. I had an accounting instructor in college  
11 who used to say all you need to remember about  
12 accounting is when you decrease one account you have  
13 to decrease an offsetting account and if you increase  
14 one account you have to increase an offsetting  
15 account. It seems to me that if I understand what  
16 you're doing is you're in a position to calculate a  
17 rate of return on your rate base that you have in  
18 Washington, but you're not in a position to calculate  
19 your return on investment in the state of Washington;  
20 is that correct?

21 A. That's correct. This example, rate base is  
22 used as a surrogate for investment and this example  
23 explains, then, why a lot of jurisdictions have a  
24 working capital adjustment. The investment in this  
25 example is 1,000. Without a working capital

01495

1 adjustment rate base would be 1,010, and that's why  
2 the working capital adjustment in this case is  
3 accounts receivable of 10 less accounts payable of 20,  
4 negative 10. Now rate base equals investment.

5 Q. I guess what I'm trying to understand for  
6 myself then is that there's really no way that you can  
7 tell me whether you're getting a higher return on your  
8 investment in Nebraska or Washington. You can on the  
9 rate base but you can't tell me whether you're getting  
10 a higher return on investment in any state?

11 A. Well, capital gets allocated to a state  
12 level.

13 Q. If you don't have a balance sheet,  
14 though --

15 A. No, it's not a balance sheet.

16 Q. I mean, I'm intrigued by this from a  
17 management perspective. It's just new information for  
18 me. I think I understand a little more about it now  
19 and I'm sure the accounting policy advisor will help  
20 me with this. When you talk about rate of return it's  
21 on the rate base. It's not necessarily on your  
22 investment?

23 A. That's correct. Rate base is used as a  
24 surrogate for investment in the rate setting process.

25 COMMISSIONER GILLIS: Thank you.

01496

1 JUDGE WALLIS: Mr. Trautman.

2 MR. TRAUTMAN: Staff would like to make  
3 that representation an exhibit to the case. We could  
4 reduce it on a sheet of paper.

5 JUDGE WALLIS: We'll designate that as  
6 Exhibit 208 for identification and request that the  
7 company compile that on a document 8 and a half by 11  
8 and submit it in the next day or two.

9 (Marked Exhibit 208.)

10 JUDGE WALLIS: Is there objection to its  
11 receipt?

12 MR. VAN NOSTRAND: No.

13 JUDGE WALLIS: The document will be  
14 received in evidence.

15 (Admitted Exhibit 208.)

16 JUDGE WALLIS: Did staff have further  
17 questions?

18 MR. TRAUTMAN: No.

19 JUDGE WALLIS: Mr. Trotter.

20 MR. TROTTER: No.

21 JUDGE WALLIS: Mr. Haack, thank you for  
22 appearing today. You're excused from the stand.

23 Am I correct that Mr. Vanston will be the  
24 next witness?

25 MS. PETERSON: Correct.

01497

1 JUDGE WALLIS: Are we ready to proceed?

2 MS. PETERSON: Yes.

3 JUDGE WALLIS: I am going to ask as we  
4 continue through the proceeding that the next witness  
5 be available to take the stand immediately and step  
6 forward so that we don't lose any time in transition.  
7 Whereupon,

8 LAWRENCE VANSTON,  
9 having been first duly sworn, was called as a witness  
10 herein and was examined and testified as follows:

11 JUDGE WALLIS: I'm going to ask that the  
12 reporter insert at this point in the transcript the  
13 designation of Exhibits 265T, 266, 267T and 268.

14 (Marked ExhibitS 265T, 266, 267T and 268.)

15

16 DIRECT EXAMINATION

17 BY MS. PETERSON:

18 Q. Mr. Vanston, would you state your name and  
19 spell it for the record, please.

20 A. Lawrence K. Vanston. Last name is spelled  
21 V A N S T O N.

22 Q. Mr. Vanston, do you have before you what  
23 has been marked for identification as Exhibit 265T?

24 A. Yes.

25 Q. Do you recognize that document as your

01498

1 prefiled rebuttal testimony in this case?

2 A. Yes.

3 Q. Do you have any additions or corrections to  
4 make to Exhibit 265T at this time?

5 A. No.

6 Q. If I asked you the questions set forth in  
7 Exhibit 265T today, would you give the answers as set  
8 forth in that exhibit?

9 A. Yes.

10 Q. And do you have before you what has been  
11 marked for identification as Exhibits 266 and 268?

12 A. Yes.

13 Q. Were these exhibits prepared under your  
14 direction and supervision?

15 A. Yes, ma'am.

16 Q. Do you have any additions or corrections to  
17 make to Exhibits 266 or 268 at this time?

18 A. No.

19 Q. Are these exhibits true and correct to the  
20 best of your knowledge?

21 A. Yes, they are.

22 MS. PETERSON: Move the admission of  
23 Exhibit 265T, Exhibit 266 and 268.

24 MR. SMITH: Staff has no objection to the  
25 admission of those exhibits for the limited purpose of

01499

1 the inputs into a cost study. Otherwise -- rather  
2 than for a pure capital recovery as was discussed in  
3 the Commission's prior ruling.

4 JUDGE WALLIS: Is that the understanding  
5 that counsel has as well?

6 MS. PETERSON: Well, that's the first time  
7 I've heard it quite that way, but that's acceptable  
8 and we can make an offer of proof for the other  
9 purposes later.

10 JUDGE WALLIS: Very well. With that  
11 understanding and there being no other objections,  
12 Exhibits 265T, 266 and 268 are received.

13 (Admitted Exhibits 265T, 266 and 268.)

14 Q. Mr. Vanston, have you had the opportunity  
15 to review testimony filed on December 15, 1995 by  
16 witnesses Mercer and witness Dunkel?

17 A. Yes.

18 Q. I have a few questions to ask you in  
19 response to those testimonies. First, on page 3, line  
20 20 in AT&T witness Robert Mercer prefiled December 15,  
21 1995 supplemental testimony he stated in essence that  
22 economic life of network equipment was used as an  
23 input to the capital cost module. Is economic life  
24 the correct life to be used in forward looking cost  
25 studies?



01500

1           A.     Yes.  These cost studies assume that you  
2 essentially rebuild the network using the most modern  
3 equipment as if there were no embedded investment in  
4 the network at this time.  The only way for such a  
5 study to make sense would be to allocate that new  
6 equipment over a period of time that that asset is  
7 economically useful.  Otherwise a provider would not  
8 make that investment so therefore it does make -- it  
9 is important to use an economic life in a forward  
10 looking cost study like a TS LRIC type study.

11          Q.     Mr. Vanston, in that same testimony by Mr.  
12 Mercer on page 10 at lines 6 through 14 Mr. Mercer  
13 states that he uses an 18 year life for all service  
14 categories.  He states that this is a composite life  
15 that is consistent with individual service lives  
16 prescribed by the FCC.  Are these lives the economic  
17 lives that would be relevant to a forward looking cost  
18 study in your estimation?

19          A.     No.  They are not for several reasons.  
20 First the FCC lives are intended to be implied to an  
21 embedded plant, plant that has been in existence of any  
22 number of years.  The FCC does prescribe projection  
23 lives but these projection lives are intended to be  
24 applied to that embedded plant to drive an average  
25 remaining life for the existing investment.  The FCC

01501

1 lives do not specifically refer to the expected  
2 service lives of a brand-new piece of equipment placed  
3 today.

4           Secondly, the FCC uses physical retirements  
5 as its measure for the end of life of an asset  
6 regardless of its revenue producing capacity. For  
7 example, if you had a metallic cable of 900 pairs and  
8 the company were to place a fiberoptics parallel to it  
9 and move most of the circuits over to that fiberoptics,  
10 say of the 900 pairs only nine pairs were left in  
11 service on copper, in an economic study would recognize  
12 that only one percent of that asset is still in use and  
13 therefore would reflect that in the economic life. The  
14 FCC, owner would assume that none of that investment  
15 has been retired and therefore that life would still be  
16 -- that asset, that copper cable would still be 100  
17 percent useful. That may be what to use for  
18 depreciation purposes -- what the FCC uses. Surely  
19 they are not what you would like to use in an economic  
20 study. In fact the FCC does not even present to  
21 prescribe economic lives that an investor would make  
22 going forward. They simply for depreciation purposes  
23 prescribe these lives to calculate rates, depreciation  
24 rates.

25           Q.     Mr. Vanston could Mr. Mercer have used

01502

1 different lives than the FCC prescribed lives here?

2 A. Yes. I believe Mr. Mercer should have used  
3 economic lives that reflect realities faced by a  
4 provider making an investment in equipment that's  
5 becoming rapidly obsolete.

6 Q. How does one measure economic lives?

7 MR. TROTTER: Your Honor, I'm going to  
8 object. I believe this has already been asked and  
9 answered in other exhibits and testimony. It's not  
10 directly responsive to the Mercer testimony. I  
11 understood also that this additional cross would only  
12 be of Mr. Mercer which now I understand apparently it's  
13 of Mr. Dunkel. It's the first time I heard of that. I  
14 also heard it was going to be brief but I will object  
15 specifically to the question asked.

16 MS. PETERSON: In response Mr. Mercer  
17 specifically uses the term economic lives and says  
18 that that's what he is using. We certainly have a  
19 right to explore that and to say what would be the  
20 case if you really did apply economic lives.

21 JUDGE WALLIS: The witness may respond.

22 Q. Do you remember the question?

23 A. Yes. Ideally economic lives would reflect  
24 the forces of technology obsolescence. They would  
25 reflect the impacts of competition on cash flows that

01503

1 would be expected from an investment, and ideally they  
2 would also reflect the requirements to provide new  
3 services to be competitive in the future  
4 telecommunications environment. Thus, to measure  
5 economic lives you would have to do studies that  
6 measured how a new technology is displacing old  
7 technologies or will displace old technology in the  
8 future. You would have to do studies that measured how  
9 competition is impacting cash flow and you would also  
10 have to take a look at the service mix that would be  
11 required for companies to be competitive in the future.

12 Q. Have you performed these kinds of studies?

13 A. Yes, ma'am, we have. Technology Futures  
14 since 1984 has been conducting a series of these types  
15 of studies. Technology obsolescence, technology  
16 substitution studies, cash flow studies that have  
17 looked at the the impact of competition from wireless  
18 and cable on telco assets. We've also done a series  
19 of new services studies looking at the demand for  
20 digital services including transmission, Internet type  
21 services.

22 Q. Are these studies for the most part  
23 contained in your exhibit which has been marked as  
24 268?

25 A. The studies that are most relative to this

01504

1 particular proceeding are summarized in Exhibit 268.

2 Q. And have you done any updating to that  
3 exhibit since it was submitted?

4 A. Yes. We did a technical update this year,  
5 not on the technology forecasts but on the lives that  
6 would be suggested by those forecasts.

7 Q. In using your studies what economic lives  
8 reflecting technology obsolescence are suggested?

9 A. For a forward looking cost study our  
10 studies would suggest for digital switches lives from  
11 9 to 11 years, for cable, distribution cable, in other  
12 words primarily buried, between 7.5 and 10.2 years in  
13 the update. Fiberoptics we recommend 15 to 20 years  
14 and in digital circuit 8 to 9 years.

15 Q. Would economic lives if you based them on  
16 lives that would reflect more than just technological  
17 obsolescence but also some of the other factors you  
18 mentioned earlier would pure economic lives be even  
19 less?

20 A. Yes. The lives that I mentioned strictly  
21 reflect the replacement of existing technology like  
22 copper cable in the distribution by more advanced  
23 technology like fiberoptics. They do not take into  
24 account the impact of competition from existing  
25 competitors or new competitors like wireless or cable.

01505

1 If we were to account for those lives through those  
2 impacts one can calculate economic lives as low as  
3 five years.

4 Q. Going back for a moment, Mr. Vanston, to  
5 your identification of various years for lives,  
6 economic lives reflecting technologies obsolescence  
7 only and not some of the other factors that you also  
8 said could be taken into account in determining  
9 economic lives, if we look simply at the economic  
10 lives reflecting technologies obsolescence, what kind  
11 of a composite life would your studies suggest are  
12 appropriate for a forward looking cost study?

13 A. 12 years at most.

14 Q. Would using appropriate economic lives have  
15 impacted Mr. Mercer's results?

16 A. Yes. Mr. Mercer used 18 years. Our  
17 studies would indicate 12. It's a very significant  
18 difference. Any type of allocation that was made then  
19 of an investment on a per year basis would give you a  
20 proportionately larger amount. Without rerunning Mr.  
21 Mercer's studies, I can't say exactly how big that  
22 impact would be, but I expect it would be quite large.  
23 And that difference between, say, what the company's  
24 cost studies and what Mr. Mercer's studies say, some  
25 of that would be explain by this difference. Others

01506

1 are probably explained by -- I'm not going to address  
2 in my testimony.

3 Q. Did U S WEST use appropriate economic lives  
4 in its cost study?

5 A. Yes. The lives that U S WEST used were  
6 comparable to what I recommend. They're somewhat more  
7 conservative and so therefore I think they did use  
8 appropriate lives.

9 Q. Can you identify where they're more  
10 conservative to the extent that you have that in front  
11 of you?

12 A. Yes. They use for buried cable 15 years.  
13 I would have used something closer to 10. They used  
14 11.3 for underground and aerial, I would have used 10.  
15 Digital circuit, we recommend 8 to 9, they use 10.  
16 Digital switching about the same. We used 9 to 11 and  
17 they use 10. In most cases they were somewhat higher  
18 than what I would have used.

19 Q. Mr. Vanston, in Mr. William Dunkel's  
20 December 17, 1995 supplemental prefiled testimony he  
21 argued that Commission prescribed lives should be used  
22 for cost studies. Do you agree?

23 MR. TROTTER: I am going to object to the  
24 question. This is also stated in Mr. Dunkel's  
25 testimony, I believe, in his direct testimony.

01507

1 JUDGE WALLIS: You mean Mr. Vanston.

2 MR. TROTTER: No. This point that they're  
3 attempting to rebut orally was mentioned in Mr.  
4 Dunkel's direct testimony and they've had plenty of  
5 opportunity to respond to it and give us plenty of  
6 opportunity to discovery their responses. Now, I was  
7 also advised earlier that the response of testimony  
8 today from this witness would of Mr. Mercer and not of  
9 Mr. Dunkel and the company did not give me the  
10 courtesy of that notice and so I am going to object to  
11 the question.

12 MS. PETERSON: Your Honor, this is the only  
13 question I have on Mr. Dunkel and it seemed to follow  
14 the testimony of Mr. Mercer so closely that it seemed  
15 appropriate to ask. I do believe it's appropriate  
16 because Mr. Dunkel spends at least four pages of his  
17 testimony honing in on this point and it is certainly  
18 I think appropriate for the witness to give a short  
19 response to the question.

20 JUDGE WALLIS: Was the subject addressed in  
21 his direct?

22 MS. PETERSON: I believe the subject was  
23 raised in the direct but it was hit again hard in the  
24 supplemental.

25 JUDGE WALLIS: I'm going to sustain the



01508

1 objection.

2 MS. PETERSON: That's all I have. The  
3 witness is available for cross.

4 MR. SMITH: I have no questions.

5 MR. TROTTER: I won't ask a question  
6 because I have not been able to adequately prepare to  
7 respond with the questioning today.

8

9 CROSS-EXAMINATION

10 BY MS. PROCTOR:

11 Q. Good afternoon, Mr. Vanston. I'm Susan  
12 Proctor from AT&T.

13 A. Good afternoon.

14 Q. You are aware of Dr. Mercer's direct  
15 testimony, are you not?

16 A. Yes.

17 Q. And just for the record it would be more  
18 appropriate to refer to him as Dr. Mercer, would it  
19 not?

20 A. Yes.

21 Q. On page 10 of his direct testimony, Dr.  
22 Mercer states that in order to comport with analysis of  
23 the WUTC staff we adopted their assumptions of an  
24 18-year average equipment life in calculating  
25 depreciation. Were you aware of that testimony of Dr.

01509

1 Mercer's.

2 MS. PETERSON: I'm going to object to the  
3 question. I don't believe you're quoting it correctly  
4 unless I'm just missing it but if you could please  
5 just quote it as it's stated.

6 MS. PROCTOR: Be happy to.

7 Q. Beginning at line 8 of his testimony he  
8 states, "In order to comport with analyses of the WUTC  
9 staff, we adopted their assumptions of a 45/55 debt to  
10 equity ratio and 11.4 percent cost of equity, a  
11 combined federal and state tax rate of 40 percent, and  
12 an 18-year average equipment life in calculating  
13 depreciation." You're aware of that testimony, are  
14 you not?

15 A. I don't have it in front of me. The parts  
16 that -- the rebuttal that I wrote to Mr. Mercer's  
17 testimony was directed more at the -- his testimony  
18 regarding competition rather than the testimony  
19 regarding lives, so I'm not as familiar with it as one  
20 might expect.

21 Q. The testimony you were giving this evening  
22 was directed to economic lives; is that correct?

23 A. Yes, as discussed in his supplemental  
24 testimony.

25 Q. And you were referring to page 14 of his

01510

1 supplemental testimony?

2 A. Yes. Pages 3, line 20, I believe and page  
3 14 line 6 through 14.

4 Q. And at line 8 you are aware of his  
5 testimony that the 18 years is the same value used to  
6 produce the results reported in my earlier testimony?

7 A. Yes, I see that.

8 Q. And you were aware of that testimony?

9 A. Yes, ma'am.

10 Q. Would it be fair to say that Dr. Mercer has  
11 used the Commission prescribed depreciation lives in  
12 building his model and as an input into his model?

13 MS. PETERSON: Objection. I don't think  
14 this witness can answer that question. I would think  
15 that question is appropriate for Dr. Mercer.

16 MS. PROCTOR: Well, this witness is  
17 directing his testimony to Dr. Mercer's testimony. He  
18 has gone on at some length about correct economic lives  
19 and you just attempted to ask him whether he thought  
20 the use of Commission prescribed depreciation lives was  
21 appropriate. I perhaps incorrectly assumed that he  
22 would have known what the Commission prescribed  
23 depreciation lives were.

24 MS. PETERSON: That question was raised  
25 with respect to Mr. Dunkel and he was forbidden to

01511

1 answer it. I think it's a different question to ask  
2 him to opine on what is underneath Mr. Mercer's  
3 analysis and assumptions.

4 JUDGE WALLIS: If the witness knows the  
5 answer he may respond.

6 A. All I know on the subject is what is in Mr.  
7 Mercer's supplemental testimony regarding it being  
8 inconsistent with the FCC lives.

9 Q. So you don't know what the Commission  
10 prescribed depreciation lives are?

11 A. I don't know what number, 18 years,  
12 whatever that year would be, if one composited all the  
13 Commission prescribed lives.

14 MS. PROCTOR: Thank you, Mr. Vanston. No  
15 further questions.

16 JUDGE WALLIS: Questions from  
17 commissioners?

18 CHAIRMAN NELSON: No.

19 COMMISSIONER HEMSTAD: No.

20 JUDGE WALLIS: Redirect?

21 MS. PETERSON: Nothing further.

22 JUDGE WALLIS: Is there anything further of  
23 this witness? It appears that there's not. Thank  
24 you, Mr. Vanston. You're excused from the stand.

25 MR. OWENS: U S WEST calls Ann Koehler to

01512

1 the stand.

2 MR. VAN NOSTRAND: Your Honor, if I could  
3 interject, it's come to my attention when Ms. Evans  
4 was on the stand she was asked a question as to  
5 whether or not Exhibit 172 was a data request from  
6 staff had been updated and her response was yes, and I  
7 think the record should reflect that we have been  
8 unable to substantiate that that response was correct.  
9 That data request was updated only to the extent that  
10 it was included in those work papers now included in  
11 Exhibit 213C, so we can recall Ms. Evans or we can  
12 stipulate that that answer that she gave turns out to  
13 be incorrect. I wanted to let the record be corrected  
14 that she misspoke or misunderstood how data requests  
15 are normally updated because it was not normally  
16 updated.

17 JUDGE WALLIS: Let's be off the record,  
18 please.

19 (Discussion off the record.)

20 JUDGE WALLIS: Mr. Smith.

21 MR. SMITH: Yes, Your Honor. Mr. Van  
22 Nostrand's stipulation as to the inability to  
23 establish that the data request in question had been  
24 updated as Ms. Evans had testified is satisfactory  
25 without recalling Ms. Evans.

01513

1 MR. VAN NOSTRAND: Thank you.

2 Whereupon,

3 ANN KOEHLER-CHRISTENSEN,

4 having been first duly sworn, was called as a witness

5 herein and was examined and testified as follows:

6

7 DIRECT EXAMINATION

8 BY MR. OWENS:

9 Q. Good afternoon, Ms. Koehler-Christensen.

10 Would you please state your name and address for the

11 record and spell your last name.

12 A. My name is Ann Koehler-Christensen. My

13 work address is 1600 Seventh Avenue, Seattle,

14 Washington. My last name is spelled K O E H L E R - C H

15 R I S T E N S E N.

16 JUDGE WALLIS: I will ask that the court

17 reporter insert at this point in the transcript the

18 identification of Exhibits 225T through 232.

19 (Marked Exhibits 225T - 232.)

20 MR. OWENS: Thank you, Your Honor.

21 Q. Ms. Koehler-Christensen, showing you what's

22 been marked as Exhibit 225T, is that your prefiled

23 testimony in this case?

24 A. Yes, it is.

25 Q. And was it prepared by you or under your

01514

1 direction and supervision?

2 A. Yes, it was.

3 Q. Do you have any additions, changes or  
4 corrections to make at this time to that prefiled  
5 testimony?

6 A. I do have one correction and the correction  
7 is on page 14, line 25. Sentence reads, "There are 15  
8 publishers in the state of Washington that are members  
9 of YPPA," and that should state 14.

10 Q. As corrected if I were to ask you the  
11 questions printed on Exhibit 225T would your answers  
12 be as set forth therein?

13 A. Yes, they would.

14 Q. And directing your attention to Exhibits  
15 226 and 227, were those exhibits prepared by you or  
16 under your direction and supervision?

17 A. Yes,

18 Q. Are they true and correct to the best of  
19 your knowledge?

20 A. Yes.

21 MR. OWENS: Your Honor, U S WEST offers  
22 Exhibits 225T, 226 and 227.

23 MR. SMITH: No objection.

24 MR. OWENS: Ms. Koehler-Christensen is  
25 available for cross-examination and examination by the

01515

1 Commission.

2 JUDGE WALLIS: There being no objection,  
3 225T, 26 and 27 are received.

4 (Admitted Exhibits 225T, 226 and 227.)

5

6 CROSS-EXAMINATION

7 BY MR. SMITH:

8 Q. Ms. Koehler-Christensen, U S WEST Direct is  
9 a U S WEST subsidiary that publishes and distributes  
10 white and Yellow Pages directories in the U S WEST  
11 14-state service territory; is that correct?

12 A. That's correct.

13 Q. And prior to the formation of U S WEST  
14 Direct, Pacific Northwest Bell and later U S WEST  
15 Communications published its own directories and the  
16 profits from that endeavor were included in the  
17 determination of the company's intrastate revenue  
18 requirement; is that correct?

19 A. That is correct.

20 Q. And since 1984, U S WEST Direct has paid  
21 annual publishing fees to U S WEST Washington for the  
22 right to publish Yellow Page directories on its  
23 behalf; is that correct?

24 A. U S WEST Direct paid publishing fees to  
25 Pacific Northwest Bell and then U S WEST



01516

1 Communications for the years 1984 through 1988. The  
2 publishing fee was no longer effective starting  
3 January 1989.

4 Q. Mr. Okamoto in his direct testimony,  
5 Exhibit T-1 discussed the \$78 million of Yellow Page  
6 revenue imputation. Are you familiar with his  
7 testimony on that point?

8 A. I don't have a copy of it here. I did read  
9 it at one time.

10 Q. If you will accept my representation that  
11 he did testify that the Yellow Pages imputation was  
12 \$78 million. You presented no direct testimony; is  
13 that correct?

14 A. That's correct.

15 Q. And the purpose of your rebuttal testimony  
16 as you state is to present the company's case for  
17 eliminating the Yellow Pages imputation; is that  
18 correct?

19 A. Yes.

20 Q. And in your rebuttal testimony you  
21 testified that the current Yellow Pages imputation is  
22 39.9 million; is that correct?

23 A. I testified that the \$39.9 million is the  
24 amount that is embedded in the rates in the state of  
25 Washington. That is the amount that was agreed to in

01517

1 the stipulation that was made in conjunction with the  
2 implementation of the alternative form of regulation.

3 Q. Can you explain the source, then, of Mr.  
4 Okamoto's assertion that there is \$78 million in  
5 Yellow Pages imputation involved?

6 A. I can say -- I do not know the source of  
7 his number. I can guess that what he was referring to  
8 was the amount that was calculated according to the  
9 formula that was agreed to in the sharing plan.

10 Q. Isn't that the same formula you relied on,  
11 if I understood your testimony?

12 A. No. What I'm saying is that at the time  
13 the rates were set the 39.9 were embedded in rates. I  
14 am not addressing the amount that was calculated for  
15 sharing purposes. I view those as two separate things.

16 Q. So the \$39.9 million was based on the  
17 original calculation from the AFOR sharing formula?

18 A. Yes, and that was what was used to  
19 establish the rates in the last rate case.

20 Q. And the \$39.9 million figure did not appear  
21 in the company's case until the rebuttal stages of the  
22 testimony; is that correct?

23 A. All I am saying -- have said in my  
24 testimony is that that's the amount that was embedded  
25 in the rates that were established in the last rate

01518

1 case.

2 Q. And my question is that's the first time  
3 that number appeared in the company's case; is that  
4 correct?

5 A. I don't have any idea.

6 Q. On page 4, line 23, you testified that the  
7 Yellow Page imputation amounts to \$2.29 per month per  
8 residential access line; is that correct?

9 A. Yes, it is.

10 Q. And later on page 12 you state that Dr.  
11 Selwyn recommends increasing the Yellow Page  
12 imputation to \$4.27 per month per residential line.  
13 Do you see that?

14 A. Yes, I do.

15 Q. And at the time Dr. Selwyn presented his  
16 direct testimony including that calculation the  
17 company had not presented its \$39.9 million imputation  
18 figure; is that correct?

19 A. Well, I'm really confused I guess on what  
20 you're trying to imply with the 39.9. What Dr. Selwyn  
21 recommended was an imputation that would amount to  
22 \$4.27 per access line. I don't think the \$39.9  
23 million has anything to do with that number.

24 Q. That's correct. Would you accept the  
25 staff's calculation that the \$4.27 per month per line

01519

1 was based on Mr. Okamoto's representation of the  
2 overall magnitude of the Yellow Page imputation?

3 A. That may be.

4 MR. OWENS: Is there some way that she can  
5 check that? Has that been provided to U S WEST in a  
6 data request somehow?

7 MR. SMITH: Well, I will make that  
8 representation also, the calculation would be just a  
9 simple mathematical one.

10 Q. Ms. Koehler-Christensen, would you agree in  
11 principle that U S WEST Communications should be  
12 compensated by U S WEST Direct for publishing its  
13 Yellow Pages?

14 A. No, I would not. U S WEST Direct does  
15 compensate U S WEST Communications for the leasing of  
16 its listings at the same price and under the same  
17 terms and conditions that other directory publishers  
18 compensate U S WEST Communications for their listings  
19 and U S WEST Direct compensates U S WEST  
20 Communications for all other goods and services that  
21 are provided to U S WEST Direct, but if you are  
22 implying that they should pay an additional subsidy  
23 that is not paid by other directory publishers that's  
24 what I do not agree with in principle.

25 Q. Well, if U S WEST Direct did not publish

01520

1 the directory listings for U S WEST Communications,  
2 U S WEST Communications would have to do it itself;  
3 isn't that correct?

4 A. It is my understanding that U S WEST  
5 Communications has an obligation as a utility to  
6 assure that white page listings are provided to each  
7 of our customers, and therefore U S WEST Communications  
8 would have to assure that a white pages directory  
9 listing was provided to each of our customers, so we  
10 would have to insure that that was provided in some  
11 way.

12 Q. And if U S WEST Communications retained the  
13 Yellow Pages publication function, in your opinion,  
14 would that be a profitable venture for U S WEST  
15 Communications?

16 A. Yes. I believe it would most likely be a  
17 profitable operation. I also believe, as I stated in  
18 my testimony, that I don't believe that it would be  
19 appropriate to use the profits from that line of  
20 business to subsidize a competitive or an emerging  
21 competitive line of business such as basic residential  
22 rates.

23 Q. Well, would you agree that the question of  
24 how much compensation is appropriate for the Yellow  
25 Pages function is separate from how that compensation

01521

1 should be used?

2 MR. OWENS: I am going to object to that  
3 question as being vague. How much compensation is  
4 appropriate under what context and in what connection?  
5 I don't understand the question.

6 Q. Did you understand the question?

7 A. No, I did not.

8 Q. You indicated that you assumed that if U S  
9 WEST Communications retained the Yellow Pages function  
10 that that would be profitable for U S WEST  
11 Communications. That was your testimony, as I recall.

12 A. I would make that assumption.

13 Q. And the question of how much U S WEST  
14 Direct pays or should pay U S WEST Communications for  
15 providing that function is separate from the question  
16 of what U S WEST Communications should do with that  
17 money. Aren't those two separate questions?

18 A. Yes.

19 MR. OWENS: I'm going to object that it  
20 assumes a fact not in evidence, namely, that U S WEST  
21 Direct should in fact pay U S WEST Communications for  
22 the function of publishing Yellow Pages. The witness  
23 hasn't stated she agrees with that. I think she  
24 stated she disagreed with it.

25 MR. SMITH: Witness stated there was some

01522

1 payments from U S WEST Direct to U S WEST  
2 Communications in connection with Yellow Pages.

3 MR. OWENS: But not specifically for the  
4 function of publishing Yellow Pages. That was the  
5 question, the penultimate question that I objected to.

6 MR. SMITH: I am happy to state it in  
7 whatever terms the witness stated it. The witness  
8 went on to state that those funds were used as a  
9 subsidy. That is -- point of my question was that's a  
10 separate question.

11 A. I'm a little unclear on what you just said  
12 about that I stated as which funds were used as a  
13 subsidy.

14 Q. Let's move on to another question. Turn to  
15 page 12 and 13 of your testimony where you refer to  
16 Judge Green's opinion in the MFJ on the disposition of  
17 Yellow Page operations at the time of divestiture.  
18 You state there that "the original plan placed the  
19 Yellow Pages operations with AT&T because Yellow Pages  
20 were recognized to be a competitive service." Could  
21 you explain that statement given that Judge Green  
22 specifically concluded in the MFJ that "no parties  
23 dispute that Yellow Pages earn supra competitive  
24 profits"?

25 A. Judge Green made the comments that actually

01523

1 to place the -- to prohibit the Yellow Pages from  
2 being provided by the -- I don't know how he referred  
3 to it, the regional companies, would be actually  
4 anathema to antitrust laws because it would create the  
5 ability for AT&T to monopolize the Yellow Page  
6 operations, whereas by allowing the regions to also or  
7 to publish Yellow Pages it would not be possible for  
8 them to monopolize that line of business.

9 Q. Would you agree with me or accept subject  
10 to your check that Judge Green said in the MFJ that no  
11 parties dispute that Yellow Pages earn supra  
12 competitive profits?

13 A. Yes, I would agree with that.

14 Q. In a staff data request 362, the company  
15 was asked to quantify the costs associated with U S  
16 WEST Direct's Yellow Page operations in Washington  
17 state and the company responded that U S WEST does not  
18 maintain cost separately. Does that response mean  
19 that U S WEST Direct tracks its costs for the 14-state  
20 region as a whole but not for individual states?

21 A. Yes. U S WEST Direct is a 14-state  
22 operation, and there are many of its costs that it has  
23 no business reason for tracking on a state  
24 jurisdictional basis.

25 Q. So I take it you would not be able to



01524

1 estimate Direct's annual costs for Washington  
2 directory operations for the past few years?

3 A. Could you tell me which data request you're  
4 referring to.

5 Q. I may have misspoke. 1-362, but my  
6 question is really beyond that. I don't think you  
7 need to refer to it.

8 A. I believe I provided at some point, but I'm  
9 not certain right here, that U S WEST Communications  
10 does do an allocation for our own information where I  
11 actually allocate U S WEST Direct's costs to each of  
12 our 14-state jurisdictions so that we have an idea of  
13 what their costs are on a state by state basis. I  
14 take the expenses that U S WEST Direct does have and  
15 can directly identify as Washington specific expenses  
16 and Washington specific revenues and I use that  
17 information to allocate it to the state of Washington.

18 Q. Is that allocation performed by U S WEST  
19 Communications?

20 A. Yes, it is.

21 Q. What's the purpose of the allocation?

22 A. We had several states commissions that  
23 requested that we do such an allocation and as a result  
24 the allocation model was designed to allocate to each  
25 of our state jurisdictions to assure that all of the

01525

1 dollars were allocated so that we weren't just  
2 allocating to the states that required this.

3 JUDGE WALLIS: Let's be off the record for  
4 just a moment for a scheduling discussion.

5 (Discussion off the record.)

6 JUDGE WALLIS: If this would be an  
7 appropriate breaking point why don't we break and  
8 resume tomorrow morning.

9 MR. OWENS: Before we go off the record,  
10 Your Honor, Mrs. Wright has responded to the bench  
11 request that asks for the calculation of the  
12 streamlining or restructuring costs as an update, and  
13 I have that here if it would be convenient to  
14 distribute it now or we could do that in the morning,  
15 either way.

16 JUDGE WALLIS: My preference would be that  
17 we do it in the morning. I would like to ask counsel  
18 to be present at 8:30 and we will resume the hearing  
19 proper at 9:00: At 8:30 we will talk about the  
20 exhibits that have yet to be marked for McDonald,  
21 Farrow, Copeland, Cummings and Emmerson. We'll deal  
22 with the bench request in the morning as well, and we  
23 might as well take up the other bench requests at that  
24 time as well.

25 Is there anything further this evening?

01526

1 It appears that there is nothing. Thank you all very  
2 much, and we're adjourned until tomorrow morning.

3 (Hearing adjourned at 5:00 p.m.)

4

5

6

7

8

9

10

11

12

13

14

15

16

17

18

19

20

21

22

23

24

25