

1 BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
2 COMMISSION

3	WASHINGTON UTILITIES AND)	
	TRANSPORTATION COMMISSION,)	DOCKET NO. UT-950200
4)	
	Complainant,)	VOLUME 28
5)	
	vs.)	Pages 3726 - 3932
6)	
	U S WEST COMMUNICATIONS, INC.,)	
7)	
	Respondent.)	
8	-----)	

9 A hearing in the above matter was held at
10 9:15 a.m. on January 29, 1996, at 1300 South Evergreen
11 Park Drive Southwest, Olympia, Washington before
12 Chairman SHARON L. NELSON (via bridge line),
13 Commissioners RICHARD HEMSTAD, WILLIAM R. GILLIS and
14 Administrative Law Judge C. ROBERT WALLIS.

15

16 The parties were present as follows:

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

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

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

25 Cheryl Macdonald, Court Reporter

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APPEARANCES (CONT.)

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

TRACER, by ARTHUR A. BUTLER, Attorney at
Law, 601 Union Street, Suite 5450, Seattle, Washington
98101-2327.

MCI, by ROBERT NICHOLS, Attorney at law,
2060 Broadway, Suite 200, Boulder, Colorado 80302.

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I N D E X

2

	WITNESSES:	D	C	RD	RC	EXAM
3	GRIFFITH	3732	3735	3768		
	ZAWISLAK	3770	3772			
4	ERDAHL	3807	3811	3858	3861	
	EMRY	3862	3864	3872		
5	HUA	3877	3879			
	TWITCHELL	3909	3915			

6

	EXHIBITS:	MARKED	ADMITTED
7	387	3729	3729
8	639T, 640-644	3732	3734
	645-648	3732	3767
9	631T		3734
	649T, 650, 651,	3770	3772
10	652, 653C,		
	654-660		
11	661T, 662T, 663C,	3807	3809
	664C-675C, 676T,		
12	677, 678		
	679, 680, 682-684	3807	
13	680C	3810	
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14	685T, 686-688	3862	3864
	689T, 690, 691,	3877	3879
15	693, 694, 695T, 696		
	697	3877	3895
16	698	3877	3907
	699T, 700-723,	3909	3914
17	724T, 725-729,		
	730C, 731, 732C,		
18	321		

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

2 JUDGE WALLIS: Let's be on the record,
3 please, for our Monday, January 29, 1996 session in
4 the matter of docket UT-950200, U S WEST
5 Communications. This session is being held at Olympia,
6 Washington, and we're going to handle some
7 administrative matters before beginning to take
8 testimony for the day.

9 First matter is that a revised errata sheet
10 has been produced for Scott C. Lundquist, a witness for
11 the staff. That document consisting of a single page
12 is marked as Exhibit 387 for identification.

13 (Marked Exhibit 387.)

14 JUDGE WALLIS: I understand that this
15 document may be received without objection. Is that
16 correct?

17 MR. OWENS: Yes, Your Honor.

18 JUDGE WALLIS: Exhibit 387 thus is
19 received.

20 (Admitted Exhibit 387.)

21 JUDGE WALLIS: We have pending a ruling on
22 the receipt -- well, on the consideration of two
23 transcript pages from prior proceedings as matters for
24 official notice brought to us by Mr. Harlow. I have
25 gone back and checked what I believe to be the law on

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1 official notice, and citing to the Washington
2 administrative law practice manual, official notice is
3 a matter to address facts whose truth may be
4 established without qualified record evidence.

5 On that basis I do not believe that it's
6 proper to take official notice of either document, that
7 is, page 271 of a transcript and page 982 of a
8 transcript for the truth of anything that's contained
9 in those two pages. Notice may be taken of page 271
10 merely to demonstrate that the witness's answer was
11 different in this proceeding, but that is the only
12 purpose for which notice will be taken.

13 Is there any question about that? Very
14 well. Let's proceed to noting for the record that we
15 did have some discussion regarding the organization of
16 briefs, and the standards for briefing as set out in
17 the letter of January 25, 1996.

18 In the first paragraph of the discussion of
19 current thinking it is agreed that a party who does not
20 argue any issue may be deemed to have no opinion on it.
21 Some updates were presented to the adjustments that are
22 under each of the headings in the revenue requirements
23 brief and some change in organization was made to the
24 outline for the rate design brief, in particular item
25 Roman numeral V rate design was subdivided into several

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1 subdivisions, and the 20 page limitation would apply to
2 each of those subdivisions.

3 Parties are content to present the revenue
4 requirements brief first and unless there is a request
5 from the Commission to the contrary, that is to start
6 with the other brief, then the revenue requirements
7 brief will be the first to be due at the Commission.

8 Is there anything further of a general
9 administrative nature to take up this morning? It
10 appears that there is not. The staff's first witness
11 of the day is David E. Griffith.

12 Whereupon,

13 DAVID E. GRIFFITH,
14 having been first duly sworn, was called as a witness
15 herein and was examined and testified as follows:

16 JUDGE WALLIS: In conjunction with Mr.
17 Griffith's appearance today, several documents have
18 been predistributed. Mr. Griffith's testimony
19 adopting and supplementing Mr. Kruse's testimony is
20 marked as Exhibit 639T for identification. A single
21 page errata sheet is marked as 640 for identification.
22 DEG-1 is marked as 641 for identification. DEG-2 is
23 marked as 642. DEG-3 is marked as 643. Pages 4 and 5
24 revised of DEG-4 is marked as 644 for identification.
25 The company has distributed four documents for

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1 reference during Mr. Griffith's cross-examination.
2 The first is a staff response to USWC data request No.
3 57. That's marked as 645 for identification. The
4 response to data request 102 is marked as 646 for
5 identification. A document designated Bellcore 1993
6 final view is marked as 647 for identification, and a
7 document designated Bellcore applied research 1994
8 budget marked as 648 for identification.

9 (Marked Exhibits 639T, 640-648.)

10

11 DIRECT EXAMINATION

12 BY MR. TRAUTMAN:

13 Q. Please state your name, spell your last
14 name and give your business address for the record.

15 A. My name is David E. Griffith,
16 G R I F F I T H, and my business address is 1300 South
17 Evergreen Park Drive Southwest, Olympia, Washington
18 98504.

19 Q. Did you prepare the testimony labeled
20 DEG -- labeled as Exhibit 639T?

21 A. Yes, I did.

22 Q. And in that testimony did you adopt and
23 supplement the portion of the testimony of Thomas M.
24 Kruse, Exhibit 631, which pertains to Bellcore and
25 Advanced Technologies?

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1 A. Yes, I did.

2 Q. Have you also prepared Exhibits labeled
3 DEG-1, 2, 3 and 4 which have been marked as Exhibits
4 641, 642, 643 and 644?

5 A. Yes, I have.

6 Q. Have you made any changes to your
7 previously filed testimony or exhibits by way of an
8 errata sheet marked as Exhibit 640?

9 A. That's correct.

10 Q. Are the testimony and exhibits which you
11 filed in this proceeding true and correct to the best
12 of your knowledge?

13 A. Yes, they are.

14 Q. If I were to ask you today the questions
15 contained in your testimony, would your answers be the
16 same?

17 A. Yes, they would.

18 MR. TRAUTMAN: I would move for admission
19 of Exhibits 631T, 639T and 640 through 644.

20 JUDGE WALLIS: Is there objection?

21 MR. OWENS: No objection. I just had a
22 point of clarification. In light of the statement in
23 the Exhibit 640 that what's been marked as Exhibit
24 641, 642 and 643 are superseded, is it still necessary
25 that they be offered?

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1 THE WITNESS: I think for the most part
2 they could probably be ignored as long as we follow
3 what's on Exhibit 640. The numbers in 640 are correct
4 and we've taken some items out of the other exhibits
5 since they were done earlier. 640 was essentially
6 issued to bring things up to date to reflect some
7 changes that the company made plus a couple of changes
8 that we made as well.

9 MR. TRAUTMAN: To clarify, 644 which is
10 DEG -- pages 4 and 5, together?

11 THE WITNESS: With 640, 639T and 631T.

12 MR. TRAUTMAN: 644.

13 JUDGE WALLIS: Let's be off the record for
14 a minute, please.

15 (Discussion off the record.)

16 JUDGE WALLIS: Let's be back on record,
17 please. Exhibits 631T, 639T, 640, 641, 642, 643 and
18 644 are received in evidence. Commission staff will
19 consider whether they wish to withdraw 641, 642 and
20 643 and will advise the Commission if they so intend.

21 (Admitted Exhibits 631T, 639T, 640-644.)

22 MR. TRAUTMAN: The witness is available for
23 cross.

24

25

1 CROSS-EXAMINATION

2 BY MR. OWENS:

3 Q. Morning Mr. Griffith. I'm Doug Owens
4 representing U S. WEST.

5 A. Good morning.

6 Q. Your adjustment is under the heading of
7 what's called a staff adjustment; is that right?

8 A. I would say that's correct.

9 Q. Now, is there any standard contained in the
10 Washington administrative code for what comprise a
11 staff adjustment, as far as you know?

12 A. I'm not familiar with that standard.

13 Q. Did you receive any direction as to how to
14 put together a staff adjustment from anybody other
15 than counsel?

16 A. We received some wording from counsel which
17 appears in the testimony.

18 Q. From anybody other than counsel?

19 A. No.

20 Q. You indicate in your testimony that you had
21 never testified before this Commission before. Have
22 you ever testified before any other Commission before?

23 A. No, I have not.

24 Q. You were employed by U S WEST for a number
25 of years. Were you ever personally involved in any of

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1 the projects that you're proposing to disallow?

2 A. I may have been involved in a couple of
3 projects that appeared in previous years. They
4 weren't in the test year. There may have been some
5 similar projects that I worked on, say, a year or two
6 or maybe three years before that have continued but
7 have different numbers now because it's a different
8 year. The only one I can think of that I may have
9 worked on would have been the ACS project that we
10 put on our disallowance list.

11 Q. And your testimony indicates that your
12 duties while you were an employee of U S WEST included
13 activities in the planning area; is that right?

14 A. For the most part I was in the planning
15 area.

16 Q. And is that an area that from your
17 experience with U S WEST the company has done for some
18 long period of time?

19 A. Yes, it has.

20 Q. And when you were a U S WEST employee, did
21 you feel that it was a good idea for the company to do
22 that?

23 A. Yes. I think every company needs to do
24 planning.

25 Q. It's correct, isn't it, that in the

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1 company's most recent rate case before this Commission
2 the Commission allowed license contract expenses
3 without the requirement of a showing of benefits to
4 current ratepayers resulting from those expenses? That
5 would be U-82-19.

6 A. U-82-19?

7 Q. Yes.

8 A. I don't know if I'm familiar with that or
9 not.

10 Q. Well, if you will just accept subject to
11 check that they did, and then I will just move on to
12 another question. Can you do that?

13 A. Okay. Could you restate what you said?

14 Q. Yes. That the Commission approved license
15 contract expenses without requiring a showing of
16 current benefit to ratepayers?

17 A. We'll make that subject to check.

18 Q. From your many years of experience in the
19 Bell system, isn't it true that license contract
20 expenses included research type activities carried on
21 by one of your other former employers, Bell Labs?

22 A. That's correct.

23 Q. And so those expenses for research would be
24 similar in kind to some of the projects that you're
25 proposing to disallow; is that correct?

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1 A. Are you speaking of the relationship with
2 Bell Laboratories?

3 Q. I'm simply speaking qualitatively. These
4 were research projects, were they not, that were at
5 least included in some of the work done by Bell Labs
6 in prior years?

7 A. Yes, they were. What were you exactly
8 trying to --

9 Q. I'm simply asking you if included in the
10 license contract expenses in prior years, that is,
11 when there were such things as license contract
12 expenses, were activities that are similar in kind in
13 the nature of research projects to those that you're
14 seeking to disallow in this case?

15 A. I would say similar to some extent, but as
16 things that have changed in the area of
17 telecommunications over the last several years, there
18 may be some differences in some of those projects.

19 Q. Differences in the individual projects, but
20 would you agree with me that the orientation of the
21 work that was done at Bell Labs during that time was
22 similar in that it was attempting to make provision
23 for future services?

24 A. I would say to some extent future services
25 and also enhancements to the network.

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1 Q. And would it be fair to state that in not
2 all cases did the research work that was done in those
3 prior years produce immediate benefits to current,
4 then current ratepayers?

5 A. I believe you used the term immediate?

6 Q. Yes.

7 A. Many of those projects were long term and
8 did not provide immediate benefit.

9 Q. To current ratepayers?

10 A. To current ratepayers.

11 Q. Now, your disallowance is calculated at 50
12 percent of the test year amounts for these certain
13 projects that you've listed in Exhibit 321 as modified
14 by Exhibit 644; is that right?

15 A. That's correct.

16 Q. Have you produced any evidence that 50
17 percent is the number that meets the criteria
18 described at page 17 of Exhibit 631T?

19 A. Do you have a line number on page 17?

20 Q. Beginning at line 6 and going through to
21 line 12.

22 A. Okay. I was looking for the word 50
23 percent in here. Could you restate the question?

24 Q. I would be happy to. Have you presented
25 any evidence that 50 percent is the number that meets

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1 the criteria described at page 17, lines 6 through 12
2 of Exhibit 631T?

3 A. I haven't presented any evidence in my
4 testimony to that effect. However --

5 Q. Thank you, that's all I asked.

6 MR. TRAUTMAN: Could the witness finish his
7 answer?

8 MR. OWENS: Well, the answer called for --

9 MR. TRAUTMAN: He had not finished his
10 answer.

11 MR. OWENS: The question called for yes or
12 no.

13 JUDGE WALLIS: Let's let the witness start
14 an explanation and if it's beyond the question, we can
15 deal with it.

16 A. There are a large number of projects in
17 here some of which certain individuals had felt should
18 be excludable completely. Others that we looked at we
19 felt would only partially meet the criteria and
20 overall it is our feeling that a 50/50 split would fit
21 these particular projects.

22 Q. So that's your answer to my question?

23 A. Yes.

24 Q. Have you presented any evidence that any of
25 the expenditures on any of the projects for which you

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1 propose a 50 percent disallowance were imprudent?

2 A. I haven't presented any evidence to
3 indicate that they are imprudent expenditures. Those
4 are expenditures that I would expect the corporation
5 to make. I think our question is whether they should
6 all be charged to the ratepayers.

7 Q. If you would expect the corporation to make
8 them, would I be correct in assuming that you do not
9 believe that the expenditures were made in bad faith?

10 A. No, I do not think they were.

11 Q. Has U S WEST presented satisfactory
12 evidence to you of the cost incurred by Bellcore and
13 Advanced Technologies in performing the work that
14 you're proposing to disallow expenses for?

15 A. I would say they have for the most part.

16 Q. I would like you to assume for the purposes
17 of this question that it is the law in the state of
18 Washington that a public utility such as U S WEST
19 Communications has a legal obligation to make
20 reasonable provision for the continuing availability
21 of its service in the future. Do you have that
22 assumption in mind?

23 A. Okay.

24 Q. Now, would you tell the Commission which of
25 the projects that you're proposing a 50 percent

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1 disallowance for are inconsistent with the performance
2 of that duty?

3 A. I don't know as any of the projects are
4 inconsistent with that duty. I think a number of them
5 are looking out a ways beyond the horizon, and I think
6 the question we were asking here, should all of the
7 risk that's involved with each of these projects be
8 placed on the ratepayers at this time or should the
9 risk be spread to other parties.

10 Q. So the record is clear, is the answer to my
11 question that you don't know of any?

12 A. I don't know of any that the corporation
13 itself shouldn't be looking at.

14 Q. In response to U S WEST's data request 54,
15 did you indicate that when you state that entities
16 other than U S WEST Communications ratepayers may be
17 indirectly benefited by Bellcore projects that the
18 word entity means new U S WEST Communications services
19 that potentially could be offered as deregulated
20 services?

21 A. You referred to an item 54?

22 Q. Yes. Our data request to you, No. 54.

23 A. I don't have that in front of me but maybe
24 you can ask the question again. I think I might
25 remember.

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1 Q. Do you recall answering a request that
2 asked you what you meant when you said entities that
3 might be indirectly benefited, and you said you meant
4 new U S WEST Communications services that potentially
5 could be offered as deregulated services?

6 A. I remember something to that effect. I
7 don't know if that's the exact wording but maybe
8 subject to check.

9 Q. Now, it's correct, isn't it, that if U S
10 WEST Communications offers a new service in Washington
11 it's not simply up to U S WEST Communications whether
12 that's a regulated or unregulated service. Would you
13 agree with that?

14 A. I will agree with that.

15 Q. Are you aware of what the currently
16 deregulated services are in Washington that U S WEST
17 offers?

18 A. Well, I can put them in some broad
19 categories like wireless services.

20 Q. That U S WEST Communications offers.

21 A. Oh, that U S WEST Communications?

22 Q. Yes.

23 A. I would think voice messaging is one of
24 those.

25 Q. Alarm services?

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1 A. Probably alarm services.

2 Q. Mobile radio?

3 A. Okay, mobile radio.

4 Q. Inside wire?

5 A. Inside wire.

6 Q. Can you think of any others?

7 A. Not at the moment.

8 Q. That's a fairly small group, would you
9 agree?

10 A. I would agree.

11 Q. Now, can you look at the projects that
12 you've proposed for disallowance and indicate which
13 ones would produce benefits for those four services?

14 A. The ones that I have looked at are
15 providing benefits to services in other entities other
16 than the possibility of it in other U S WEST entities
17 such as DCS Services.

18 Q. Just so that I understand that answer, when
19 you use the criteria of a potential benefit to
20 entities other than U S WEST Communications ratepayers
21 in answer that you meant new U S WEST Communication
22 services that could potentially be offered as
23 deregulated services, you weren't then speaking of
24 those four services that U S WEST Communications now
25 offers; is that right?

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1 A. That's right. I'm thinking of other
2 services that might be offered by other entities that
3 are benefiting from these projects. There is a
4 possibility that some of these other services that are
5 spoken about could be possibly not regulated in the
6 future, particularly when we get into areas of video
7 communications.

8 Q. Let's focus on Bellcore for a minute. It's
9 true, isn't it, that other than by way of a public
10 release of information by Bellcore there is no way
11 that a nonregulated subsidiary of U S WEST can use the
12 output of a Bellcore project?

13 A. A number of Bellcore projects involve
14 services that go through the various standards bodies.
15 Once those standards bodies have made their decisions
16 on what the various interfaces will look like for
17 those particular services they're pretty much in the
18 public domain.

19 Q. Please finish your answer.

20 A. So that then that information is available
21 to other U S WEST entities indirectly if they should
22 want to get at it through public domain.

23 Q. And it's that kind of a link that you're
24 relying on for the 50 percent disallowance?

25 A. No. That's one of the factors that's in

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1 there. I think that the main thing I see in the 50
2 percent disallowance has to do with timing. We're
3 looking at services that are being expensed in the
4 current test year and yet they won't make their way to
5 the market for several years. In that sense there
6 isn't benefit in the current year. The benefit will
7 have a time delay depending on how long it takes the
8 product to get to market. That may be probably a
9 minimum of three years, maybe more. In some cases the
10 product may never make it to market.

11 Q. When you say -- I'm sorry, had you
12 finished?

13 A. And in other instances it may end up in an
14 unregulated part of the business.

15 Q. Well, you agreed with me that at least in
16 Washington it's not up to U S WEST Communications
17 whether a given service ends up in an unregulated part
18 of the business; is that correct?

19 A. Whether --

20 Q. Whether a given service ends up in the
21 unregulated part of the business.

22 A. I'm not sure I follow what you're asking.

23 Q. Well, you answered at the end of that
24 answer by stating that one possibility is that the
25 outcome of a project can end up in the unregulated

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1 part of the business, and I'm simply asking you if it
2 isn't true that you earlier agreed with me that in
3 Washington U S WEST Communications offers regulated
4 service unless those services are deregulated by act
5 of legislature or by preemption of the federal
6 government. Is that true?

7 A. Did you ask me that before? I don't
8 remember.

9 Q. I asked you a related question whether it's
10 not up to U S WEST Communications whether a given
11 service is regulated or deregulated, and can you now
12 agree that in Washington unless a service is
13 deregulated by legislation or by federal preemption
14 it's regulated?

15 A. Well, I'm not an attorney but I will accept
16 that subject to check.

17 Q. Now, you said that the timing was the
18 principal issue in your consideration. Have you
19 assigned some weight to that? Is it 75 percent of
20 your judgment or some other value?

21 A. I haven't assigned a specific value, but I
22 think it would be a rather large one, probably on that
23 order. Looking at the projects themselves I think
24 about 95 percent of them are associated in one way or
25 another with new services. A majority of those were

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1 aimed at the services themselves. A smaller
2 percentage, maybe 15 to 20 percent, dealt with testing
3 and analyzing the networks of those particular
4 services that could be used by the network, so they
5 were indirectly aimed at those services, and yet the
6 services themselves would be the beneficiaries of the
7 work that was done.

8 Q. Now, it's true, isn't it, that telephony is
9 a dynamic industry, technologically?

10 A. Yes.

11 Q. And customers today enjoy services that 10
12 or 15 years ago were not being provided, some
13 services?

14 A. Some services, some customers, yes.

15 Q. And it's true, isn't it, that in order for
16 new services to be enjoyed by customers some of this
17 testing of the network has to be done?

18 A. Yes.

19 Q. And if the company were not to do the
20 testing ahead of time would it be a normal expectation
21 that the availability of a new service could be
22 delayed?

23 A. Well, this is one of the costs of bringing
24 those services to market. I think the question is
25 whether the testing itself should be expensed to the

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1 ratepayers who are using that network or whether the
2 expense should be looked at as something that's not
3 going to provide benefit until the service arrives.

4 Q. Well, you've proposed simply disallowing 50
5 percent, right?

6 A. That's correct.

7 Q. And so doesn't that have the effect of
8 requiring the shareholders to bear 50 percent of the
9 costs of bringing that new product to market, if
10 that's what it is?

11 A. Yes. Essentially it's saying the
12 shareholder should bear the risk of the expenses that
13 are involved in bringing those new services to market,
14 especially when a number of services never make it to
15 market.

16 Q. Well, you've asserted that one of your
17 categories for disallowance is that there is no
18 benefit perceived to current ratepayers for some
19 projects; is that correct?

20 A. It's correct in the sense that within the
21 projects themselves there may be a number of sub-
22 projects, a number of different things that are going
23 on so that the term no benefit is applied to that
24 portion of the project which would fit the criteria.
25 Doesn't mean the entire project has no benefit.

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1 Q. But just so the record is clear, in your
2 response to bench request No. 10, which is now Exhibit
3 321, you indicate that if any part of a project meets
4 staff's criteria it earns a 50 percent disallowance; is
5 that correct?

6 A. There are some projects where it would
7 fully meet. There are other projects where it would
8 partially meet. In answer to your question, yes, it
9 would get the 50 percent disallowance, but I did some
10 calculations of projects that public counsel had
11 recommended full 100 percent disallowance.

12 MR. OWENS: Your Honor, this is going way
13 beyond the question that I asked. I didn't ask him to
14 compare his analysis with public counsel's analysis.

15 MR. TRAUTMAN: I believe he's explaining
16 his answer.

17 JUDGE WALLIS: I think he's still within
18 the scope of the inquiry.

19 A. We would consider those particular projects
20 also meeting the full criteria or in public counsel's
21 eyes anyway being eligible for 100 percent
22 disallowance. There were other projects that we felt
23 shouldn't get 100 percent disallowance. After I added
24 up the cost totals of all of those projects, there were
25 about 20 in total, I applied a 20 percent disallowance

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1 to everything else assuming those could be partial
2 disallowances. 20 percent was our cutoff. If there
3 were projects that met the criteria that we didn't feel
4 measured up to a 20 percent disallowance we threw them
5 out.

6 Then making the remaining projects that we
7 disallowed which would qualify for apparently meeting
8 the criteria and adding those -- adding 20 percent of
9 those cost totals into the other projects with the 100
10 percent disallowance we came up with about a 47 percent
11 split saying we would be worst case at maybe a 47/53
12 split rather than a 50/50 split.

13 Q. Well, going back to an earlier question
14 that I asked you, which I believe was, other than
15 where there is a public release, isn't it true that
16 Bellcore projects cannot be used by the unregulated
17 subsidiaries, and I believe you stated there was a way
18 that if Bellcore worked on standards and those
19 standards went into the public domain that the
20 unregulated subsidiaries could use the output; is that
21 correct?

22 A. That is one way they could receive the
23 output. I think there are ways within the corporation
24 that the unregulated subsidiaries could use the
25 outputs of Bellcore in terms of applying for use of

03752

1 the -- what you might call the project documents
2 themselves or the intellectual property that flows
3 from Bellcore, and I also noticed that there is some
4 allocation within the project documentation that U S
5 WEST gave to us for at least unregulated types of
6 activities.

7 Q. And is that based on the FCC's part X
8 accounting?

9 A. What are you referring to?

10 Q. Well, you mentioned the allocation for the
11 unregulated activities. Is that based on the FCC's
12 part X accounting?

13 A. I don't know where it comes from. It shows
14 up on the project sheets. There was a summary sheet
15 that listed each project and the amount of dollars
16 that went to unregulated and regulated entities within
17 Washington state.

18 Q. Directing your attention to what's been
19 marked as Exhibit 644. Is this your response or
20 staff's response to company's data request 57?

21 A. I believe this is 645.

22 Q. You're right, 645.

23 A. This is Mr. Kruse's response which I have
24 adopted as part of this proceeding. I would say in
25 reading through this that I don't agree fully with

03753

1 what he has said. He mentions a uniform 4.3 percent
2 allocation. In looking at the projects it was applied
3 differently to different projects. I noticed a number
4 at 4 or between 3 and 4 percent. There were some as
5 low as one half of one percent. There were maybe
6 three that range as high as 12 percent so it was not a
7 uniform allocation.

8 Q. For Bellcore?

9 A. Even for Bellcore. I noticed the
10 allocation was a little bit higher for U S WEST AT but
11 it didn't appear to be uniform for either Bellcore or
12 Advanced Technologies.

13 Q. Did you supplement the response to this
14 data request evincing your disagreement with it?

15 A. No, I did not.

16 Q. Is there some reason why you didn't?

17 A. This is the first time I've seen it.

18 Q. So, at least the basis of the criticism
19 that U S WEST's allocations were unvarying apparently,
20 at least as far as you know sitting on the witness
21 stand today, is not correct?

22 A. Well, the other --

23 Q. Is that right?

24 A. That they are unvarying?

25 Q. Yes. The last sentence of the data

03754

1 response says, "The project sheets reflected varying
2 degree of benefits to nonregulated U S WEST
3 Communication services or to other entities'
4 operations; therefore, it appeared that the current
5 uniform 4.3 percent allocation was inadequate."

6 A. Well, I agree that the allocation was
7 inadequate. I'm just saying that I don't think it was
8 applied uniformly.

9 Q. Well, sir, what I'm asking you about is the
10 criticism that allegedly a uniform allocator was used
11 by U S WEST, at least as you sit on the stand today,
12 isn't a valid criticism; is that right?

13 A. I'm agreeing with what Mr. Kruse has stated
14 in this response to a data request, but I'm saying
15 that it does not appear to me to be uniform
16 allocation. Maybe on average it works out, but I
17 notice a number of projects that work differently. He
18 even points out at the beginning of his response that
19 there were some applied research projects that
20 received a zero allocation on the unregulated side,
21 and I checked those and that's correct.

22 Q. Going back to your statement that there is
23 a way that the unregulated affiliate can get access to
24 the Bellcore project output, is that a possibility that
25 you rely on for your proposed disallowance of 50

03755

1 percent of these projects?

2 A. I don't know whether that will happen or
3 not. I'm just pointing it out. I didn't rely on it.

4 Q. You didn't rely on it?

5 A. I know it can happen.

6 Q. But it's not a factor that you would ask
7 the Commission to make a finding on to support your
8 disallowance; is that correct?

9 A. I don't think so.

10 Q. I asked you if it's correct and you said
11 you don't think so.

12 A. I don't see it as a major portion of the
13 calculation. I don't think the Commission should look
14 at it, no.

15 Q. In fact you're aware that if an affiliate,
16 an unregulated affiliate, were to attempt to use or
17 seek to use the output of a Bellcore project in the
18 fashion that you've described that there is a fair
19 compensation process that would have to be observed?

20 A. That's correct.

21 Q. And does that involve payment by the
22 nonregulated affiliate to U S WEST Communications of
23 an amount representing the value of that output?

24 A. In some cases it does. In others it
25 involves a technology transfer which does not have any

03756

1 monetary value attached to it.

2 Q. Payment in kind then; is that correct?

3 A. You might call it that. We asked for a
4 data request that said there wasn't an accounting
5 transaction that took place for that particular
6 activity.

7 Q. Now, with regard to your disallowance of AT
8 projects, it's correct, isn't it, that some projects
9 at AT are corporately funded?

10 A. That's correct.

11 Q. And some are single client funded?

12 A. Yes, that's correct.

13 Q. And some are funded based on negotiation
14 between at least two affiliates?

15 A. I would say so.

16 Q. And for the corporate and negotiated
17 funding options, wouldn't it be true that the amount
18 that would appear on U S WEST Communications books
19 represents some portion but not all of the cost of the
20 project?

21 A. That's possible.

22 Q. So in making your 50 percent disallowance,
23 did you examine what allocation for those projects had
24 already been done?

25 A. We did not see any numbers to indicate that

03757

1 there was funding for those projects from other
2 entities.

3 Q. Did you ask?

4 A. I don't believe we did, no.

5 Q. You would not believe that it's appropriate
6 to make an allocation that is inaccurate; is that
7 correct?

8 A. I would say that's correct.

9 Q. And so is it possible that by disallowing
10 50 percent of cost that had already been the subject
11 of an allocation you would be making an inaccurate
12 allocation?

13 A. That would be correct.

14 Q. Directing your attention now to Exhibit
15 646. Is this your response to data request 102?

16 A. Yes, it is.

17 Q. And directing your attention to the second
18 page of the document and about a quarter of the way
19 down the page there's a project called ISDN technical
20 requirements, 1R1111. Do you see that?

21 A. Yes, I see that.

22 Q. Now, is it correct that the existence of X
23 marks in each column opposite that line means that you
24 found that that particular project met all three of
25 your criteria?

03758

1 A. That's correct.

2 Q. So item 3 specifically, "no current or
3 future benefit," it's your testimony that this project
4 for ISDN technical requirements has no current or
5 future benefit at all?

6 A. It means that there is a portion of the
7 project that meets the criteria but not all of it.
8 Some of it -- there is a percent sign at the end of
9 the no current/future, meaning a portion of or
10 possibly all of it might meet that criteria.

11 Q. Similarly, on the last page, there are a
12 couple of ISDN projects, ISDN growth support projects
13 that you similarly find have no current or future
14 benefit; is that correct?

15 A. The reason for the no current benefit is
16 that they deal with ISDN services that are coming on
17 line in the future. They deal with things like
18 national ISDN 2, national ISDN 3. In the test year
19 we were in national ISDN 1. So these are enhancements
20 to the current ISDN product line.

21 Q. So is it the staff's position that U S WEST
22 should not be spending money to enhance ISDN?

23 A. No, it's not the staff's position that you
24 should not.

25 Q. Do you know what the national ISDN 1 and

03759

1 national ISDN 2 are?

2 A. I know that 1 is geared at getting away
3 from the ISDN island that we've had for the past six
4 or eight years where ISDN users cannot call out of
5 their own area.

6 Q. Do you think ISDN users want to be able to
7 call out of their own area?

8 A. I'm sure they do, but I'm not disallowing
9 ISDN 1. I'm looking at 2 and 3 which is building on
10 top of that.

11 Q. Would you agree that your 50 percent is
12 just as much of an unvarying allocator as the 4.3
13 percent is?

14 A. If you looked at the 50 percent project by
15 project it would vary from one to another. It
16 wouldn't be 50 percent on each project. The 50/50 is
17 an average across all the projects just as I would say
18 the 4.3 is an average across all projects.

19 Q. Directing your attention to Exhibit 646, is
20 this part of the documentation for one of the projects
21 that you're proposing to disallow?

22 A. 647?

23 Q. 647, I'm sorry.

24 A. Yes, it is.

25 Q. And this project as shown on page 2 of

03760

1 Exhibit 646 only has an X in the column no current or
2 future benefit; is that correct? That's about a third
3 of the way down the second page?

4 A. Yes, it does, that's correct.

5 Q. Now, the description of the project is
6 contained on the first page, the box entitled project
7 overview the thinkers paragraph; is that right?

8 A. Okay.

9 Q. Is that correct, the description of the
10 project?

11 A. Oh, okay, yes. In those three paragraphs?

12 Q. Yes.

13 A. Yes, that's correct.

14 Q. And to your knowledge, does U S WEST
15 provide synchronous optimal network services in
16 Washington today?

17 A. Yes, it does.

18 Q. Does U S WEST provide advanced intelligent
19 network services in Washington today?

20 A. I believe it is testing some. I don't
21 think it offers any. I would say it did not offer any
22 at all during the test year. One of the outputs of
23 AIN eventually will be number portability. That's
24 probably 1998 or '99 before we will see anything on
25 number portability, so number portability has a lot of

03761

1 advantages to a U S WEST subsidiary that may be
2 operating out of region.

3 Q. Did the Commission in the recent
4 interconnect docket indicate that it wanted the
5 company to move in the direction of providing number
6 portability?

7 A. Yes, it did, but this particular project
8 with AIN services in it still meets our criteria.

9 Q. Do you know whether single number service
10 is an AIN service?

11 A. No, I don't.

12 Q. Can you accept subject to check that it is?

13 A. Subject to check.

14 Q. And can you accept subject to check that
15 U S WEST is providing that service in Washington today?

16 A. Okay, subject to check.

17 Q. Directing your attention now to Exhibit
18 648. Is this another project description backup for a
19 project that you proposed for disallowance?

20 A. Yes, it is.

21 Q. And this one has Xs in all three columns; is
22 that correct?

23 A. That's correct.

24 Q. Now, is the description of this project
25 contained on the first page of Exhibit 648 under

03762

1 project overview?

2 A. It starts on page 1.

3 Q. And does it indicate --

4 A. It continues.

5 Q. Does it indicate that this project is
6 intended to increase the trustworthiness of networks
7 and improve security to prevent fraud and sabotage?

8 A. It does that but it applies it to areas
9 such as PCS, calling card, which would be long
10 distance services, and also speaks of privacy enhanced
11 E-mail, which seems to be a new project. E-mail seems
12 to be a lot like voice messaging, would not be a
13 regulated service.

14 Q. It would not? Are you sure of that?

15 A. I am not sure of it, but it seems to be in
16 that category. It's one of the items that brought my
17 attention to it anyway.

18 Q. If customers -- strike that. You said
19 calling cards were for long distance. To your
20 knowledge, does U S WEST provide calling card service
21 for intraLATA toll?

22 A. Yes, it does but it would apply to both
23 long distance and intraLATA long distance.

24 Q. So, shouldn't -- is it your testimony U S
25 WEST should not be investing in preventing calling

03763

1 card fraud just because it would assist in preventing
2 such fraud for long distance?

3 A. No, we're not saying that. We're just
4 saying -- we're just looking at these as partial
5 disallowances and not full.

6 Q. There's a project that you're proposing to
7 disallow, 10769 TP, 10878 BC, and 10879 BC. All
8 three of these are intended to improve technical
9 skills of people who are developing new systems; is
10 that correct?

11 A. I am looking for the project. Are these AT
12 projects?

13 Q. Yes, AT projects.

14 A. Okay. You have some questions on it?

15 Q. Yes. You're proposing to disallow these
16 three projects which are directed at improving the
17 technical skills of people who are developing new
18 systems for U S WEST Communications; is that correct?

19 A. I'm reading through these to see if it's
20 totally technical skills. I notice this one project
21 mentions U S WEST Technologies along with "and U S
22 WEST." It doesn't say U S WEST Communications.

23 Q. Which project is that?

24 A. That's the first one, I think the 10769 BC.

25 Q. 10769 TP?

03764

1 A. Did I get one of the wrong ones?

2 Q. 10769 TP was the first one I asked you
3 about.

4 A. I think it's probably the same project.
5 Just has the last two letters are different on the
6 project sheet that was given to us.

7 Q. Do you know what the project is, these
8 three projects are?

9 A. Says centers of excellence for project
10 management. Is that the same one?

11 Q. Yes. And isn't that essentially training
12 for people who are developing new operations support
13 systems?

14 A. It's operation support systems but it's --
15 says it provides support for specific U S WEST
16 Technologies projects so it doesn't seem to be
17 completely U S WEST C.

18 Q. That's the basis of your 50 percent
19 disallowance?

20 A. It looks like there's a possibility of a
21 misallocation.

22 Q. And 50 percent is the right allocation; is
23 that correct?

24 A. On average we would get a 50 percent across
25 the board, not for this particular project

03765

1 necessarily.

2 Q. Well, what is the right allocation for this
3 project?

4 A. We did not go through and allocate project
5 by project a percentage value.

6 Q. Another project from AT that you're
7 proposing to disallow is 10925 BC, is that correct,
8 or BD, I guess?

9 A. Right.

10 Q. And that's wireless loop strategies; is
11 that correct?

12 A. That's correct.

13 Q. Are you aware of legislation in Washington
14 that provides the Commission shall not regulate radio
15 communication services except when those services are
16 the only voice grade local exchange telecommunications
17 service available to a customer of the company?

18 A. I believe that's so. I will accept that.

19 Q. So is it possible that fixed wireless loop
20 would be the only voice grade local exchange
21 telecommunications service available to a particular
22 customer?

23 A. There was something about this particular
24 document or at least the description that bothered me,
25 and it wasn't the fact that it would be used

03766

1 specifically in certain areas in Washington state but
2 as an exercise for determining economic viability of a
3 fixed wireless loop technology which indicates to me it
4 could be used in lots of different places if it proves
5 economical, like it could be used in some suburban
6 ways. It could be used out of region where the
7 corporation is trying to gain a foothold where it may
8 own a cable TV franchise or the like, so I see the
9 particular project being used in more than just the
10 wireless or just some of the remoter areas of
11 Washington state.

12 Q. You recommend disallowance of project 2029
13 CD and 2321 CD which develop high speed data services
14 for U S WEST Communications; is that correct?

15 A. That's correct.

16 Q. And what was the reason for disallowing
17 those projects?

18 A. Particularly the compass project, which is
19 2029 CD involves a lot of laboratory testing of
20 different services. Those services may or may not
21 make it to market.

22 The second group, ACS projects, deals a lot
23 with some of the projects coming out of the compass
24 project. Both of these particular areas of project
25 use are being used out of area as well as in the U S

03767

1 WEST territory, so part of it -- part of the
2 disallowance is on potential out of region or
3 unregulated activity and the other is forward looking
4 projects that haven't come to market yet.

5 MR. OWENS: We would offer 645, 646, 647
6 and 648.

7 JUDGE WALLIS: There being no objection the
8 exhibit are received.

9 MR. OWENS: Thank you. Nothing further.
10 (Admitted Exhibits 645-648.)

11 JUDGE WALLIS: Are there other questions
12 from counsel for this witness? Commissioners.

13 COMMISSIONER HEMSTAD: No.

14 JUDGE WALLIS: Commissioner Gillis.

15 COMMISSIONER GILLIS: I have one question.
16 You answered a number of questions this morning about
17 the 50 percent allocation factor that you use. I
18 think I heard you say that you did an individual
19 analysis on each of the projects and that in your view
20 the actual level of appropriate disallowance is a
21 range anywhere from 20 percent to 100 percent?

22 THE WITNESS: That's correct. And I took
23 the worst case value for all the projects that did
24 seem that they wouldn't fit the 100 percent criteria
25 and give them a 20 percent weight.

03768

1 COMMISSIONER GILLIS: What was the advantage
2 of using the average factor over just treating each
3 project individually and reporting your allocation that
4 way?

5 THE WITNESS: I would say it's probably
6 easier to do it that way but it's more controversial.

7 COMMISSIONER GILLIS: Thank you.

8

9 REDIRECT EXAMINATION

10 BY MR. TRAUTMAN:

11 Q. You were asked whether any of the
12 affiliated interest expenditures were imprudent. Do
13 you recall that question?

14 A. Yes.

15 MR. OWENS: That wasn't the question. I
16 asked him if he had produced any evidence that they
17 were imprudent.

18 Q. Following up on that question, were any of
19 your adjustments premised on a finding that expenses
20 were incurred which were imprudent?

21 A. No, they were not.

22 Q. Do you know whether rules, Commission
23 rules, were in place which allowed for competitive
24 classification of services in 1982?

25 A. I do not know that.

03769

1 Q. And do you know whether the
2 telecommunications rules as to available services and
3 as to the providers of such services have changed
4 significantly since 1982?

5 A. I'm not aware of that.

6 MR. TRAUTMAN: I have nothing further.

7 MR. OWENS: Nothing.

8 JUDGE WALLIS: Mr. Griffith, it appears
9 that there is nothing further for you this morning.
10 You're excused from the stand at this time. Thank you
11 for appearing today. Let's be off the record for just
12 a moment while Mr. Zawislak comes forward.

13 (Recess.)

14 JUDGE WALLIS: Let's be back on the record,
15 please. The Commission staff is calling to the stand
16 at this time its witness Timothy W. Zawislak.

17 Whereupon,

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

21 JUDGE WALLIS: A number of documents have
22 been predistributed with regard to the testimony of
23 this witness. His direct testimony is marked as 649T
24 for identification. An errata sheet is marked as 650
25 for identification. Attachment TWZ-1 is marked as 651

03770

1 for identification. TWZ-2 as 652 for identification.
2 TWZ-3 as 653C for identification. TWZ-4 as 654 and
3 TWZ-5 as 655 for identification. Attachment TWZ-is
4 marked as 656 for identification. TWZ-7 is 657.
5 TWZ-8 as 658, TWZ-9 as 659 and TWZ-10 is marked as 660
6 for identification.

7 (Marked Exhibits 649T, 650, 651, 652, 653C,
8 654-660.)

9

10 DIRECT EXAMINATION

11 BY MR. TRAUTMAN:

12 Q. Please state your name, spell your last
13 name and give your business address for the record.

14 A. Timothy W. Zawislak, Z A W I S L A K.

15 Q. And your business address is?

16 A. That's 1300 South Evergreen Park Drive
17 Southwest, Olympia, Washington 98504.

18 Q. Did you prepare the testimony which has
19 been labeled as Exhibit 649T?

20 A. Yes.

21 Q. Did you also prepared Exhibits TWZ-1
22 through 10 which have been labeled as Exhibits 651
23 through 660?

24 A. I did prepare 651 through 653 and 653 is
25 a confidential exhibit. The other exhibits are taken

03771

1 from the deposition of Margaret Wright and also
2 exhibits in the interconnection case, which I did not
3 prepare myself but have submitted.

4 Q. Would you have submitted them with the
5 testimony, correct?

6 A. Yes.

7 JUDGE WALLIS: Excuse me just a moment, Mr.
8 Zawislak. Could you move the microphone around a
9 little bit farther toward your left and bring it way
10 up close to your face and speak directly into it, and
11 also I know that we have a relatively small group here
12 today, but we want to make sure that the chairman and
13 all of the others who are listening in on the bridge
14 line are able to hear you, so keep up, keep your
15 volume up and talk right into the microphone.

16 THE WITNESS: Okay.

17 JUDGE WALLIS: Thank you very much.

18 Q. Have you made any changes to your
19 previously filed testimony or exhibits by way of an
20 errata sheet designated Exhibit 650?

21 A. Yes, I have, and I also have one additional
22 change to Exhibit 653.

23 Q. And what is that change?

24 A. The title on column E, the last line of the
25 title has an explanation in parentheses and it says

03772

1 plug D minus B. That should be F minus D.

2 Q. If I were to ask you today the questions
3 contained in your testimony, would your answers be the
4 same?

5 A. Yes.

6 Q. I would move for the admission of Exhibit
7 649T, 650, 51 and 52, 653C and 654 through 660.

8 MR. VAN NOSTRAND: No objection.

9 JUDGE WALLIS: There being no objection the
10 exhibits are received.

11 (Admitted Exhibits f64T, 650, 651, 652,
12 653C, 654-660.)

13 CROSS-EXAMINATION

14 BY MR. VAN NOSTRAND:

15 Q. Good morning, Mr. Zawislak, I'm James Van
16 Nostrand representing U S WEST Communications.

17 A. Good morning.

18 Q. Like to start off with a few preliminary
19 matters to explore some areas of common ground. Among
20 other things your testimony discusses the company's
21 adjustment RSA No. 9 entitled primary toll carrier; is
22 that correct?

23 A. Yes, it does.

24 Q. And according to your testimony you are
25 accepting the company's adjustment as that adjustment

03773

1 is stated in the company's supplemental revised
2 testimony; is that correct?

3 A. Yes.

4 Q. And your testimony also discusses RSA No.
5 17, the out of period adjustment No. 7 which relates
6 to independent telephone company; is that correct?

7 A. Yes.

8 Q. And your testimony states that this
9 adjustment also is uncontested; is that right?

10 A. That's correct.

11 Q. And finally, you also discuss the company's
12 adjustment PFA No. 11 regarding interconnection with
13 independents?

14 A. I do address that in my testimony, yes.

15 Q. And you understand from Ms. Wright's
16 testimony earlier in this proceeding that this
17 adjustment is no longer being proposed by the company?

18 A. Yes, I understand that.

19 Q. Turning to the working capital issues. By
20 way of background is it fair to say that the company
21 performed a working capital adjustment using a lead
22 lag study?

23 A. I would have to say that that has been one
24 portion of their representation.

25 Q. And the other portions would be that the

03774

1 company also proposed to include the pension asset and
2 materials and supplies?

3 A. Yes. That's the company's proposal.

4 Q. And you performed a calculation of
5 investor-supplied working capital using a balance
6 sheet approach. Is that a fair summary?

7 A. Yes, it is. It's the balance sheet
8 approach using the investor-supplied working capital
9 methodology.

10 Q. And in so doing you excluded materials and
11 supplies from operating investment; is that right?

12 A. I don't think I would state it that way.
13 My answer to that question would be that I did not
14 include materials and supplies in the invested --
15 excuse me -- in the investment portion of the
16 calculation because materials and supplies are current
17 assets and by definition are included in the
18 definition of working capital. I believe I explained
19 that in my testimony as well.

20 Q. And as far as the pension asset you
21 included that or you considered that as part of the
22 nonoperating portion of the balance sheet; is that
23 correct?

24 A. That's correct. I've included the pension
25 asset in the nonoperating portion of the investment

03775

1 section and as also outlined in my testimony I have
2 placed that there because it is a noncurrent asset and
3 already earns a return through the pension fund.

4 Q. Go back to materials and supplies for a
5 minute. I'm trying to understand your testimony at
6 page 24, lines 16 through 18 where you indicate that
7 you excluded materials and supplies from the operating
8 investment portion of the calculation; is that right?

9 A. Yes. That's what I've stated, and in fact
10 that is further expanded on below in the next sentence
11 which explains that it is materials and supplies are
12 part of current assets which are by definition working
13 capital.

14 Q. Is it your understanding that irrespective
15 of what a utility includes as a working capital
16 analysis in its direct filing that staff can perform
17 its own calculation of working capital as a substitute
18 for the analysis included in the company's filing?

19 A. Could you repeat the question, please.

20 Q. Sure. Is it your understanding that
21 irrespective of what a utility includes as a working
22 capital analysis in its direct filing that staff can
23 perform its own calculation of working capital as a
24 substitute for the analysis included in the utility's
25 filing?

03776

1 A. Well, I would answer that question by
2 stating that I believe the company's presentation had
3 serious shortcomings to it and that to look at it in
4 that way would have really limited the Commission's
5 options in this case. I reviewed the Commission's
6 order in the pension asset case. I believe that was
7 UT 930307, and in that case, which the order was
8 issued earlier this year, the Commission explicitly
9 stated that the company should do an analysis of
10 investor-supplied working capital, and looking at the
11 company's proposal it could not be determined from the
12 evidence on the record whether or not the pension
13 asset was indeed investor-supplied or not, and so I
14 performed an investor-supplied working capital
15 calculation which looks at all items, a
16 comprehensive study which would allow the Commission to
17 determine which portion of the pension asset or any
18 other item is investor-supplied or not.

19 Q. And once you performed that calculation, is
20 it your understanding that the Commission can simply
21 choose between the two competing methods and that they
22 are considered on an equal footing?

23 A. I don't know if that's a legal question or
24 just my own recommendation, but I would have to say
25 that the company did perform an investor-supplied

03777

1 working capital calculation in Ms. Wright's exhibit
2 MJW 3, and that she also stated that that was done as
3 a test to determine whether or not the pension asset
4 should be included in rate base, and upon review of
5 that calculation I found that it was -- there were
6 many problems with her calculation. Number one the
7 fact that the calculation was made from an incomplete
8 balance sheet made it very difficult to determine what
9 the company's investor-supplied working capital in
10 fact was, and so I had to do further investigation and
11 analysis in order to determine what that calculation
12 would realistically include.

13 Q. Is it your understanding that the
14 investor-supplied working capital calculation proposed
15 by Ms. Wright is actually the company's proposal for
16 calculating working capital in this case?

17 A. No. I believe the company has stated that
18 proforma adjustments 3, 4 and 5 together are their
19 proposal for working capital, but Ms. Wright did state
20 in deposition and on cross-examination that she did
21 use the investor-supplied working capital approach on
22 the balance sheet to determine as a test or a sanity
23 check for the company whether or not they would
24 include the pension asset, and it's my testimony that
25 that test which she performed had serious problems.

03778

1 Q. Is it your testimony that the lead lag
2 methodology used by the company has been rejected in
3 this jurisdiction?

4 A. No. I don't state that in my testimony.

5 Q. Is it your testimony that the lead lag
6 methodology used by the company would never be an
7 appropriate basis for calculating working capital?

8 A. I don't state that either. I think I do
9 state that the investor-supplied working capital does
10 isolate that portion of working capital which is
11 indeed supplied by investors.

12 Q. Would you agree with the definition of
13 working capital from the Financial Accounting Standard
14 Board which simply defines it as the excess of current
15 assets or current liabilities?

16 A. I think in the strict sense of the
17 definition as you outlined I would agree with that. I
18 also would like to point out that upon
19 cross-examination Mr. Haack, the working capital
20 expert from the company, provided a data response to a
21 staff data request which indicated that the company's
22 current assets minus current liabilities was indeed a
23 negative number and in fact I believe that exhibit was
24 presented on his cross-examination and admitted and
25 accepted into the record.

03779

1 Q. And how would you define the term
2 investor-supplied working capital?

3 A. Investor-supplied working capital is that
4 amount of invested capital on an average basis for the
5 test period in excess or less than what the average
6 invested -- investments are for that same test period.
7 In this case the company's average invested capital
8 was less than the total amount of average investments,
9 and so the result of the calculation is a negative
10 investor-supplied working capital which shows that the
11 company has not even invested enough to cover its
12 investments let alone to show that there is a need for
13 working capital.

14 Q. And your calculation shows a negative
15 investor-supplied working capital of about 46.48
16 million; is that right?

17 A. 46 -- approximately 46 million -- excuse
18 me, the negative 46 million -- is an intrastate figure
19 for Washington results of operations, yes.

20 Q. Would you agree the company could
21 relatively easily make its working capital adjustment
22 a positive number?

23 A. I can't agree with that, no. I really
24 don't think it's relatively easy. I think that the
25 balance sheet is what it is and in order for that

03780

1 balance sheet to change it would take a number -- in
2 fact a long period of time for the accounts to close
3 out from the income statement to retained earnings and
4 other accounts to be adjusted. It's just a process
5 that occurs over time.

6 Q. Well, if the company issued stock or
7 secured debt and put the money in the bank that would
8 increase your investor-supplied working capital
9 calculation; is that right?

10 A. Would you please repeat.

11 Q. If the company issues stock or secured debt
12 and simply put the money in the bank that would
13 increase your investor-supplied working capital,
14 wouldn't it?

15 A. No, it would not.

16 Q. Wouldn't the cash be included as a current
17 asset?

18 A. Well, I would have to analyze each of the
19 accounts the company is proposing to adjust, but if
20 the company indeed increased its equity and also
21 increased its cash investments, the equity amount
22 could be included in the invested capital portion of
23 the calculation and in fact the cash in the bank or
24 wherever the company chose to invest that cash, we
25 would have to look at those accounts to see whether or

03781

1 not in fact those investments earned a return, and in
2 fact if the cash in the bank did earn a return then
3 that would be included in the investment portion of
4 the calculation because ratepayers should not have to
5 pay an additional return on the funds or investments
6 that the company which should earn a return on their
7 own or in fact do earn a return on their own.

8 Q. Would there be a difference whether or not
9 the cash raised by the company in issuing a stock or
10 secured debt whether or not the cash earned a return?

11 A. Yes, I would say so. I think if the cash
12 was used to provide operations for regulated utility
13 service used and useful provision of that service,
14 and that a return would not be earned on that, those
15 investments -- excuse me, on that cash -- then that
16 should be included in working capital. However, if
17 the company invested that cash in short-term
18 certificates of deposit or other investments then the
19 ratepayers should not also have to pay a return on
20 those items.

21 Q. Let's look at another example. Suppose the
22 company abandoned its collection activities and began
23 paying vendors as soon as the amount of the bill
24 became known instead of waiting to pay on the bill's
25 date, this would increase accounts receivable and

03782

1 reduce accounts payable, wouldn't it?

2 A. Could you please repeat that question.

3 Q. I'm saying suppose we assume the company
4 abandoned its collection activities and it also began
5 paying vendors as soon as the amount of the bill is
6 known instead of waiting to pay on the bill's due date,
7 this would increase accounts receivable and reduce
8 accounts payable, wouldn't it?

9 A. I don't know what you mean by abandon
10 collection. Are you saying that the company will not
11 collect what is owed to them?

12 Q. Rather than actively seeking to collect
13 amounts owing from delinquent accounts.

14 A. Okay.

15 Q. That plus paying bills early, I'm just
16 asking you wouldn't that tend to increase accounts
17 receivable and decrease accounts payable thereby
18 making working capital greater?

19 A. I think in the strict definitional term of
20 working capital that could be assumed.

21 Q. If we could look at your Exhibit 651, TWZ-1
22 this reflects your calculation of investor-supplied
23 working capital; is that correct?

24 A. Yes, it does.

25 Q. And this exhibit is based upon 13 months of

03783

1 USWC balance sheets?

2 A. That's correct. It's the average monthly
3 average for the test period.

4 Q. And you do not have a Washington intrastate
5 balance sheet because USWC does not maintain
6 jurisdictional balance sheet; is that correct?

7 A. Yes, that's correct, and that's why I had
8 to perform this calculation at this level.

9 Q. And many accounts like debt, equity and
10 accounts payable are maintained only at a corporate
11 level; is that correct?

12 A. Yes, I believe that's correct.

13 Q. Looking on line 26 of this exhibit, it's
14 the net amount of long-term assets, long-term
15 liabilities, when that's subtracted from equity this
16 is the amount which you show to be the
17 investor-supplied working capital; is that correct?

18 A. I didn't understand your question. I think
19 you may have been referring to a different line
20 number.

21 Q. I'm just looking at line 26, the \$444
22 million.

23 A. Okay.

24 Q. This is what you show to be the total
25 investor-supplied working capital?

03784

1 A. Yes, that's correct.

2 Q. And you could also get this same dollar
3 amount by using the same balance sheets and netting
4 the amount of current assets and current liabilities;
5 isn't that correct?

6 A. Essentially that's correct. I think it
7 would depend how you classified those current assets
8 and current liability, but, again, I mention that as
9 in Mr. Haack's cross-examination there was an exhibit
10 to that effect, yes.

11 Q. In fact that's what Mr. Haack did in
12 response to staff 1-481 which is now included as
13 Exhibit 206?

14 A. Yes.

15 Q. Wouldn't you agree that accounts
16 receivable, accounts payable and accrued liabilities
17 are the major components of current assets and current
18 liabilities?

19 A. This is exactly -- this handout does
20 reflect that.

21 Q. And after you determined the amount of
22 total U S WEST C investor-supplied working capital then
23 you allocate a portion to Washington intrastate
24 operations based upon a relative rate base factor; is
25 that correct?

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1 A. No, it is not. And I can expand on that
2 for you. At line 26 the total investor-supplied
3 working capital amount, the \$444 million negative,
4 that is first allocated between operating and
5 nonoperating and that is this calculation enables one
6 to determine which part of the working capital is
7 operating and which part is nonoperating. It's an
8 allocation but it's the best approach that we can use,
9 and it does allow for that. In the current assets
10 minus current liability calculation which you
11 discussed before there's no way to determine which
12 portion is operating versus nonoperating, and in this
13 case there's a substantial amount of nonoperating
14 investment which the company has put its money into.

15 After you allocate to operating then, in
16 this exhibit, I have allocated down to the Washington
17 intrastate jurisdiction by use of a relative rate base
18 allocation factor, and that's a net amount, net of
19 nonoperating.

20 Q. So the answer is you do allocate the total
21 investor-supplied working capital using a relative
22 rate base factor after you've made that distinction
23 between operating and nonoperating?

24 A. Yes.

25 Q. And that relative rate base factor is the

03786

1 number that appears on line 33, the 11.18 percent?

2 A. Yes.

3 Q. And so is it fair to say that the effect of
4 using a single relative rate base factor is to
5 allocate approximately this percentage 11.18 percent
6 of all working capital amounts to Washington
7 intrastate operations?

8 A. Could you repeat that.

9 Q. Isn't the effect of using this single
10 relative rate base factor, it's to allocate
11 approximately 11.18 percent of all working capital
12 amounts to Washington state operations?

13 A. I would say not all working capital amounts
14 but only that portion which is operating
15 investor-supplied working capital, and this factor
16 does use 11.18 percent to allocate to Washington
17 intrastate, and that's a relative factor. Relative
18 amounts would also or could also be allocated to the
19 other jurisdictions for which the company operates in.

20 Q. You would agree that Washington does not
21 have a state corporate income tax; is that correct?

22 A. That's correct.

23 Q. But under your proposal wouldn't a share of
24 the state income tax payables be allocated to
25 Washington state?

03787

1 A. Well, in my proposal I have not included
2 state income tax payable in my calculation.

3 Q. If you look at the USWC total and allocate
4 that based on a relative rate base factor, isn't the
5 effect to include income taxes payable throughout all
6 of USWC's jurisdictions?

7 A. Again, I haven't allocated state income
8 taxes in any way.

9 Q. Is it not included anywhere in the
10 calculation of working capital?

11 A. If you could point me where in Exhibit 651
12 where that's located I could agree to that subject to
13 check, but I don't believe it is included in this
14 analysis.

15 Q. If you look at your response to data
16 request No. 7 which has been marked for identification
17 as Exhibit 207. Look at attachment D page 3 of 4.
18 The income taxes payable columns entries, are you
19 saying none of those relate to state income taxes?

20 A. Could you refer me to an account number,
21 please.

22 Q. 40704100.

23 A. Again, I did not include income tax payable
24 in the investor-supplied working capital calculation
25 included as Exhibit 651 so I have not allocated that,

03788

1 no.

2 Q. What about 4080, other taxes accrued?

3 A. Well, again I think I'm going to have to
4 expand on this a little bit. I think there's a
5 primary distinction between the way I'm looking at
6 working capital or the staff has traditionally looked
7 at working capital and the way the company has
8 presented it, and on my Exhibit TWZ-1 I do not include
9 any current asset or current payable that does not
10 require a return, so for example, the income tax
11 accrued, is that the number you gave me? Is that I
12 think by looking at Exhibit 206 is included in the
13 company's response to a staff data request No. 481,
14 and it appears the company -- the company's position
15 is that you can take the simple definition of working
16 capital, current assets minus current liability, and
17 compare that to an investor-supplied working capital
18 calculation. And I think we've discussed before that
19 it's not my position that those are comparable because
20 in the investor-supplied working capital calculation
21 amounts are allocated to nonoperating investment, and
22 so I think it's just inconsistent to compare or try to
23 say that income taxes are allocated to Washington when
24 that is not what has been done.

25 Q. But Exhibit 206 does show that this same

03789

1 number is produced either way, 444,638,000?

2 A. No. On my exhibit for working capital No.
3 651, on line 32 the operating investor-supplied
4 working capital is a negative 415 million.

5 Q. The only difference being what you've
6 allocated between nonoperating and operating?

7 A. Yes, that would be correct. I would also
8 like to expand on that a little bit more if I could.
9 I think if the company had available a Washington
10 state balance sheet that would exclude some of these
11 taxes you're asking me about there really would be no
12 question as to whether it was included or not
13 included, but since the company does not maintain
14 jurisdictional balance sheets it was appropriate to go
15 from a total company balance sheet, and at that point
16 it would just -- it wouldn't make sense to try to
17 create my own jurisdictional balance sheet for
18 Washington, and so with that keeping in mind the
19 limitation on the resources available the method was
20 applied to the U S WEST C total balance sheet.

21 Q. Do all jurisdictions in which U S WEST C
22 operates allow the same rate of return and follow the
23 same capital recovery policies?

24 A. I doubt it, but I don't know for sure.

25 Q. Would you agree that different rates of

03790

1 return and different capital recovery methods between
2 jurisdictions might affect the accuracy of using a
3 relative rate base factor for allocating
4 investor-supplied working capital?

5 THE WITNESS: May I have the question read
6 back, please.

7 (Record read.)

8 A. The way I understand the question my answer
9 would be no. I don't think it would have any real
10 material impact. It's just a relative amount.

11 Q. Do you show accrued property taxes anywhere
12 in your calculation of investor-supplied working
13 capital in Exhibit 651?

14 A. I think if they were long-term they would
15 be embedded in my study. If they were current I would
16 have to answer that they would be -- they would not be
17 included.

18 Q. In this case staff has proposed a directory
19 publishing imputation net of tax of about \$50.6
20 million. Have you reflected a corresponding increase
21 in the amount of Washington intrastate equity in
22 performing your investor-supplied working capital
23 calculation?

24 A. I would like to get a clarification. Are
25 you asking me if I have adjusted the equity in the

03791

1 invested capital portion?

2 Q. Yes.

3 A. No. I have not adjusted any of the
4 amounts. They are strictly taken from the books of
5 the company off the balance sheet, and I've done so to
6 keep the relative amounts in line with what is on the
7 balance sheet, and the only way I have deviated from
8 the balance sheet is I've looked at the average
9 monthly average rather than at one point in time. And
10 the reason I have looked at an average monthly average
11 is to more appropriately match the balance sheet or
12 the investment -- invested capital with the income
13 statement which is accumulated or a cumulative amount
14 within a test period.

15 Q. Well, during the monthly closing process
16 revenues and expenses are closed to the retained
17 earnings account, would you agree with that?

18 A. Yes.

19 Q. And wouldn't the directory publishing
20 imputation be picked up as part of that process and be
21 reflected on line 2 of your Exhibit 651, your retained
22 earnings line?

23 A. You're asking me if the directory
24 imputation would have retained earnings on the total
25 company balance sheet?

03792

1 Q. If that revenue imputation is made it would
2 be picked up as part of the monthly closing process
3 and end up in the retained earnings account on line 2?

4 A. I can't agree to that. I think that it
5 depends on whether the company is earning at or above
6 its authorized rate of return, and that -- also that
7 retained earnings, the net income gets closed to
8 retained earnings, so the net income is expressed as
9 -- or the definition of net income is the amount of
10 between revenues less expenses, and to the extent the
11 company has growth in revenues or efficiencies in
12 expenses, if they decrease their expenses that could
13 offset any amount that you're asking me about.

14 Q. Have you made any calculation if the
15 adjustment to retained earnings were made to reflect
16 the directory publishing imputation wouldn't it offset
17 the entire working capital adjustment which you
18 propose?

19 A. Again, I can't say yes to that simply
20 because there's a lot more going on within a test
21 period than just one adjustment, and to track the
22 effects of all the adjustments would be a cumbersome
23 process, and in fact I would assume it would be a
24 reasonable assumption to say that each of these things
25 could offset each other.

1 Q. If we could turn to your treatment of the
2 pension asset for a moment. We discussed earlier that
3 you excluded the pension asset from the calculation of
4 working capital; is that correct?

5 A. Could you repeat the question?

6 Q. Let me -- I'm just trying to review the
7 fact that you excluded the pension asset. I believe
8 your testimony on page 24, lines 25 to 26 indicates
9 that you include it in the nonoperating investment;
10 is that right?

11 A. Yes, that's correct. I have included in
12 the investor-supplied working capital calculation as a
13 nonoperating investment and that's because the pension
14 asset does earn a return through the pension fund.

15 Q. And as support for your approach you cite
16 the Commission's order in docket UT 930307; is that
17 correct?

18 A. Yes. I think I said that was consistent
19 with the Commission's decision in that docket.

20 Q. And that's now included in Exhibit 174 in
21 this case. You're aware of that?

22 A. Yes.

23 Q. Now, on page 7 of that order in the second
24 full paragraph on that page the order states, "the
25 inclusion in rate base of this asset" -- meaning the

03794

1 pension asset -- "even if otherwise appropriate should
2 be done as one element of a total working capital
3 analysis." Is it your testimony that the company has
4 not performed a total working capital analysis in this
5 proceeding?

6 A. Well, I think this order clearly states
7 that the analysis which needs to be done is an
8 investor-supplied working capital analysis, and I
9 believe that's in the last paragraph on that page, and
10 so I would state to that question that the company has
11 not performed a proper investor applied analysis, and
12 that with the company's presentation there's no way
13 for the Commission to determine whether or not the
14 pension asset is investor-supplied or supplied through
15 other mechanisms which may already earn a return for
16 the asset.

17 Q. Is it your testimony that the company has
18 not performed a total working capital analysis in this
19 proceeding?

20 A. I would have to say yes, and I will expand
21 on that. When you say working capital I think there's
22 a certain connotation that we need to keep in mind.
23 In the last paragraph on page 7 it states "the
24 Commission finds that it's inappropriate to identify
25 one item out of a total investor-supplied working

03795

1 capital and propose an adjustment without doing a
2 comprehensive review of all items."

3 I think the company has looked at two
4 balance sheet items and a lead lag study for their
5 income statement. I would say that that's not a
6 comprehensive approach because it doesn't consider the
7 total operations of the company, and in fact there
8 could be other offsetting items which in fact are shown
9 in my exhibit regarding investor-supplied working
10 capital.

11 Q. In that same paragraph of the order you're
12 citing the Commission expressly found that it was not
13 questioning the existence of the pension asset or the
14 prudence of its existence. Do you see that?

15 A. Which paragraph are you referring to?

16 Q. Same paragraph you're looking at, the last
17 paragraph on page 7, second sentence in that
18 paragraph.

19 A. Yeah. I think the Commission exactly the
20 Commission stated that it did not question the
21 existence of the asset nor the prudence of its
22 existence, but it also goes on to say that it rejects
23 the arguments that simply because there's a proforma
24 expense level -- excuse me -- that the Commission
25 rejects arguments made by the company, public counsel

03796

1 and Commission staff that it is appropriate to compare
2 the proforma expense level in a rate case to actual
3 expense levels in subsequent years. It also says the
4 Commission finds it inappropriate to identify one item
5 out of total investor-supplied working capital, and I
6 think by the statement which you referenced the fact
7 that there's not a prudence problem and then also that
8 the asset does exist doesn't show or does not
9 determine whether or not that asset is in fact
10 investor-supplied or that perhaps the ratepayers may
11 have also had -- the ratepayers may have also somehow
12 supported that asset which would not require a return
13 for the investors. In fact, not only the ratepayers
14 but the pension fund itself which has earned returns
15 in excess of that expected would support that asset on
16 its own. And so I agree. There's no problem with the
17 existence of the asset, but there is the need for
18 determining whether or not a return should be allowed
19 on that and whether or not the ratepayers should pay
20 for that.

21 Q. Is it your testimony there's a problem with
22 the prudence of the asset?

23 A. No, it is not.

24 Q. You do say on page 25, lines 11 to 12 of
25 your testimony that the asset is not used and useful

03797

1 at this time; is that correct?

2 A. Yeah, that's correct, and that's meant in
3 the fact that it's not included in rate base and the
4 Commission's decision in UT 930307 explicitly stated
5 that this asset should not be included directly in
6 rate base; rather that the company should do an
7 investor-supplied working capital analysis.

8 Q. So is it because the asset is not in rate
9 base or is it because the asset is not used and
10 useful?

11 A. Both.

12 Q. And in using the term, the reference to the
13 term used and useful, are you relying on the rate
14 base statutes' reference to assets that are used and
15 useful?

16 A. I think generally I could say that, and I
17 would like to also state that the pension asset is on
18 the books of the company because the pension fund is
19 an over-funded position, and that in the past few years
20 there have been credits to expense which reflected that
21 over-funding. In the future, if the funding is not
22 sufficient and the company does need to book an
23 expense, a positive expense or a debit to expense, then
24 instead of the company actually having to contribute
25 cash to the fund, the pension asset will be reduced, a

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1 credit to pension asset and a debit to pension expense,
2 so at that point when the expense is made or when the
3 plant is going into service, the capitalized amount of
4 the pension cost would be included in rate base at
5 which time the plant is used and useful and put into
6 service for the provision of utility service, and so at
7 that point it would be used and useful but at this
8 point it is not.

9 Q. It's your testimony on page 25, line 16
10 does say that the earnings of the fund are being put
11 to use by reducing the amount that has to be
12 contributed to the fund. My question is, doesn't that
13 suggest that the fund is used and useful now?

14 A. Yes. I think it is used and useful for the
15 company's sake. The company does not have to
16 contribute to the pension fund because the pension
17 fund is currently over-funded and therefore these --
18 this asset on the company's books will be used to
19 offset that and therefore the company will not have to
20 pay the fund for some time. But again I would like to
21 expand on that as well. That is all based on the
22 actuarial assumptions that underlie the accruals in
23 this situation.

24 Q. And aren't the same type of actuarial
25 assumptions made in accounting for post retirement

03799

1 benefits other than pensions under FAS 106?

2 A. Well, I'm not as familiar with that item
3 and that might be a question for one of our other
4 staff members who have addressed that issue.

5 Q. Is it your position that the company can
6 withdraw the amounts that are deemed to be excess in
7 the pension fund under FAS 87? Is it your position
8 that the company can withdraw these amounts under the
9 pension fund?

10 A. At this point -- well, excuse me. That is
11 not my position and at this point I believe that is
12 the case, and in fact in my testimony on page 25,
13 lines 15 through 16 I did state the earnings of the
14 fund are not paid out to the company but they are
15 being put to use.

16 Q. And my question was -- I'm not certain that
17 I got an answer -- is it your understanding that the
18 company can withdraw the amounts that are determined
19 to be excess under FAS 87?

20 A. No. I believe the internal revenue code or
21 the requirements of ERISA do not allow the company to
22 withdraw those funds, and I believe that's to protect
23 the employees so that they will in fact receive their
24 pension when it becomes due and payable.

25 Q. Is it your belief that during the years

03800

1 that the pension trust was being funded that the
2 company was earning an actual rate of return which was
3 equal or greater than its authorized rate of return?

4 THE WITNESS: Would you read that back to
5 me.

6 (Record read as requested.)

7 A. Well, I can't answer that directly but I do
8 know the company has not been in for a rate case in
9 approximately 13 to 14 years now, and so with that in
10 mind I think the company could have come in for a rate
11 case had it earned under its authorized return.

12 Q. Just a few questions on your rural sales
13 adjustment. Beginning on page 27 of your testimony
14 your testimony states that under the settlement
15 agreement there was a stipulated increase to the
16 depreciation reserve of 16.6 million; is that correct?

17 A. Looking at page 28?

18 Q. Page 29, line 18.

19 A. Well, the settlement agreement explicitly
20 stated that the company would make a credit to
21 depreciation reserve, yes.

22 Q. And the \$16.6 million number appears in
23 paragraph 2 of the settlement agreement in that
24 proceeding; is that correct? Will you accept subject
25 to check that paragraph 2 provides that USWC will

03801

1 credit \$16.6 million to its intrastate depreciation
2 reserves associated with the analog circuit and
3 underground cable plant account?

4 A. Yes, I can accept that subject to check.

5 Q. Is it fair to say that the issue in this
6 proceeding, the difference between your proposed
7 treatment and that proposed by Ms. Wright has to do
8 with whether or not an associated adjustment to
9 accumulated deferred income taxes should be made?

10 A. Could you please repeat that question.

11 Q. In terms of describing the issue, is it
12 fair to say that the difference between your proposed
13 treatment and that proposed by Ms. Wright of the
14 company has to do with whether or not an associated
15 adjustment to accumulated deferred income taxes should
16 be made?

17 A. I would agree with that initially that was
18 the issue. In fact I believe there was a similar
19 issue in the sharing adjustment, so since that time,
20 since the time the company filed its direct testimony
21 the company has sponsored on rebuttal further analysis
22 regarding the normalization rules of the internal
23 revenue code, and so at the time I wrote my testimony
24 that's correct. That was the only difference but,
25 again, I think the company has come back on rebuttal

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1 and raised new issues which I did not get a chance to
2 address in my testimony.

3 Q. Your testimony does state that the
4 adjustment should be consistent with the explicit
5 terms of the settlement agreement itself; is that
6 correct?

7 A. Yes. I think I said that.

8 Q. And would you agree that the settlement
9 agreement does not preclude the amount from being
10 grossed up for taxes?

11 A. Does not preclude?

12 Q. Right.

13 A. Well, I think in paragraph 2 of the
14 settlement agreement it does go on to say that a
15 proforma adjustment to rate base will be made to
16 reflect this credit in the forthcoming general rate
17 case and the effect of the credit will be recognized
18 in the calculation of future depreciation rates and
19 any future calculation of a reserve deficiency
20 amortization. So the settlement agreement does go
21 into great detail to address the depreciation issues,
22 and you're asking me if it doesn't preclude the tax
23 issue, and I would say that the settlement agreement
24 doesn't address a tax issue, and I believe that was
25 the case with this sharing agreements as well that the

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1 tax effects were not shown by the company and in fact
2 just until recently no tax effect was required by the
3 company or was reflected by the company until just
4 recently, so not many -- in fact not many of the
5 parties had an opportunity to look into that issue or
6 to investigate that prior to making these settlements.

7 Q. Did you participate in the negotiations
8 leading up to the settlement agreement for the sale of
9 the company's exchanges?

10 A. Yes, in a limited capacity.

11 Q. Are you aware that the company entered into
12 a similar settlement agreement for sale of exchanges
13 in Oregon and in an attachment to that document it
14 shows that the amount credited to the depreciation
15 expense accrual was grossed up?

16 A. I'm generally aware of that.

17 Q. Was there any reference made by staff to
18 settling the issue of the company's sale of rural
19 exchanges in this state on the same basis as it was
20 used in the Oregon settlement?

21 A. I can't say. I think that was all part of
22 the settlement negotiations. I don't know what in
23 fact was the underlying driver besides that the staff
24 wanted to take a look at the gain on sale and make
25 sure that the ratepayers were treated fairly with

03804

1 recognition to that, and I think that's what our main
2 position was was to recognize that the ratepayers were
3 harmed not only by the transfer of these exchanges but
4 also for the money they paid into covering the costs
5 of providing service over the years and that I feel
6 that the settlement agreement was to share the
7 benefits of the sale between the shareholders and the
8 ratepayers.

9 Q. And was there a reference in those
10 discussions to a similar settlement executed by the
11 company in Oregon?

12 MR. TROTTER: Your Honor, I'm going to
13 object to the question on the basis that it calls for
14 this witness to divulge what was said in the
15 settlement discussion.

16 MR. VAN NOSTRAND: I will rephrase the
17 question.

18 Q. When these rural exchanges were offered for
19 sale by the company, are you aware of any other
20 interexchange carriers which came forth and expressed
21 an interest?

22 A. Interexchange carriers?

23 Q. Yes.

24 A. I'm not really aware of any of the offers
25 that were made to the company. I do know there was a

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1 confidential offering memorandum which was circulated
2 within the industry. I'm not sure to what extent, if
3 it was just for historical, traditional local exchange
4 companies or any industry participant, but I am not
5 aware of any other offers made beyond the one that PTI
6 and U S WEST finally submitted in forms of petitions.

7 MR. VAN NOSTRAND: I have no further
8 questions.

9 JUDGE WALLIS: Questions from other
10 counsel? Commissioners?

11 Mr. Trautman?

12 MR. TRAUTMAN: No.

13 JUDGE WALLIS: Mr. Zawislak, it appears as
14 though we've done with you. Let's be off the record
15 at this time.

16 (Recess.)

17 JUDGE WALLIS: Let's be back on the record,
18 please. The Commission staff is calling to the stand
19 at this time witness Betty A. Erdahl.

20 Whereupon,

21 BETTY ERDAHL,

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

24 JUDGE WALLIS: In conjunction with the
25 appearance of this witness the following documents

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1 have been predistributed: Ms. Erdahl's direct
2 testimony is marked as Exhibit 661T for
3 identification. Her revised testimony of October is
4 marked as 662T. Attachments are marked as follows:
5 BAE-1 as 663C, BAE-2 as 664C, BAE-3 consisting of the
6 January 18, 1996 revision is marked as 665C. BAE-4 is
7 marked as marked as 666C for identification. BAE-5 is
8 marked as 667. Is that confidential?

9 MR. TRAUTMAN: Yes.

10 JUDGE WALLIS: 667C, and that is the
11 January 18, 1996 revision. January 18, 1996 revision
12 to BAE-6 is marked as 668C for identification. BAE-7
13 is marked as 669C for identification. BAE-8 is marked
14 as 670 for identification. Is that confidential?

15 MR. TRAUTMAN: Yes.

16 JUDGE WALLIS: BAE-9 is marked as 671C for
17 identification. The January 18, 1996 revision to
18 BAE-10 is marked as 672C for identification. BAE-11
19 is marked as 673C for identification. BAE-12 is
20 marked as 674C for identification. BAE-13, January
21 18, 1996 revision is marked as 675C for
22 identification. The revised testimony of December
23 1995 is marked as 676T for identification. An errata
24 sheet is marked as 677 for identification. And a
25 January 18, 1996 revision to bench request 8E response

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1 is marked as 678 for identification.

2 In addition the company has distributed the
3 following documents. In conjunction with the
4 appearance of this witness. First the response to PC
5 data request 01-227 is marked as 679 for
6 identification. The response to PC 01-193 is marked
7 as 680 for identification. The response to WUT 01-307
8 is marked as 681 for identification. A letter of July
9 28, 1995 with attachments is marked as 682 for
10 identification. And response to data request PC
11 01-333 is marked as 683 for identification.

12 (Marked Exhibits 661T, 662T, 663C-675C,
13 676T, 677, 678, 679-683.)

14 MR. OWENS: Your Honor, I think there was
15 one that perhaps didn't get marked in our off the
16 record discussion.

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

19 (Discussion off the record.)

20 JUDGE WALLIS: There is one additional
21 document. Response to request No. PC 01-304 is marked
22 as 684 for identification.

23 (Marked Exhibit 684.)

24

25 DIRECT EXAMINATION

03808

1 BY MR. TRAUTMAN:

2 Q. Good morning, Ms. Erdahl.

3 A. Morning.

4 Q. Will you please state your name, spell your
5 last name and give your business address for the
6 record?

7 A. Betty A. Erdahl, E R D A H L. My business
8 address is 1300 South Evergreen Park Drive Southwest,
9 Olympia, Washington 98504.

10 Q. Did you prepare the testimony which is
11 labeled 661T, 662T and 676T?

12 A. Yes, I did.

13 Q. Did you also prepare Exhibits 663C through
14 675C as well as Exhibits 678?

15 A. Yes.

16 Q. And have you made any changes to your
17 previously filed testimony or exhibits by way of an
18 errata sheet labeled Exhibit 677?

19 A. I have.

20 Q. Are the testimony and exhibits which you
21 filed in this proceeding true and correct to the best
22 of your knowledge?

23 A. Yes, they are.

24 Q. If I were to ask you questions today
25 contained in your testimony, would your answers be the

03809

1 same?

2 A. Yes.

3 MR. TRAUTMAN: I would move for admission
4 of Exhibits 661T through 678.

5 MR. OWENS: No objection.

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

8 (Admitted Exhibits 661T, 662T, 663C-675C,
9 676T, 677, 678.)

10 MR. TRAUTMAN: Witness is available for
11 cross.

12 JUDGE WALLIS: Very well. Because of the
13 hour I'm going to suggest that we take our noon recess
14 at this time.

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

16

17

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03810

1 AFTERNOON SESSION

2 1:15 p.m.

3 JUDGE WALLIS: Let's be back on the record,
4 please, following our noon recess. Witness is
5 available for cross-examination.

6 MR. OWENS: Before we take that up, Your
7 Honor, there was one matter. I was alerted during the
8 noon hour that we had marked Exhibit 680 without
9 designating as confidential, and I'm informed that one
10 of the two attachments is something that U S WEST
11 would consider confidential, and that's attachment B.
12 I'm not sure how to handle this. I know the
13 Commission doesn't favor designating a whole exhibit
14 if only part of it is confidential. I suppose we
15 could split it into two exhibits if you like.

16 JUDGE WALLIS: Let's call it 680 and 680C
17 and attachment 2 would then be the confidential
18 portion.

19 (Marked Exhibit 680C.)

20 MR. TRAUTMAN: Your Honor, I also believe
21 678, which was the last page to the errata sheet, I
22 believe that's also a confidential exhibit, although
23 it's not marked. I believe it has some confidential
24 figures in it. This is the bench request 8E.

25 MR. OWENS: I'm not sure what Mr. Trautman

03811

1 is referring to. We don't on the face of the exhibit
2 see anything that appears to be confidential.

3 MR. TRAUTMAN: That's fine then. Thank
4 you.

5

6 CROSS-EXAMINATION

7 BY MR. OWENS:

8 Q. Good afternoon, Ms. Erdahl. I'm Doug Owens
9 representing U S WEST.

10 A. Good afternoon.

11 Q. I wanted to take up kind of a preliminary
12 matter. On page 6A of your revised testimony you
13 discuss -- it begins at the bottom of page 6 -- that
14 the percent increase to management salaries was
15 calculated differently by staff than the company and
16 you say you adjusted for team and merit awards,
17 overtime and the level of capitalized wages. Is that
18 really what you meant to say?

19 A. Yes, I believe so.

20 Q. Is your testimony that the company pays
21 overtime to management employees?

22 A. No, it's not. Overtime relates to
23 occupational employees so you're correct. For
24 management salaries there's no adjustment for
25 overtime.

03812

1 Q. And on Exhibit 678 maybe you could clarify
2 something. Line 3 says "adjusted management salary
3 expense." Is that a mistake?

4 A. That's Exhibit 678?

5 Q. Yes.

6 A. That would be line 3 adjusted occupational
7 salary.

8 Q. That's what it should say?

9 A. Correct.

10 Q. And back on page 7 of your revised
11 testimony you beginning at line 4 describe the
12 company's adjustment PFA 9 and did you understand the
13 company had withdrawn PFA 9?

14 A. Yes, and that's an adjustment that Paula
15 Strain was actually sponsoring.

16 Q. So that part of your testimony should be
17 modified as well?

18 A. Yes.

19 Q. Like to ask you a few questions about your
20 experience. Do you have anybody that reports to you
21 in your current position?

22 A. No, not directly.

23 Q. And have you ever had anybody report to
24 you?

25 A. I've had other employees work with me as a

03813

1 team member on a filing where I'm the team lead but
2 I'm not a supervisor.

3 Q. In your prior employment I believe you
4 worked in the banking industry. Did you have anybody
5 report to you?

6 A. No, I did not.

7 Q. Is this the first utility rate case you've
8 testified in?

9 A. No. I testified in a waste management
10 docket relating to affiliated interests, and that's
11 addressed in my testimony.

12 Q. I don't know if I would characterize that
13 as a utility or not. I suppose that's the only other
14 time you've testified; is that right?

15 A. Yes, it is.

16 Q. Would it be correct that you've never
17 worked in the telecommunications industry?

18 A. I have not worked for a telecommunications
19 company.

20 Q. Have you ever been responsible for
21 determining how to deploy employee resources to meet a
22 given workload?

23 A. No, I have not.

24 Q. Would you agree that in U S WEST's most
25 recent rate case before this Commission the Commission

03814

1 stated in its order that the first step in a rate
2 proceeding is to determine an appropriate test period?

3 A. I would agree to that subject to check if
4 you could tell me where to check it.

5 Q. That would be cause No. U-82-19?

6 A. I would agree subject to check.

7 Q. Could you also accept subject to check that
8 the Commission did not in that connection use the
9 concept of a typical year as the basis for any
10 disallowances?

11 A. Maybe not in those exact words.

12 Q. At pages 8 to 9 of your testimony you quote
13 from WAC 480-09-330 on the definitions of restating
14 actual adjustments and proforma adjustments. Did you
15 quote the entire material that refers to restating
16 actual adjustment?

17 A. I don't have that WAC in front of me but I
18 don't believe I did.

19 Q. Was there some reason you left part of it
20 out?

21 A. No.

22 Q. Is there some other source that the
23 Commission would look to to determine items that are
24 not acceptable for ratemaking as you use the term
25 there at line 16?

03815

1 A. You mean some other source than WACs and
2 rules that we have?

3 Q. Yes.

4 A. I presume cases that have set precedent
5 rulings where the Commission deems certain items not
6 allowable for ratemaking purposes.

7 Q. Anything else that you can think of?

8 A. FCC rules.

9 Q. Anything else?

10 A. Not that comes to mind right now.

11 Q. Now, in your restating adjustment 13 you
12 removed team and merit awards; is that correct?

13 A. Yes, I did.

14 Q. Now, the WAC gives examples of restating
15 actual adjustments and one of those is a below the
16 line item that was recorded above the line in error;
17 is that right?

18 A. Yes, it is.

19 Q. Now, did you remove RA13 team and merit
20 awards because of that reason?

21 A. No, I removed team and merit awards from
22 the books. They were all booked above the line and I
23 recommended removing that expense item off the books
24 for ratemaking purposes.

25 Q. But it wasn't because you believed that the

03816

1 company had recorded those above the line in error,
2 that is, that it had simply made a bookkeeping
3 mistake; is that correct?

4 A. It didn't have to do with the bookkeeping
5 mistake, no.

6 Q. And another reason why in the WAC you would
7 make a restating actual adjustment is because a booked
8 amount would be an estimate, you're not removing team
9 and merit awards for that; is that correct?

10 A. No, that wasn't the reason. I removed it
11 for ratemaking purposes because I didn't feel like it
12 was an appropriate expense for the ratepayers to bear.

13 Q. So I was just going to get to the next
14 listed example. It's not because they're
15 extraordinary; is that right?

16 A. Correct.

17 Q. Then the reason you just gave where you say
18 you didn't believe they were appropriate expense for
19 ratepayers to bear that's where we get into the items
20 that are not acceptable for ratemaking; is that right?

21 A. Correct.

22 Q. Did you have a particular Commission order
23 or FCC rule in mind that you relied on for deciding
24 that this particular kind of expense fit within that
25 category of restating actual adjustments?

03817

1 A. Yes. There was a Commission order in
2 Washington Natural Gas case that did address this,
3 the payout of team merit awards. That and the fact
4 that there didn't appear to be a benefit flowing to
5 the ratepayers was another reason that I recommended
6 disallowance. I didn't feel it was appropriate for
7 the ratepayers to pay for the expense.

8 Q. Let me back -- I'm sorry, please finish.

9 A. Well, and I didn't feel that they were
10 receiving a benefit associated with that expense.

11 Q. When I asked you a minute ago as to what
12 other categories or sources the Commission would look
13 at to determine what particular kinds of adjustments,
14 restating actual adjustments, are within the category
15 of unacceptable for ratemaking, you said prior
16 Commission orders and FCC rulings and you said you
17 couldn't think of anything else. Is there now another
18 category?

19 A. Yes, there is. Staff's judgment. Staff
20 makes recommendation to the Commission just as the
21 company does, and that would be another area where one
22 of these items might fall.

23 Q. And in making that judgment does staff rely
24 on any external source other than prior Commission
25 orders or FCC rulings?

03818

1 A. We take those into consideration and also
2 determine whether or not certain expenses should be
3 borne by the ratepayers. We use our judgment.

4 Q. But in using that judgment do you rely on
5 any external source other than the two that I asked
6 you about?

7 A. No.

8 Q. Now, the Washington Natural Gas case, was
9 that docket UG-920840, fourth supplemental order
10 September 27, 1993?

11 A. Yes, it is.

12 Q. Isn't it true that the Commission in that
13 order approved Washington Natural Gas Company's
14 incentive pay plans and rejected the request of the
15 staff to disallow them?

16 A. They did, but they also included language
17 to the effect that these goals should advantage
18 ratepayers as well as shareholders.

19 Q. The answer to my question is that in that
20 case the Commission approved the Washington Natural
21 Gas incentive plan; is that correct?

22 A. Yes, they did.

23 Q. So at least in that regard if the
24 Commission follows your recommendation it will be
25 treating U S WEST less favorably than it treated

03819

1 Washington Natural Gas; is that correct?

2 A. Not necessarily.

3 Q. Well, it would be acting on this point in
4 the opposite fashion to which it acted with regard to
5 Washington Natural Gas, is that correct, if it follows
6 your recommendation?

7 A. From the date that that order was issued
8 that could be correct. Going forward they might be
9 treated in a similar manner.

10 Q. You're not aware of a more recent
11 Washington Natural Gas order on this point, are you?

12 A. No.

13 Q. With regard to your adjustment to remove
14 overtime, which category of restating actual
15 adjustment does that fall into?

16 A. That would be a restating adjustment. It's
17 basically an adjustment to normalize expenses.
18 Overtime was higher than it has shown over the last
19 couple of years, and capitalized wages were at a lot
20 lower level than the last four years, and I just tried
21 to normalize those expenses.

22 Q. So within the categories that we've
23 discussed, that is, those that are set out in the WAC
24 and those that you've given in the category of
25 acceptable for ratemaking, is the overtime adjustment

03820

1 an adjustment because the test year items were
2 extraordinary?

3 A. To some extent, yes, you could say that.

4 Q. Well, what other category of those that
5 we've talked about does this adjustment fall into?

6 A. Well, I would just say it was not a
7 restating -- it's a restating adjustment to show a
8 more representative or normalized level of expenses.

9 Q. Well, can you tell me of the categories
10 that we've discussed, that is, the ones in the WAC and
11 the ones that you've already stated or your
12 interpretation, which one this one falls into?

13 A. Restating adjustment.

14 Q. No, but I meant the categories within the
15 restating adjustment. Remember, we discussed those in
16 the WAC, the prior period, above the line in error,
17 estimates. Do you remember those categories?

18 A. Yes.

19 Q. So of those categories which one does this
20 fit into?

21 A. Well, all the expenses were booked above
22 the line, so it's not a reallocation of expenses that
23 were booked inappropriately. It's just an adjustment
24 to adjust the expenses to a representative level.
25 Maybe that's a new category in the categories that

03821

1 you're laying out.

2 Q. And in this new category what does the
3 staff look to in exercising its judgment that a
4 particular level is representative?

5 A. Well, what has occurred in the past, what
6 do the expenses look like now, do they look unusually
7 high or low. Is there a reason for that? Similar to
8 a weatherization weather adjustment for a utility
9 dealing with power. If expenses are extraordinarily
10 high and revenue is high then an adjustment might be
11 made to bring those down to a more representative
12 level.

13 Q. Anything else?

14 A. As far as how the expenses explain.

15 Q. Anything else the staff works to in
16 determining that a particular level of expense is
17 representative.

18 A. No.

19 Q. In your revised testimony at page 19 and
20 19A, you give your reason for disallowing management
21 team expenses at U S WEST Inc., and you state "this is
22 due to the fact that U S WEST Communications has a
23 management team already working on behalf of the
24 company in the communications industry," and then you
25 go on to say that you believe this is a duplication of

03822

1 positions at the U S WEST Inc. level.

2 Do you have Exhibit 273?

3 A. Yes, I do.

4 Q. And looking at the president and CEO of
5 USWC, what specific function do you believe are
6 duplicated at U S WEST Inc.?

7 A. That same -- there's a similar position at
8 U S WEST Inc. as there is at U S WEST C. The duties
9 are not exactly the same but the positions are
10 similar.

11 Q. Did you do any investigation to satisfy
12 yourself that that's a true statement?

13 A. Just looking at DR responses that the
14 company provided in this case.

15 Q. Which DR responses in addition to Exhibit
16 272 and 273?

17 A. I believe there were a few other public
18 counsel responses. I'm not sure if I have all the
19 numbers handy here. There were some other responses
20 such as public counsel 174 that describes a type of
21 personnel that reports to the VP and chief planning
22 officer at U S WEST Inc. Public counsel 172.

23 Q. It's true, isn't it, that at the U S WEST
24 Inc. level the chairman, president and CEO position is
25 responsible for managing a number of staff functions?

03823

1 A. Those are the chairman, president and CEO?

2 Q. Yes.

3 A. You're discussing the approval of major
4 resource allocation plans?

5 Q. I was asking you if you know whether the
6 chairman, president and CEO has a staff management
7 function.

8 A. I'm not sure.

9 Q. Let me ask you this. Do you know anything
10 about corporations generally?

11 A. Yes.

12 Q. And do corporations normally have a
13 function of, at least if they have employees, managing
14 those employees?

15 A. Yes, they do.

16 Q. And does U S WEST have that function
17 somewhere in its corporate structure?

18 A. U S WEST C?

19 Q. U S WEST Inc. or U S WEST C?

20 A. I would believe they both do.

21 Q. Do you know?

22 A. I think that some of the duties that these
23 -- that are held by the people working for these two
24 companies.

25 Q. Does U S WEST Inc. have a human resources

03824

1 organization?

2 A. Yes, they do.

3 Q. Does U S WEST Communications have a human
4 resources organization?

5 A. I believe U S WEST Inc. handles that piece
6 for U S WEST C.

7 Q. And is the human resources organization a
8 staff type organization reporting to the chairman,
9 president and CEO of U S WEST Inc.?

10 A. I guess I would have to verify that.

11 Q. How about the legal organization? Does U S
12 WEST Communications have a legal department?

13 A. No. I believe U S WEST Inc. handles legal
14 activities on behalf of U S WEST C.

15 Q. And is the legal department then a staff
16 organization supporting the chairman, president and
17 CEO of U S WEST Inc.?

18 A. Meaning that they report to them?

19 Q. Yes.

20 A. Yes.

21 Q. And put another way, then, would you agree
22 that one of the duties of the chairman, president and
23 CEO of U S WEST Inc. is to manage those two
24 organizations, human resources and legal?

25 A. Yes.

03825

1 Q. And that function is not duplicated at the
2 U S WEST Communications level. Would you agree with
3 that?

4 A. That's correct.

5 Q. Would your answers be the same about trust
6 management, that activity, that is, that it is not
7 duplicated at the communications level? I will back
8 up and ask a foundation question. Do you know if U S
9 WEST Inc. has the function of trust management?

10 A. Not off the top of my head, no, I don't
11 know that.

12 Q. How about the function of management of all
13 corporate wide benefit plans? Is that function
14 discharged at the Inc. level?

15 A. I am not sure.

16 Q. So you don't know whether that function is
17 duplicated at the Communications level either; is that
18 correct?

19 A. Correct.

20 Q. One of the positions you've proposed for
21 disallowance is the vice-president of public relations
22 at Inc.; is that correct?

23 A. Yes, it is.

24 Q. Do you know whether U S WEST Communications
25 has a vice-president for public relations? Could

03826

1 you just look at Exhibits 272 and 273 and indicate
2 whether you can confirm that?

3 A. Yes, I'm looking at 273 right now. VP
4 marketing HMPS might be considered a similar position.

5 Q. What do you base that on?

6 A. Well, in reading the description it says
7 they're related to the sales effort, customer economic
8 analysis, new product development, market testing.
9 I'm not sure if that's -- I don't think those are the
10 exact same duties that are listed on the U S WEST Inc.
11 side but it does relate to new products and sales.

12 Q. The description of the duties for the VP
13 public relations is quite different from the ones that
14 you've just recited, isn't it?

15 A. Yes, they are different.

16 Q. You referred to a response to public
17 counsel data request No. 174 as one that you relied
18 on. Isn't it true that that request asked for a
19 description and illustration of the reporting
20 relationships between senior executive management
21 positions within New Vector (Air Touch) and senior
22 executive management executive at U S WEST Inc.?

23 A. That's correct. I was just noting that
24 this response indicates another type of employee
25 within Inc. that reports to VP and chief planning

03827

1 officer of U S WEST Inc.

2 Q. Does U S WEST Communications have an
3 external board?

4 A. I don't believe so.

5 Q. And does U S WEST Inc. have an external
6 board?

7 A. I believe so.

8 Q. And is one of the duties of the president,
9 chairman and CEO of U S WEST Inc. relating to the
10 external board?

11 A. Most likely.

12 Q. But you don't know?

13 A. I would assume so.

14 Q. And that function isn't duplicated at the
15 U S WEST Communications level, is it?

16 A. No, probably not.

17 Q. You're aware that U S WEST is restructuring
18 itself in a significant program, aren't you?

19 A. Yes, I am aware of that.

20 Q. And you've indicated that you believe one
21 of the objectives of that is to reduce costs, correct?

22 A. Yes, that's one of the objectives.

23 Q. And would you say that U S WEST has
24 expended considerable effort to accomplish that
25 restructuring?

03828

1 A. I guess I'm not testifying to what they
2 have done as far as a restructure effort goes.

3 Q. I understand that. I'm just asking you for
4 your understanding as to whether or not the company
5 has expended a significant amount of effort in an
6 attempt to reduce its costs?

7 A. It appears that way.

8 Q. Do you think that U S WEST Communications
9 is able to tell whether or not functions in its
10 management are duplicated by U S WEST Inc. management?

11 A. I'm not sure if I understand your question.

12 Q. Let me repeat it. Your claim is that
13 functions at the U S WEST Communications management
14 are duplicated by functions in U S WEST Inc.
15 management; is that right?

16 A. There's a comparable function. They're not
17 exactly the same.

18 Q. But the basis of your proposed disallowance
19 is the claim that they're duplicative. At least
20 that's what you say at the top of page 19A. Isn't
21 that true?

22 A. There's a similar position at U S WEST Inc.
23 as there is C, yes.

24 Q. Well, is it similarity or is it duplication
25 that you're relying on for the disallowance?

03829

1 A. The duties of the VP/CEO at U S WEST Inc.
2 are not exactly the same as at the U S WEST C level,
3 but there is that position or function at each
4 corporate level, and they focus on their own
5 corporation where the U S WEST C VP would focus more
6 on U S WEST C telecommunications. At the U S WEST
7 Inc. the VP/CEO would have a more broad focus
8 including all the subsidiaries owned by U S WEST Inc.,
9 so they're not exactly the same.

10 Q. Well, are you saying now that you're not
11 claiming that the functions are duplicative as the
12 basis for the disallowance?

13 A. Just not in the sense that they're exactly
14 the same. There is a function at each level. No,
15 they're not performing the exact same duties or they
16 don't have the exact same focus as I just stated.

17 Q. Well, then if you were to rewrite your
18 testimony where you say "the expense of such
19 duplication be disallowed as unnecessary," how would
20 you rewrite it?

21 A. What page are you on?

22 Q. 19A, line 2.

23 A. I guess it's a duplication of positions or
24 functions at the U S WEST Inc. level.

25 Q. I thought you just said that the functions

03830

1 aren't duplicative; isn't that true?

2 A. What I'm stating is that there is a
3 position or a function at the U S WEST Inc. level, a
4 similar position or function is held at the U S WEST C
5 level and their duties are not exactly the same.

6 Q. Thank you. At page 20 of your revised
7 testimony you discuss your proposed disallowance of
8 advertising, and before I get to that, you're
9 proposing to also disallow a function for media
10 relations and PR management; is that correct?

11 A. Yes, that's correct.

12 Q. What's the basis of that particular
13 disallowance?

14 A. The reason I recommended disallowing that
15 position was due to the fact that its duties include
16 oversight of U S WEST Inc. public relations function.
17 The majority of the expense in that category relates to
18 corporate image advertising, event sponsorship. For
19 the same reason that I recommend disallowing those
20 items I recommend disallowing the
21 VP public relations personnel that manages that type
22 of activity.

23 Q. Well, you said that most of it is what you
24 characterize as image advertising. Is it correct that
25 some of it isn't?

03831

1 A. I guess I haven't seen evidence that leads
2 me to believe that some of it isn't. I don't know.

3 Q. Do you have Exhibit 274?

4 A. No, I don't.

5 MR. OWENS: May I approach the witness?

6 JUDGE WALLIS: Yes.

7 Q. I've handed you Exhibit 274 and at the page
8 to which it's opened, would you agree that it shows
9 line items for responsibility codes managed by the VP
10 of public relations?

11 A. Yes, it does.

12 Q. And are some of those where I put little
13 marks in the margin for things like U S WEST Today,
14 U S WEST Magazine, Employee Communications, Human
15 Resources Communications, things like that?

16 A. Yes.

17 Q. Would those be image advertising?

18 A. They could be perceived that way, yes.

19 Q. Do you think U S WEST needs to build its
20 image -- strike that. Let me ask you this. When you
21 say they could be perceived that way, are these
22 expenditures that you propose for disallowance in the
23 advertising part of the case?

24 A. No, I did not.

25 Q. And nonetheless you propose to disallow the

03832

1 entirety of the cost of the officer that manages those
2 functions; is that correct?

3 A. Yes, that's correct. These were not a
4 material amount of that category, which is one of the
5 reasons that I did not recommend disallowance of those
6 items.

7 Q. Now, moving to your testimony at page 20
8 where you discuss corporate brand advertising. Are
9 you an expert in advertising?

10 A. No, I'm not an expert in advertising.

11 Q. So when you state at page 20 that this
12 advertising promotes corporate image but does not
13 convey information, that's just your conclusion; is
14 that correct?

15 A. Yes, it is.

16 Q. Have you reviewed the copy of the
17 advertising contain within this description?

18 A. What copy of advertising are you talking
19 about?

20 Q. Any copy. Copy of TV ads or print media?

21 A. Yes.

22 Q. You have. Isn't it correct that -- strike
23 that. Did you interview anybody at U S WEST to ask
24 what the company's intent was in placing the ads that
25 are described here as corporate image?

03833

1 A. No, I did not.

2 Q. Are there any of those ads that you
3 reviewed that are inconsistent with an objective on
4 the part of U S WEST to grow its business?

5 A. I would say that the ads included in
6 response to public counsel data request 128 and 243, I
7 believe those are assigned exhibit numbers. I'm not
8 sure what the exhibit numbers are at this point, but I
9 believe that those ads show corporate -- try to
10 enhance the public's image or how they see U S WEST as
11 a corporation rather than -- I guess I need to hear
12 your question again, I'm sorry.

13 Q. Good, because I think you were answering a
14 different question. Are there any of those ads that
15 you had in mind that you propose this disallowance
16 that are inconsistent with an objective by U S WEST to
17 grow its business?

18 A. I would say that that would be one of the
19 objectives.

20 Q. Have you presented any evidence that the
21 company acted in bad faith in placing these ads?

22 A. No.

23 Q. Have you presented any evidence that the
24 amount of money the company spent on the ads was too
25 high?

03834

1 A. No.

2 Q. To the extent corporate advertising would
3 result in growth of the regulated business and sales
4 of regulated services that have contributions built
5 into their rates, would that be a benefit to other
6 ratepayers?

7 A. If the sales were regulated products and
8 regulated services increased, yes. These ads include
9 nonregulated items also, services.

10 Q. Are you aware of any competitors to U S
11 WEST in Washington?

12 A. Yes.

13 Q. Are you aware of whether or not those
14 competitors advertise?

15 A. No, I am not aware.

16 Q. On page 20 you also propose to exclude
17 strategic planning; is that correct?

18 A. Yes, it is.

19 Q. And what's the basis of that disallowance?

20 A. Well, it's stated in my testimony there at
21 the bottom of the page 20. It appears to relate to
22 competitive aspects of which U S WEST Inc. extends
23 across all its subsidiaries.

24 Q. Isn't it true that the strategic planning
25 costs that you propose to disallow represent only an

03835

1 allocated part of the total U S WEST Inc. strategic
2 planning?

3 A. That's correct.

4 Q. Do you have any evidence that the
5 allocation was done unfairly or improperly?

6 A. No.

7 Q. It's correct, isn't it, that the
8 legislature has chosen competition as the preferred
9 mode of providing telecommunications in Washington?

10 A. That's correct.

11 Q. You're not saying that notwithstanding that
12 election U S WEST has to show some evidence of
13 benefits received from competition, are you?

14 A. Well, I guess I would say that I am not
15 aware of effective competition in the regulated
16 monopoly sector of U S WEST at this time so I'm not
17 sure how the question applies.

18 Q. I'm just trying to understand your
19 statement that Washington state ratepayers should not
20 pay for this expense because there is no evidence of
21 benefits received from competition at this time. Are
22 you saying that U S WEST Communications is required to
23 demonstrate that there is a benefit of competition?

24 A. I guess what I'm saying is that for the
25 ratepayers -- for me to recommend this be an allowable

03836

1 expense for recovery by the ratepayers there should be
2 some benefit that flows to the ratepayers.

3 Q. Has U S WEST proposed to reduce switched
4 access charges in this case?

5 A. I am not familiar with that part of the
6 rate case. I think Tom Spinks is testifying on behalf
7 of that issue.

8 Q. Well, when you said there's no evidence of
9 benefits received from competition at this time, did
10 you consider anything like that, specific changes that
11 are being proposed in this case?

12 A. Overall the company asked for an increase
13 for revenue requirement, so just because they're
14 reducing some rates, if they're reducing some rates
15 and increasing other rates I'm not sure what the
16 overall benefit is.

17 Q. You're not sure. Then does that mean
18 you're not sure there isn't evidence of benefits
19 received from competition?

20 A. Well, I haven't seen evidence in this case.

21 Q. If the company were proposing to reduce
22 switched access charges and if that were related to
23 competition, would that be a benefit from competition?

24 A. If you're just looking at that one item or
25 that one issue it may be.

03837

1 Q. Like to return now briefly to your RSA 13
2 adjustment on team and merit awards, and you discuss
3 that beginning at page 5. First of all, did you review
4 the Commission's order in U S WEST's most recent case
5 to determine whether your proposal on this subject was
6 consistent with that order?

7 A. No, not regarding team merit awards.

8 Q. And just so the record is clear, you
9 removed these adjustments both from the test year
10 actuals and from the computation of the annualization
11 of the increases for occupational and management
12 employees; is that correct?

13 A. Correct.

14 Q. Those were really two separate types of
15 adjustments; is that right?

16 A. That's right.

17 Q. Do you consider team and merit awards to be
18 equivalent to bonuses?

19 A. Yes.

20 Q. Now, you say the team award relating to the
21 net income and business units should be disallowed
22 because the performance objectives are related to U S
23 WEST's net income, nonregulated earnings and business
24 units; is that right?

25 A. Yes.

03838

1 Q. Did you audit U S WEST as part of preparing
2 for your testimony?

3 A. I was involved in the audit, yes.

4 Q. And you understand part X accounting; is
5 that correct?

6 A. Generally, yes.

7 Q. Under part X accounting, isn't it true that
8 U S WEST's nonregulated activities are removed from
9 the accounts that are before the Commission in this
10 rate case?

11 A. That's correct.

12 Q. Can you state what the specific
13 nonregulated activities are that govern performance
14 objectives of the team and merit awards?

15 A. There may be a portion that's related to --
16 I guess I'm not sure, no.

17 Q. Now, you state that the performance
18 objectives are based on U S WEST Communications
19 business units. Can you state for the Commission what
20 business units are?

21 A. My understanding from our response to
22 Commission data request is that is a component of
23 which the company pays out these bonuses based on, and
24 it can vary from business unit to business unit.

25 Q. Isn't it true that on average 20 percent of

03839

1 the business unit components of the team award
2 measurement are for service? Can you accept that
3 subject to check?

4 A. If you could give me a place to check that.

5 Q. Data request 463.

6 A. Did you say 20 percent?

7 Q. Yes, on average?

8 A. I will accept that subject to check.

9 Q. Is it correct that the business unit
10 service quality measures went up during the test year?

11 A. I don't know.

12 Q. Can you accept that subject to check?

13 A. Where would I check that?

14 Q. Same place.

15 A. Yes.

16 Q. Now, you indicate that the reason or one
17 reason for disallowing the team and merit awards is
18 that achieving -- or is that the performance objectives
19 were based on achieving goals related to U S WEST
20 Communications net income, and you state that those
21 are not directly associated with the regulated
22 operation nor do they provide measurable benefits to
23 ratepayers in either the short or long run or between
24 rate cases. It's correct, isn't it, that in a rate
25 case like this one U S WEST net income is a key

03840

1 element of the rate setting process?

2 A. Yes, it is.

3 Q. And is one way to achieve a net income goal
4 to increase efficiency?

5 A. Yes.

6 Q. And other things being equal, does that
7 mean that in a test year U S WEST's revenue
8 requirement would be lower?

9 A. Yes.

10 Q. And would that then translate into lower
11 rates set through the ratemaking process?

12 A. Well, if they had rates set at a current
13 level and then gained efficiencies to increase
14 productivity, unless they came in for a rate case
15 rates would not decrease.

16 Q. Well, let me back up and make sure we have
17 the question clear. Assume that the company has a
18 test year and that sometime after the close of the
19 test year there is a rate case whether it's initiated
20 by the company or another party. Do you have that
21 hypothetical?

22 A. Yes.

23 Q. And one scenario the company, because it
24 has no incentive pay plan, does not achieve
25 efficiencies and under the other scenario, because it

03841

1 has such an incentive plan, it does achieve
2 efficiencies. Do you have that part of the
3 hypothetical?

4 A. Yes.

5 Q. So under the second scenario would you
6 agree that other things being equal the rates set
7 through the ratemaking process would be lower than
8 under the first scenario?

9 A. Yes.

10 Q. And so would the ability of ratepayers to
11 buy the same thing for less money be a benefit to
12 ratepayers?

13 A. It depends on what the incentives are tied
14 to, what the goals of the incentives were.

15 Q. Under the assumption that the goals of the
16 incentive are tied to achieving net income goals,
17 that's the hypothetical.

18 A. I guess not necessarily because quality of
19 service can be sacrificed to meet those net income
20 goals.

21 Q. I said other things being equal?

22 A. If quality of service didn't drop and rates
23 were set at a lower level then yes.

24 Q. And you also mention in your testimony an
25 alternative form of regulation, and it's correct,

03842

1 isn't it, that under the type of alternative form of
2 regulation which recently existed in Washington that
3 under the scenario that we just discussed, that is,
4 during a sharing year the results of an incentive
5 pay plan resulted in increasing net income, other
6 things being equal would result in a benefit to
7 ratepayers in the form of sharing dollars?

8 A. Yes.

9 Q. Now, there's nothing that would prevent the
10 Commission or another party from beginning a rate case
11 against U S WEST if for any reason that party believed
12 that U S WEST was earning in excess of a fair return;
13 is that correct?

14 A. I'm not sure.

15 Q. If that were the case would you agree that
16 under the hypothetical we've been discussing the
17 achievement of the net income goals, again assuming
18 other things equal, would also result in a benefit to
19 ratepayers?

20 A. If the Commission filed a complaint and the
21 company reduced their rates, is that your question?

22 Q. Yes.

23 A. Yes. If the Commission filed the complaint
24 and the rates were reduced as an effect of that.

25 Q. A company can at any time be earning at or

03843

1 above or below a fair rate of return; is that correct?

2 A. Yes.

3 Q. Are ratepayers harmed if the company is
4 earning at a fair rate of return?

5 A. No.

6 Q. So if, hypothetically, a company is earning
7 a below fair rate of return and an incentive plan
8 allows the company to achieve an income goal that
9 moves its earnings up to a fair rate of return, are
10 ratepayers harmed?

11 A. As I stated before I guess it depends on
12 the goals of the incentive plan and if quality of
13 service is not sacrificed then the ratepayer should
14 not be harmed.

15 Q. You haven't presented any evidence that the
16 company acted in bad faith in paying the team and
17 merit awards, have you?

18 A. No.

19 Q. Have you presented any evidence that the
20 company's overall level of compensation including the
21 team and merit awards is excessive?

22 A. No, I wasn't addressing that issue.

23 Q. Have you presented any evidence
24 specifically directed to what merit awards are?

25 A. No. I just relied on the company responses

03844

1 to staff data requests.

2 Q. Are merit awards different from team
3 awards?

4 A. Team and merit awards are paid out
5 differently, I believe, but as described in two
6 different data requests responses that I received from
7 the company similar language is used as far as a
8 criteria for both team and merit awards.

9 Q. At page 31 you talk about your adjustment
10 to exclude any part of any wage or salary increase
11 that relates to capitalized salaries because they
12 relate to construction work in progress; is that
13 right?

14 A. Yes.

15 Q. Isn't it true that many construction
16 projects are completed in less than one year?

17 A. Yes.

18 Q. Isn't it true that 75 percent of U S WEST's
19 construction work in progress is short-term?

20 A. That may be.

21 Q. And of that 75 percent 86 percent goes into
22 service within one year?

23 A. That could be.

24 Q. There would be construction related labor
25 costs capitalized on U S WEST Communications books

03845

1 along with the dollars of plant; is that correct?

2 A. Yes.

3 Q. And those would be actuals, correct?

4 A. Yes.

5 Q. And you didn't propose to change those
6 actuals, did you?

7 A. No. The Commission has never made -- has
8 not made an adjustment since as far back as I know as
9 far as including the CWIP in rate base, and I think it
10 was addressed in U-89-2698. Actually it was initially
11 addressed in Pacific Northwest Bell telephone company
12 rate case U-79-66 second supplemental order, and this
13 has been upheld ever since then as far as I know for
14 ratemaking treatment.

15 Q. Now, you've also made an adjustment to
16 change the amount that's capitalized based on what you
17 claim is a representative period of the past four
18 years; is that correct?

19 A. Yes. I am just attempting to normalize the
20 expense that's on the books regarding overtime and
21 capitalized wages.

22 Q. Isn't it correct that the basis of the
23 amounts capitalized during the test year are the
24 codings that employees assign to their hours and their
25 pay records?

03846

1 A. Yes, it is.

2 Q. And you're not claiming that those are
3 inaccurate, are you?

4 A. No, I'm not.

5 Q. And have you examined the capitalization
6 rate for 1995?

7 A. I think I've seen a DR response that
8 addresses that. I'm not sure what the level is.

9 Q. Then you don't know that the test year is
10 not representative of current conditions; is that
11 correct?

12 A. I am attempting to normalize it over a
13 period of time of which information was provided. It
14 could be that the same level that's in effect right
15 now is in effect in '96. I'm not sure.

16 Q. Well, if there is a permanent change in the
17 capitalization rate, your adjustment wouldn't pick
18 that up, would it?

19 A. Not if it was permanent change going
20 forward.

21 Q. You don't know that there hasn't been such
22 a change; is that correct?

23 A. No.

24 Q. I said, is that correct and you said no.
25 Did you mean yes, it is correct?

03847

1 A. Yes. I do not know that there is a
2 permanent change.

3 Q. Now, with regard to the overtime
4 adjustment, what you've done is simply subtracted the
5 overtime premium pay, is that correct, essentially?

6 A. Yes.

7 Q. And you know -- and you don't contest that
8 U S WEST is legally required to pay its occupational
9 employees overtime for hours worked in excess of the
10 statutory maximum per week?

11 A. No.

12 Q. And you don't contest that the hours were
13 actually worked; is that correct?

14 A. Correct. I don't contest the hours that
15 were actually worked.

16 Q. So is it your testimony that U S WEST was
17 imprudent in paying the overtime?

18 A. No, it is not.

19 Q. Do you have any evidence that U S WEST
20 could have actually performed the service it performed
21 with paying employees to work fewer hours than they
22 actually worked?

23 A. No.

24 Q. If it turned out that it was cheaper for
25 the company to reduce its permanent employee head

03848

1 counts and pay the overtime that it actually paid,
2 would your adjustment unfairly penalize the company?

3 A. I wouldn't say so. The company has not
4 provided any studies or support indicating such, and
5 what I'm trying to do is just normalize expenses that
6 appear to be high, unusually high or some unusual
7 circumstance is going on, and I am just normalizing
8 those expenses for ratemaking and rate setting
9 purposes going forward.

10 Q. Did you ask the company whether or not it
11 was less expensive to do the work the way it was done
12 rather than increasing its permanent employee head
13 count?

14 A. No, I did not.

15 Q. I just want to try to get straight for the
16 record what the various adjustments that staff is
17 proposing are with regard to the timing. You've
18 indicated you looked back to two years for overtime,
19 back four years for the capitalization rate and the
20 staff is also proposing an end of year adjustment for
21 separations; is that correct?

22 A. I can't speak to the separations
23 adjustment, but I use the information that was
24 available as responded to in a data request UTC 331.
25 From that I could calculate the overtime percentages

03849

1 for the last two years. I did not have the
2 information for the last four years so I used the
3 information I had. The company provided overtime
4 capitalized wages for the last four years. Therefore,
5 I used four years for the capitalized wages.

6 Q. Do you know whether the company reduced its
7 permanent head counts during the test year?

8 A. My understanding was that U S WEST Inc.
9 did.

10 Q. But you don't know about U S WEST
11 Communications?

12 A. Not for certain.

13 Q. Directing your attention to your adjustment
14 for MRG, page 34. Isn't it true that U S WEST
15 recorded the part 32 calculated costs at exactly
16 offsetting revenue for these services above the line?

17 A. I believe so.

18 Q. Have you recommended that the cost in
19 excess of the part 32 fully distributed costs be moved
20 above the line?

21 A. I recommended the revenue that's associated
22 with the costs be moved from below the line to above
23 the line.

24 Q. Do you know if there are costs in excess of
25 the fully distributed costs that the company booked

03850

1 below the line?

2 A. My understanding is that all the costs are
3 on U S WEST C's books and the revenues are allocated
4 above the line to cover the costs plus an appropriate
5 level of a return and then the rest of the excess
6 revenue is put below the line.

7 Q. Well, my question was, the costs may be on
8 U S WEST C's books but are some of them, that is the
9 excess above the part 32 fully distributed costs
10 calculation, booked below the line?

11 A. I'm not sure.

12 Q. Directing your attention to what's been
13 marked as Exhibit 681. Can you accept subject to
14 check that this is the company's response to staff's
15 data request No. 307?

16 A. Yes.

17 Q. And have you seen this before?

18 A. Yes, I have.

19 Q. Directing your attention to Exhibit 682,
20 have you ever seen this before?

21 A. Yes.

22 Q. Do you recognize it as a copy of a
23 submittal the company made to the Commission in this
24 case?

25 A. Yes.

03851

1 Q. Direct your attention to what's been marked
2 as Exhibit 683. Will you accept subject to check that
3 this is U S WEST's response to public counsel's
4 request 1-333?

5 A. Yes.

6 Q. Directing your attention to what's been
7 marked as Exhibit 684, can you accept subject to check
8 that that is the company's response to public counsel
9 request 304?

10 A. Yes.

11 Q. Now, looking at Exhibit 681 and 682, it's
12 correct, isn't it, that U S WEST Inc.'s charges to U S
13 WEST Communications are based on fully distributed
14 costs?

15 A.

16 A. Yes.

17 Q. And is that process of determining those
18 fully distributed costs audited annually by the FCC?

19 A. I believe so.

20 Q. Do Exhibits 681 and 682 indicate and
21 reconcile the amount of U S WEST Inc. headquarters
22 costs that were assigned to U S WEST Communication
23 Washington intrastate through that process?

24 A. I'm not sure if I'm on the right page, but
25 I see a Washington intrastate total on Exhibit 681 of

03852

1 14 million, approximately, and I see 13 and a half on
2 the Washington intrastate FCC exhibit from Mr.
3 McDonald.

4 Q. And does the next page of Exhibit 682 start
5 the reconciliation process between those two numbers?

6 A. I am not that familiar with this. That may
7 be what this is doing but I still don't see the 14
8 million clearly.

9 Q. It's in column 2 opposite the line U S WEST
10 Inc. Do you see that?

11 A. Okay, yes.

12 Q. And so your reconciliation starts with that
13 difference column, one minus two; is that correct?

14 A. Yes.

15 Q. And then can you accept subject to check
16 that the succeeding pages explain that?

17 A. Yes.

18 Q. It would be actually what's numbered as
19 page 2 at the bottom for U S WEST Inc.

20 A. I see an MRG accrual with a remark that
21 says 1994 amounts removed.

22 Q. I'm asking you to look at the box in the
23 middle of that page for U S WEST Inc.

24 A. Okay. Yes, I see that.

25 Q. Can you accept subject to check that if you

03853

1 take the factors for allocating this number in the
2 middle box under difference at the bottom of that box
3 to Washington and then Washington intrastate we'll
4 arrive at the number in the difference column on
5 what's marked as page 1 of the attachment to this
6 exhibit?

7 A. Would that be allocated similar to
8 Margie Wright's allocation of the true-ups 15.49
9 percent to Washington state?

10 Q. Yes.

11 A. Okay, yes. Subject to check.

12 Q. One of the things that Ms. Strain discussed
13 in her testimony was the fact that there was a return
14 on investment included in the affiliated interest
15 charges and she indicated that she had no objection to
16 the concept of a return but she felt that the
17 particular return should not be the 14 state average
18 but instead should be the Washington intrastate
19 return. Were you in the room for that testimony?

20 A. Yes, I was.

21 Q. Would you agree with me that the most
22 recently determined return in a fully litigated case
23 with U S WEST for Washington intrastate is
24 approximately 13 years old?

25 A. I'm not sure how old it is. I don't know

03854

1 if there was a return that was looked at as a
2 reasonable level in the AFOR, so I don't know the
3 answer to that.

4 Q. Well, it's not possible to know in advance
5 what this Commission will decide in this case on what
6 a proper return should be; is that correct?

7 A. True.

8 Q. So if the Commission wanted to apply the
9 return it determines in this case to calculate a
10 proper return component for affiliate charges, can you
11 accept subject to check that it could use Exhibit 683
12 and 684 to do that?

13 A. I'm afraid you're asking me questions that
14 Paula Strain or maybe even Kathy Folsom should be
15 addressing.

16 Q. Directing your attention to attachment B of
17 Exhibit 683. Can you accept subject to check that
18 this is --

19 MR. TRAUTMAN: Your Honor, at this point
20 I'm going to object. We've been going through a
21 number of exhibits none of which have been shown to
22 have been relied upon by the witness, and I've let the
23 questioning go for some time, but he has not laid any
24 foundation to show that 683 or 684 have been relied
25 upon.

03855

1 MR. OWENS: Well, I suppose we can recall
2 our own witness. These exhibits are simply intended
3 to assist the Commission in whatever decision it makes
4 on an issue that the witness agreed it would be
5 impossible to know in advance for the company to
6 calculate a proforma for the return component of
7 affiliate charges. She is testifying on some
8 affiliate issues, and I suppose if there's an
9 objection of this type we will simply have to recall a
10 witness to identify the exhibit.

11 MR. TRAUTMAN: If the company wishes to
12 bring these exhibits in through their own witness,
13 that is fine. It's not appropriate to bring them --
14 other than 681 it's not appropriate to bring them in
15 through this witness.

16 MR. TROTTER: We're going to reserve
17 argument on whether it's appropriate to bring on
18 another witness now for testimony that could have been
19 filed months ago so we'll reserve objection on that.

20 Q. Well, let me ask this. Ms. Erdahl, you've
21 testified on the appropriate cost of transactions
22 between U S WEST Communications and U S WEST Inc.; is
23 that correct?

24 A. I have recommended certain disallowances to
25 the commissioners of expenses at the U S WEST Inc.

03856

1 level that are being allocated to U S WEST C.

2 Q. And the disallowances would then still
3 leave some costs that you had not proposed for
4 disallowance; is that correct?

5 A. Yes.

6 Q. And the staff has raised an issue in other
7 testimony of the appropriate return component to be
8 used in any transactions between U S WEST
9 Communications and U S WEST Inc.; is that correct?

10 MR. TRAUTMAN: Objection. This is beyond
11 the scope of her testimony.

12 MR. OWENS: I don't believe it is. I was
13 just trying to get to the point of how the return
14 component relates to the cost of the expenses that
15 have not been proposed for disallowance.

16 JUDGE WALLIS: The witness may respond.

17 A. Well, I'm not testifying to that issue.
18 That was something Paula Strain was addressing.

19 Q. Well, then is it your testimony that it's
20 acceptable to the staff that the return that is
21 included in the expenses you've not proposed for
22 disallowance should be what the Commission approves?

23 A. I am not testifying in that matter. I
24 didn't address that in my testimony.

25 MR. OWENS: Thank you. Nothing further.

03857

1 We would offer 681 and 682.

2 JUDGE WALLIS: Is there objection?

3 MR. TRAUTMAN: There's an objection to 682.

4 There's been no showing that this witness relied on

5 682 in preparing her testimony. This is simply a

6 revised exhibit of the company's own witness which

7 should have been brought in through him.

8 JUDGE WALLIS: Mr. Owens, do you have

9 anything further to say in addition to your earlier

10 remarks?

11 MR. OWENS: Well, the statute requires that

12 proof of the cost of the affiliate to provide services

13 to U S WEST Communication be provided. This is

14 information that was provided to meet that burden.

15 The witness has indicated she knows what it is. She's

16 seen it. It seems to me it's relevant to that issue.

17 MR. TRAUTMAN: The witness did not indicate

18 -- she indicated she had seen it now. She accepted

19 numbers subject to check. She did not indicate that

20 she relied on it in any way. If the company wished to

21 provide it, it clearly had an opportunity to do so.

22 This is their own witness's work papers.

23 MR. OWENS: Under the whole document rule,

24 this is actually the whole document, Exhibit 252 which

25 was introduced through our witness which this was a

03858

1 part of.

2 MR. TRAUTMAN: It should not be introduced
3 through Ms. Erdahl.

4 JUDGE WALLIS: I'm going to reserve ruling
5 on this one also, and I expect that I will be able to
6 advise the parties tomorrow of what the ruling is.
7 681 is received.

8 (Admitted Exhibit 681.)

9 JUDGE WALLIS: Does that conclude the
10 examination.

11 MR. OWENS: Yes yes, Your Honor.

12 JUDGE WALLIS: Mr. Trotter? Commissioners.

13 COMMISSIONER HEMSTAD: No.

14

15 REDIRECT EXAMINATION

16 BY MR. TRAUTMAN:

17 Q. Ms. Erdahl, you were asked a question
18 regarding duplication of expenses at U S WEST C and
19 U S WEST Inc. Do you remember that?

20 A. Yes.

21 Q. Is it your testimony that there is a
22 partial duplication of duties between U S WEST C and
23 U S WEST Inc. even though there may not be an exact
24 duplication of every function at each --

25 MR. OWENS: Objection. This is very

03859

1 leading on redirect.

2 MR. TRAUTMAN: This is to clarify a
3 question you had asked regarding duplication of
4 expenses.

5 JUDGE WALLIS: I'm going to allow the
6 question.

7 A. Yes. I believe I responded to that earlier
8 in that matter.

9 Q. Regardless of whether legal group or
10 benefit management entities were managed by the U S
11 WEST Inc., is it correct that U S WEST C managers are
12 responsible for the expenses that are allocated from
13 those groups to U S WEST C?

14 A. I believe so.

15 Q. You were asked questions regarding RSA 13,
16 team and merit awards. Did you refer to this
17 adjustment as a restating actual adjustment because
18 the company entitled the adjustment restating actual?

19 A. Yes.

20 Q. Is your adjustment RSA 13 in fact a
21 proforma adjustment?

22 A. Yes, it is. It's actually a ratemaking
23 adjustment, staff proforma adjustment, to remove team
24 merit awards from the booked result of operation.

25 Q. You were asked questions regarding part 69

03860

1 separations. Are you familiar with part 69
2 separations?

3 A. Generally.

4 Q. Does part 69 remove nonregulated revenues
5 and expenses.

6 MR. OWENS: Excuse me. I asked her part 64
7 not part 69.

8 MR. TRAUTMAN: Part 64. With that
9 correction?

10 A. Yes, 64.

11 Q. Does that remove nonregulated revenues and
12 expenses?

13 A. Yes.

14 Q. Does part 64 remove competitive
15 classification operations?

16 A. I don't believe so.

17 Q. You were asked a number of hypothetical
18 questions pertaining to the company's fair rate of
19 return. If the company is experiencing its fair rate
20 of return and the quality of service is low, are the
21 ratepayers harmed?

22 A. I would say so.

23 MR. TRAUTMAN: Nothing further.

24 JUDGE WALLIS: Anything on follow-up, Mr.
25 Owens?

03861

1 MR. OWENS: Yes.

2

3 RE-CROSS-EXAMINATION

4 BY MR. OWENS:

5 Q. What incentive is there for U S WEST and
6 U S WEST Incorporated to duplicate each other's work,
7 U S WEST Communications and U S WEST Inc.?

8 A. I didn't indicate that there was an
9 incentive for that to happen.

10 Q. The last question that your counsel asked
11 you was in the nature of a hypothetical. If the
12 company was earning its fair return and service
13 quality was poor would ratepayers be harmed. Isn't it
14 true that ratepayers would be harmed if service
15 quality is poor regardless of whether the company is
16 earning at, above or below its authorized and fair
17 rate of return?

18 A. Yes.

19 Q. Thank you.

20 JUDGE WALLIS: Is there anything further of
21 the witness? It appears that there's not. Ms.

22 Erdahl, thank you for appearing here today. You're
23 excused from the stand.

24 Let's be off the record for a scheduling
25 discussion.

03862

1 (Recess.)

2 JUDGE WALLIS: Let's be back on the record,
3 please. Public counsel is calling as its witness at
4 this time Jay A. Emry. Mr. Emry, would you stand and
5 be sworn, please.

6 Whereupon,

7 JAY EMRY,

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

10 JUDGE WALLIS: In conjunction with Mr.
11 Emry's appearance, his prefiled testimony is marked as
12 Exhibit 685T for identification. An errata sheet is
13 marked as 686. His attachment JAE-1 is marked as 687,
14 and JAE-2 is marked as 688 for identification.

15 (Marked Exhibits 685T, 686-688.)

16 JUDGE WALLIS: Mr. Trotter.

17

18 DIRECT EXAMINATION

19 BY MR. TROTTER:

20 Q. Mr. Emry, will you please state your name
21 and spell your last name for the record?

22 A. My name is Jay Emry. Last name is spelled
23 E M R Y.

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

03863

1 A. I'm employed at the Department of Health
2 and Social Services as a program manager.

3 Q. Your business address is?

4 A. Post Office Box 45400, Olympia, Washington
5 98504-5400.

6 Q. And in the course of your employment with
7 the Department of Social and Health Services, did you
8 have caused to prepare testimony and exhibits in this
9 case?

10 A. Yes, I did.

11 Q. Is Exhibit 685T your direct testimony?

12 A. Yes, it is.

13 Q. If I asked you the questions that appear
14 there would you give the answers that appear as
15 corrected or amplified by your errata sheet?

16 A. Yes.

17 Q. And in that errata sheet which is Exhibit
18 686 -- is that right?

19 A. That's correct.

20 Q. It indicates that as of September 1995 the
21 hands-on responsibility for the WATAP program is with
22 Ms. Moy, M O Y?

23 A. That's correct.

24 Q. Are you still available to the WATAP
25 program for expertise?

03864

1 A. I am.

2 Q. In the course of your direct testimony,
3 685T, you refer to two exhibits, 687 and 688 for
4 identification; is that right?

5 A. That's correct.

6 Q. Were these prepared by you or under your
7 direction?

8 A. Yes.

9 Q. Are they true and accurate to the best of
10 your knowledge?

11 A. They are.

12 MR. TROTTER: Your Honor, move for the
13 admission of Exhibits 685T, 686, 687 and 688.

14 MS. HASTINGS: No objection.

15 JUDGE WALLIS: There being no objection the
16 exhibits are received.

17 (Admitted Exhibits 685T, 686, 687 and 688.)

18 MR. TROTTER: Witness is available for
19 cross.

20

21 CROSS-EXAMINATION

22 BY MS. HASTINGS:

23 Q. Hello, Mr. Emry. My name is Molly Hastings
24 and I represent U S WEST.

25 A. Good afternoon.

03865

1 Q. Good afternoon. I wanted to ask you
2 briefly, you're aware that U S WEST filed for an
3 increase in residential rates when it filed its rate
4 case last February; is that correct?

5 A. Yes.

6 Q. During that ensuing almost year now did you
7 on behalf of DSHS or did anyone, to your knowledge, at
8 the Commission consider any changes in legislation
9 especially given the fact that there's a legislative
10 session that would change the WATAP program to
11 accommodate the increase that U S WEST is proposing in
12 residence rates?

13 A. We I believe talked briefly about it and
14 decided that the rate case was so speculative at that
15 point in time that we likely wouldn't get it through
16 the session anyway.

17 Q. If there is a rate ordered out of this
18 proceeding that would increase residential rates,
19 would it be you or someone at DSHS that would approach
20 the legislature to make changes to the program as
21 appropriate?

22 A. Yes, depending on the amount.

23 Q. I notice on page 9 of your testimony that
24 you indicate that the threshold amount of the payment
25 was increased in July or was increased in July of 1994

03866

1 from what I believe was \$8 at the time to \$9.25?

2 A. That's correct.

3 Q. What was the reason for that increase in
4 the threshold, if you know?

5 A. Well, at that point the -- our fund balance
6 was \$800,000, and our outstanding obligations for the
7 program were \$882,000, and so we -- because of back
8 billing issues that we had with U S WEST and GTE and
9 so we needed to go back in and needed to have more
10 revenue. The other thing of course is that at that
11 point all our expenditures were exceeding revenue.

12 Q. Was it related in any particular way to
13 a rate increase of any of the local exchange
14 companies --

15 A. No.

16 Q. It was not?

17 A. It was not.

18 Q. And if it were related to a rate increase
19 of a local exchange company, could it have been a
20 threshold increase larger than the \$1.25 that you
21 identified?

22 A. Possibly.

23 Q. Could you explain for me how WATAP is
24 working for you for the other local exchange companies
25 that have been certified to provide service in the

03867

1 state of Washington, ELI, TCG and those companies?

2 A. I guess I don't understand your question.

3 Q. Well, my understanding is that the WATAP
4 program has a charge per access line and you collect
5 that money?

6 A. Uh-huh.

7 Q. What are your current procedures to collect
8 that line or that charge per access line for the
9 access lines that are provided by the other local
10 exchange companies that are providing service?

11 A. The 13 cents per access line is submitted
12 to our agency, collected by the telephone companies,
13 and then submitted to our agency and then it drops
14 into a dedicated fund which is the WATAP fund.

15 Q. So somebody at your agency has contacted
16 someone at ELI and asked them to identify the amount
17 of access lines they have and they assess a certain
18 charge to each of their customers and pass that cost
19 along to you. Is that how it works?

20 A. Well, that is handled more from the UTC
21 side of the program.

22 Q. Do you know whether or not the other local
23 exchange companies are currently assessing a charge
24 per access line to their customers for the WATAP
25 program?

03868

1 A. Yes, they are.

2 Q. You do know they are, thank you. Regarding
3 your testimony on page 4, you talk about the
4 affordability of local exchange service. Have you
5 actually done any studies regarding the affordability
6 of local exchange service for customers?

7 A. No.

8 Q. Do you know what the average total average
9 rate for a Washington customer is, that would be
10 including local exchange service and any vertical
11 service they may have and any long distance type
12 services?

13 A. No.

14 Q. I wanted to ask you a little bit about your
15 thresholds. You indicate that there's a couple --
16 depending upon the program that the recipient is in
17 there's certain maximum grants and one of the grants
18 is \$486, as I read your testimony, and then there's
19 another one, depending upon what the recipient
20 qualifies for, that's \$821 a month. That \$486 is what
21 the recipient currently receives; is that correct?

22 A. That's for supplemental security income.

23 Q. Is that what they received in 1989?

24 A. That would be -- in 1989 it would have been
25 less.

03869

1 Q. And so I presume it would have been less in
2 the ensuing years up to the current year?

3 A. Well, SSI recipients receive a benefit
4 increase every January, so --

5 Q. Based on?

6 A. It's a cost of living increase. The SSI
7 program is funded 100 percent by the federal
8 government with the exception of a small portion which
9 is the -- we do a supplement for SSI cases but it's
10 100 percent federal money. It's based on cost of
11 living adjustment.

12 Q. And so you're aware that during this period
13 from 1989 until the current data that you have that
14 U S WEST has not increased its residence rates, are you
15 not?

16 A. I am not aware of that.

17 Q. Would you agree subject to check that Ms.
18 Owen identifies that in her testimony?

19 MR. TROTTER: Excuse me. Did counsel mean
20 a basic rate or basic rate including EAS or excluding
21 EAS or what?

22 MS. HASTINGS: Basic rate including EAS.

23 MR. TROTTER: Because I think there have
24 been increases -- there have been additional EAS
25 increments added since that time period so I don't

03870

1 think that witness can check that.

2 Q. I will ask you then just a basic rate
3 excluding EAS.

4 A. Yes.

5 Q. And I wanted to ask you for just a moment
6 about your Exhibit JAE-2 which is marked I think as
7 688. I was wondering if you could share with me how
8 WATAP determines what the average payment is -- it's
9 the second column there -- for each of these
10 companies?

11 A. It's based on invoices that we get from the
12 companies every month.

13 Q. So in the case of the Lewis County where the
14 average payment is \$14.50, what could I conclude about
15 the rate of residence service in Lewis County from that
16 average payment?

17 A. That it's fairly expensive.

18 Q. Thank you. Mr. Emry, have you done any
19 studies regarding how many WATAP customers would leave
20 the public switched network if U S WEST rate proposals
21 in this docket were accepted?

22 A. No.

23 Q. Do you know what percent of local exchange
24 service is the customer's total bill?

25 A. No.

03871

1 Q. Looking at page 16 of your testimony at
2 about line 22. You talk about for those receiving
3 public assistance there's little room left per month
4 after they pay rent and utility. Now, when you talked
5 about utilities there, did you have telephones in
6 mind?

7 A. No, I didn't. I had heating primarily.

8 Q. Do you believe that telephone is an
9 essential service?

10 A. Very critical.

11 Q. And would that be just basic local exchange
12 service or would that include the vertical services
13 such as call waiting or call transfer?

14 A. Primarily would be the basic service.

15 Q. Is long distance service essential in your
16 mind?

17 A. It's not something we cover through the
18 program.

19 Q. And just a couple of last questions. You
20 talk about on page 17 about the increase that would be
21 necessary if U S WEST were to -- at the bottom of the
22 page there on lines 24 and 25, the threshold would
23 need to be increased from the current level of 9.25 to
24 12.45. And also looking at U S WEST rates, do you
25 know what percent of a recipient's income the U S WEST

03872

1 proposed rate would be?

2 A. About 1 percent.

3 MS. HASTINGS: That's all I have. Thank
4 you, Mr. Emry.

5 JUDGE WALLIS: Questions from
6 commissioners.

7 COMMISSIONER HEMSTAD: No.

8 COMMISSIONER GILLIS: No.

9 JUDGE WALLIS: Mr. Trotter.

10

11 REDIRECT EXAMINATION

12 BY MR. TROTTER:

13 Q. Is every percent of income for a low income
14 person important?

15 A. Very important.

16 Q. Turn to page 5 of your testimony and here
17 you give on lines 12 through 18 some examples of WATAP
18 clients, is that correct, and their monthly income?

19 A. That's true.

20 Q. Let's assume that you give an example of
21 Aid to Families with Dependent Children, family
22 of three with no other income receives a monthly grant
23 of \$546?

24 A. Yes.

25 Q. And being a part of AFDC does that qualify

03873

1 them for WATAP?

2 A. That is true.

3 Q. Assume that a low income ratepayer had a
4 small pension payment each month in the amount of \$456
5 and no other source of income. Do you have that
6 hypothetical in mind?

7 A. I'm not sure I understand your question.

8 Q. I want you to assume that there is a
9 customer that has pension, a small pension income in
10 the amount of \$546 a month but no other income?

11 A. Okay.

12 Q. Do you then assume that they are not
13 participating in any of the DSHS programs?

14 A. Well --

15 Q. Under that hypothetical?

16 A. They could but they may elect not to. A
17 person with \$546 a month could easily qualify for food
18 stamp but they may elect not to.

19 Q. If they just had that pension income, would
20 you they be eligible for WATAP?

21 A. No.

22 Q. Why is that?

23 A. They need to receive benefits through a
24 qualified program.

25 Q. Over on page 10 of your testimony you

03874

1 indicate in response to a question on line 9 how many
2 Washington households are potentially eligible for
3 WATAP in 1994 and you indicate a number slightly in
4 excess of 440,000. Do you see that?

5 A. Yes.

6 Q. Does that represent -- what does that
7 number represent?

8 A. That represents only those clients who are
9 participating in a qualifying program so it does not
10 include your person with a pension who is not a part
11 of WATAP.

12 Q. The current rate for the WATAP per line
13 assessment is 13 cents per line?

14 A. Yes, that's correct.

15 Q. And the maximum under the statute as
16 currently worded is what?

17 A. 14 cents.

18 Q. Assume that the assessment was increased to
19 14 cents. Would that materially change the funding of
20 the program?

21 MS. HASTINGS: Your Honor, I'm going to
22 object.

23 A. No.

24 MS. HASTINGS: I'm not sure these questions
25 are really redirect.

03875

1 MR. TROTTER: She was talking about
2 legislative changes and this is a change that was
3 within the existing legislation.

4 MS. HASTINGS: I think he indicated that
5 they don't have any legislation proposals.

6 MR. TROTTER: She opened the door on the
7 scope of the legislative change.

8 JUDGE WALLIS: I believe the questions, to
9 this point anyway, are within the scope of the direct.

10 Q. Go ahead.

11 A. Would you re-ask the question.

12 Q. Would an increase in the assessment from 13
13 to 14 cents materially change the funding of this
14 program?

15 A. No. It would generate an additional
16 \$30,000 a month or \$360,000 a year.

17 Q. Is it in your client's interests to increase
18 the threshold?

19 A. No.

20 Q. Is that something you try to avoid if you
21 can?

22 A. Yes, we do.

23 MR. TROTTER: Those are all my questions on
24 redirect.

25 JUDGE WALLIS: Ms. Hastings.

03876

1 MS. HASTINGS: No questions.

2 JUDGE WALLIS: Anything further of the
3 witness? It appears that there's not. Mr. Emry,
4 thank you for appearing. You're excused from the
5 stand.

6 MR. TROTTER: We thank the Commission for
7 allowing him to fit into this part of the schedule.

8 JUDGE WALLIS: Let's be off the record
9 while another witness comes forward.

10 (Recess.)

11 JUDGE WALLIS: Let's be back on the record,
12 please. The Commission staff at this time is calling
13 its witness Ken Hua. Mr. Hua, would you stand,
14 please.

15 Whereupon,

16 KEN HUA,
17 having been first duly sworn, was called as a witness
18 herein and was examined and testified as follows:

19 JUDGE WALLIS: In conjunction with Mr.
20 Hua's appearance the following documents have been
21 describe. His direct testimony is marked as 689T.
22 An errata sheet is marked as Exhibit 690. His
23 attachment KH-1, product advertising, is marked as
24 691. KH-3, regulatory fee, is marked as 693. KH-4,
25 conversion factor, as 694. His supplemental testimony

03877

1 is marked as 695T. Attachment KH-2 revised external
2 relations is marked as 696. The company has
3 distributed two documents with reference to the
4 witness's appearance. The first is designated Re
5 Illinois Bell Telephone Company. That's marked as 697
6 for identification, and the second is designated staff
7 of the Missouri public service Commission v.
8 Southwestern Bell Telephon Company. That is marked as
9 698 for identification.

10 (Marked Exhibits 689T, 690, 691, 693, 694,
11 695T, 696, 697, 698.)

12

13 DIRECT EXAMINATION

14 BY MR. TRAUTMAN:

15 Q. Good afternoon, Mr. Hua.

16 A. Good afternoon.

17 Q. Would you please state your name, spell
18 your last name and give your business address for the
19 record?

20 A. My name is Ken Hua. My last name is
21 spelled H U A, and my business address is 1300 South
22 Evergreen Park Drive Southwest P.O. Box 47250,
23 Olympia, Washington 98504.

24 Q. Did you prepare the testimony which has
25 been marked as Exhibit 689T and the supplemental

03878

1 testimony which is marked as 695T for this proceeding?

2 A. Yes, I did.

3 Q. And have you also prepared exhibits KH-1,
4 KH-2 revised, KH-3 and KH-4 which have been marked
5 as Exhibits 691, 696, 693 and 694?

6 A. Yes, I did.

7 Q. Have you made any changes to your
8 previously filed testimony or exhibit by way of an
9 errata sheet marked as Exhibit 690?

10 A. No.

11 Q. Are you sure of the last answer? Did you
12 file an errata sheet?

13 A. Oh, yes. I'm sorry.

14 Q. Are the testimony and exhibits which you
15 have filed in this proceeding true and accurate to the
16 best of your knowledge?

17 A. Yes.

18 Q. If I were to ask you today the questions
19 contain in your testimony, would your answers be the
20 same?

21 A. Yes.

22 MR. TRAUTMAN: I would move for admission
23 of Exhibits 689T, 690, 691, 693, 694, 695T and 696.

24 MR. VAN NOSTRAND: No objection.

25 JUDGE WALLIS: The exhibits are received.

03879

1 (Admitted Exhibits 689T, 690, 691, 693, 694,
2 695T and 696.)

3 MR. TRAUTMAN: Witness is available for
4 cross.

5

6 CROSS-EXAMINATION

7 BY MR. VAN NOSTRAND:

8 Q. Good afternoon, Mr. Hua.

9 A. Good afternoon.

10 Q. I'm James Van Nostrand representing U S
11 WEST Communications. I would like to start out with
12 the portion of your testimony that has to do with your
13 adjustments to external relations, and in your
14 original testimony you describe the nine categories of
15 expenses included in account 6722, external relations;
16 is that correct?

17 A. Yes, that's correct.

18 Q. And are those are listed on pages 8 to 10
19 of Exhibit 689T?

20 A. Can you repeat the question?

21 Q. Pages 8 through 10 of Exhibit 689T list
22 those nine categories of expenses included in --

23 A. Yes, that's correct.

24 Q. In your original testimony you propose an
25 adjustment of \$10.4 million based on a disallowance of

03880

1 categories 1, 3, 4, 5, 6 and 8. Is that correct?

2 A. I believe have been revised. I think that
3 issue is no longer of relevance. If you look under my
4 exhibit KH-2 which is labeled -- I believe it's 696,
5 with the update version I don't believe that's -- the
6 amounts you're talking about is no longer the issue
7 here.

8 Q. And in that exhibit your revised testimony
9 695T, I take it you are no longer proposing any
10 adjustments to 1, 3, 5 and 8?

11 A. Are you looking at my supplemental
12 testimony?

13 Q. Yes. Page 2, lines 6 and 7.

14 A. I believe if you look at the other page
15 there's some update information have been corrected
16 since then.

17 Q. I believe my question reflected that
18 updated information that you are no longer proposing a
19 disallowance as to 1, 3, 5 and 8?

20 A. That's correct.

21 Q. And the amount -- according to your
22 supplemental testimony the amount of your proposed
23 disallowance in category 4 is picked up by another
24 staff adjustment so you're no longer including that in
25 your external relations adjustment; is that correct?

03881

1 A. That's correct. Portion of it was picked
2 up by other staff.

3 Q. Focusing on the amount which you discuss in
4 your supplemental related to category 6 where you
5 state that you are proposing to disallow 29,000 and
6 allow about 132,000 out of the 161,000 that's included
7 in category 6 -- is that right?

8 A. Yes, that's correct.

9 Q. And your testimony testimony states no
10 basis for that disallowance other than you performed
11 an allocation between allowable and nonallowable; is
12 that right?

13 A. Well, based on the information of the
14 company I think that's a most logical sense. Common
15 sense allocate proportionately between allowable and
16 unallowable.

17 Q. How did you determine the proportion of
18 allowable to nonallowable which you then applied to
19 category 6?

20 A. Well, this is very simple. First of all,
21 if you gather all the allowable together you come up
22 with like around \$8.55 million and then if you add all
23 the nonallowable together it is approximately \$1.9
24 million and this amount is allocated proportionately
25 between allowable and unallowable.

03882

1 Q. So you applied the proportion between 1.9
2 million and 8.55 million to the amount recorded as
3 category 6 and determined that 29,000 should be
4 allowed and 132,000 should be disallowed?

5 A. That's correct.

6 Q. And is there anything within category 6
7 itself, which I take it relates to supervision,
8 support, training, office services and support of 45
9 EX functions, is there anything in category 6 itself
10 which you recommend be disallowed based on
11 characteristics of the expenses themselves?

12 A. I would like to refer you to my testimony.
13 I think it's really clear here. I mentioned really
14 clear starting on page 6 -- page 11, I'm sorry.
15 Starting on page 11, line No. 3. Categories 6 appears
16 to have activities involved in other categories that
17 include allowable and nonallowable, and again, it's a
18 common sense. Basically you just allocate this amount
19 based on allowable and nonallowable within this
20 categories.

21 Q. Do you state anywhere in your testimony
22 what it is in category 6 that's allowable and what it
23 is that's nonallowable?

24 A. No. You know, the reason is because this
25 information was updated up until the staff first

03883

1 filed staff testimony in August so based on the
2 additional information staff revised from \$10 million
3 to whatever the revised -- to 751 for the total amount,
4 751,000 for the total amount.

5 Q. And you've now revised that down to 739, if
6 I understand that correctly, from your errata?

7 A. Can you repeat.

8 Q. You revised the 751 down to 739, is that
9 correct, from your errata sheet?

10 A. I believe that's correct.

11 Q. Recognizing that there has been some
12 updating and supplemental review done, the question is
13 what is there to support the specific disallowance in
14 category 6? What is there in your testimony that
15 describes why those expenses are being disallowed?

16 A. Basically the company was unable to come up
17 with any other better allocation and this is just a
18 matter of common sense and then that's the best way to
19 handle it is to allocate to allowable and unallowable.
20 I think that's the best way to allocate.

21 Q. If you could turn to the portion of your
22 testimony beginning on page 3 having to do with
23 product advertising as it starts on page 2?

24 A. Page 2?

25 Q. Yes.

03884

1 A. I have that in front of me.

2 Q. And then again turning to page 3, line 5, I
3 take it from your testimony you're proposing to
4 disallow about \$6.792 million of product advertising?

5 A. That's correct.

6 Q. And your testimony is that before this
7 advertising is recoverable in rates it must be shown
8 to have a direct benefit to the ratepayer? In other
9 words, the advertising expense must be covered by new
10 revenues generated by the advertising. Is that --

11 A. That's correct.

12 Q. And that standard that you're proposing is
13 at the top of page 6, lines 2 through 4?

14 A. That's correct.

15 Q. In other words, the company is required to
16 show that advertising resulted in higher sales than
17 would otherwise have occurred?

18 A. Well, I think this is very simple. I think
19 this question require more than yes or no. Yes. Can
20 you repeat the question one more time.

21 Q. Sure. In other words, the standard you are
22 proposing under at that standard the company is
23 required to show that the advertising resulted in
24 higher sales than would have otherwise occurred?

25 A. Again, this need more than yes or no. I

03885

1 will answer the counsel question but about an
2 opportunity to explain my answer as well. Yes, that's
3 correct. You know, this is very simple. If you have
4 to put out \$10.9 million for the rate base I would
5 think the company would expect some sort rate of
6 return, so similarly if the ratepayer requires to pay
7 for the \$10.9 million for their investment in
8 advertising I would think there would be some way to
9 measure the benefit to the ratepayer.

10 And also I can relate and outline another
11 example for you. For example, let's say you put \$10.9
12 million in the savings account. I would expect the
13 company would expect not just the 10.9 million back but
14 plus interest income. This is very simple matter.

15 Q. Under the standard that you propose, does
16 this analysis have to be performed on an advertising
17 by advertising basis?

18 A. I believe I address this issue under my DR
19 169 as well as 465 which was supplemental. I can tell
20 you the exhibit number here. Exhibit 172 and then 212
21 as well as I also address it in my testimony. I think
22 it's really clear.

23 Q. Refresh my recollection. Does this
24 analysis necessary to be done on an advertisement by
25 advertisement basis?

03886

1 A. Again, I would like to direct you to my
2 testimony. I address that really clear unless you
3 have specific questions about my testimony and my data
4 request 16 as well as 465.

5 Q. Is your data request 169 in the record?

6 A. Yes, I believe we submit it under Exhibit
7 172 and then the 465 is under Exhibit 212.

8 Q. Is the analysis you required, does that
9 need to be performed on a year by year basis?

10 A. Well, the analysis again is a common sense
11 but, you know, since you're concerned about the
12 analysis, this is basically exactly same as other
13 Commissions. I would direct you under the Oregon
14 Commission they require the same procedure what we are
15 asking for. I would like to restate my position. U S
16 WEST has not provided DR 469 to staff so under that
17 situation staff cannot justify this is in the public
18 interest.

19 JUDGE WALLIS: I'm going to interject just
20 for a minute and suggest, Mr. Hua, that you answer the
21 question even if you believe that it's clear in your
22 testimony, and sometimes these questions are asked as
23 a preliminary basis so that the entire examination
24 makes sense, and if your counsel has an objection to
25 the question then the counsel can raise the objection.

03887

1 Thank you.

2 Q. Is it your understanding that the Oregon
3 Commission order that that requires a year by year
4 analysis that the company must each year demonstrate
5 that an advertisement in that year produced revenue
6 which offset the expense for that advertisement in
7 that year?

8 A. As long as the company -- you know some of
9 them require more than one years.

10 Q. My question is directed to your
11 understanding of the Oregon Commission order which you
12 just cited?

13 A. Yes.

14 Q. That's your understanding of the Oregon
15 Commission order?

16 A. Yes.

17 Q. Has this test been adopted by the
18 Commission previously?

19 A. I don't quite understand what was your
20 question about adopted.

21 Q. Has this test which you are enunciating
22 today and recommending that the Commission adopt, has
23 it been adopted by this Commission previously?

24 A. Well, I'm going to try to answer to my best
25 knowledge but there was a precedent under the U-85-36

03888

1 which is third supplemental order, the Commission
2 support staff recommendations to disallow advertisings
3 expense because Washington Water Power company did not
4 demonstrate the advertising how benefited the
5 ratepayers if that was your question.

6 Q. And the Commission on page 24 of that order
7 indicated, "the Commission will evaluate advertising
8 expenses according to whether the advertising has
9 demonstrated benefits to ratepayers." Is that the
10 excerpt to which you are referring?

11 A. Are you talking about the U-85?

12 Q. U-85-36.

13 A. I have the U-85 in front of me. Where are
14 you at?

15 Q. Page 24, first full paragraph.

16 A. Page 24 and at the beginning, the end?

17 Q. First full paragraph on page 24 that says,
18 "beyond the general guidelines of the rule the
19 Commission will evaluate."

20 A. I see that.

21 Q. Is that the precedent which you are citing?

22 A. Yes. I'm citing that precedent, that's
23 correct. That's one of the precedent in addition to
24 the considerable precedent throughout the United
25 States in public utilities regulation.

03889

1 Q. Just focusing on this particular precedent
2 from this Commission, is there anything in that order
3 which would suggest that you perform an analysis to
4 determine whether a specific ad generated revenue
5 sufficient to offset the expense of that particular
6 ad?

7 A. Well, not in this precedent. However, I
8 mention earlier, in the public utility regulation
9 throughout the United States there's other Commission
10 require the same analysis as what we are asking for
11 here.

12 Q. I recognize that and we'll get to that. My
13 question is with respect to the precedent of this
14 Commission?

15 A. No.

16 Q. Is it your recommendation that the standard
17 that the Commission adopt the standard which you are
18 proposing in this case?

19 A. Can you rephrase the question?

20 Q. Are you recommending that the standard
21 which you include in your testimony, are you
22 recommending that the Commission in this case adopt
23 that standard?

24 A. I'm just making my point here. I'm not
25 recommending anything.

03890

1 Q. Your testimony, prefiled testimony and your
2 testimony today, refers to some of these precedents
3 from other commissions, and one of them which you cite
4 in your testimony is the decision from the Illinois
5 Commerce Commission; is that correct? You cite that
6 on page 6, lines 5 through 11.

7 A. Can I have the page number again?

8 Q. Of your testimony, page 6, lines 5 through
9 11 you refer to an Illinois Commerce Commission order
10 involving Illinois Bell Telephone Company?

11 A. That's correct.

12 Q. Do you recognize what's been marked for
13 identification as Exhibit 697 as the portion of your
14 response to data request No. 66 which asked you to
15 provide copies of the Commission precedent which you
16 cited?

17 A. Yes, I am aware of it.

18 Q. And is this Exhibit 697, what's been marked
19 for identification as Exhibit 697, the order to which
20 you are referring in your testimony?

21 A. Can you rephrase your question? I don't
22 quite hear your question.

23 Q. Is this Exhibit 697 the order which you are
24 citing in your testimony, the Illinois Bell Telephone
25 Company order?

03891

1 A. Yes.

2 Q. And turning to the inside of that second
3 page of that document which is page Nos. 93 and 94
4 from the public utilities reports, turning to the head
5 note numbered 36, this is basically -- this is the
6 language which you include in your testimony?

7 A. Can I have the page number one more time?

8 Q. If you look at the Exhibit 697 which has
9 been distributed, bottom of page 93 and top of page 94
10 there is a language -- I'm just trying to determine
11 where exactly you got the quote in your testimony from
12 this order.

13 A. Okay, I can answer that question. The
14 quote I'm getting is from the public utility report
15 which is a well respected and used by the regulators.

16 Q. That's what this document is from?

17 A. Yes, that's correct.

18 Q. I'm trying to find the exact language that
19 you cite in your testimony. You've got it in quotes
20 there on page 6, lines 7 through 11. You've got a
21 quote there within quotation marks. I'm trying to
22 determine where in this order that quote appears, and
23 I'm confirming it seems to me it comes from the
24 paragraph at the bottom of page 93 and top of page 94
25 which is head note No. 36.

03892

1 A. If you read my testimony carefully, again,
2 I never said the quotation is from the Commission
3 order. In fact it's from the public utility reports.
4 That's right, that's correct.

5 Q. So that is a quote that is from the public
6 utility report --

7 A. Yes, that's correct.

8 Q. -- printing of that order?

9 A. Yes, that's correct. However, if you look
10 at the Commission order -- I think this require a
11 little bit more than yes or no here again. The
12 meaning is exactly identical. Since you're concerned
13 about the language let me quote directly from the
14 Commission only because it have the same meaning. The
15 order say, I quote, "The evidence presented by the
16 company indicates that this expenditure are more than
17 recovered in additional revenue received as a result
18 of advertising." And again the key word here as I
19 relate in my testimony is evidence in additional
20 revenue, and I would like to restate my position one
21 more time. The company have not provide sufficient
22 evidence and documentation for this category.

23 Q. Was there any disallowance in the Illinois
24 Bell decision of promotional advertising based on the
25 application of that standard?

03893

1 THE WITNESS: Your Honor, this question
2 require more than yes or no again because if I just
3 answer yes or no it's not going to complete.

4 A. So I would answer your question with an
5 explanation. It's correct, clearly the Commission is
6 saying the company have proof to evidence an
7 additional revenues offset the advertising expense.
8 And this is exactly what we're asking the U S WEST for
9 in this case and again we haven't got sufficient
10 documentation and evidence to determine that.

11 Q. That order states as well on page 142 that
12 promotional advertising stimulates revenue for the
13 company; is that correct?

14 A. Which order are you referring to?

15 Q. Illinois Bell order that you're citing in
16 your testimony?

17 A. Can you repeat the question?

18 Q. Page 142 of Exhibit 697.

19 A. Is about what advertising, that's right.

20 Q. Doesn't that order state the promotional
21 advertising stimulates revenues for the company?

22 A. Again, this is more than yes or no answer.

23 Yes.

24 JUDGE WALLIS: Mr. Hua, maybe you could
25 start off just by answering the question yes or no.

03894

1 A. Yes. The company allow it but additional
2 revenue needed. I state it previously.

3 Q. Does the order also say that these revenues
4 aid the company in recovering its fixed costs that
5 would have to be recovered elsewhere in the absence of
6 such advertising. Does that also appear in the order?

7 A. Can you direct me to where you're at?

8 Q. In the lower right-hand corner, page 142 of
9 Exhibit 697?

10 A. Can you repeat the question?

11 Q. The order also states, doesn't it, that
12 these revenues aid the company in recovering its fixed
13 cost that would have to be recovered elsewhere in the
14 absence of such advertising?

15 A. I believe that's correct.

16 Q. It also states, didn't it, that the fact
17 that the company's captive ratepayers will suffer the
18 brunt of revenues lost to competitors is compelling
19 reason to allow these expenses in rate base. Does
20 that also appear in the order?

21 A. I believe so.

22 Q. Does the same finding from that case apply
23 here, that the company's captive ratepayers will
24 suffer the brunt of revenues lost to competitors and
25 therefore that a basis exists for allowing recovery of

03895

1 these expenses?

2 A. I don't quite understand your question
3 again.

4 Q. Does that same sort of a rationale exist
5 here that because the company's ratepayers will suffer
6 if revenues are lost to competition that that provides
7 a basis for allowing these expenses in rates?

8 A. Are you asking me a hypothetical question
9 or are you asking me about this case?

10 Q. I'm asking you if the rationale from that
11 order which the Commission cited in rejecting a
12 proposed disallowance, if the rationale of that order
13 suggests that the advertising expenses at issue in this
14 case should be allowed?

15 A. Again, this need more than a yes or no
16 question. Yes, that is correct. The Commission did
17 allow the amounts but very clear here the Commission
18 used a revenue factor to determine whether advertising
19 has benefited the ratepayers.

20 MR. VAN NOSTRAND: Your Honor, move the
21 admission of Exhibit 697.

22 JUDGE WALLIS: There being no objection the
23 exhibit is received.

24 (Admitted Exhibit 697.)

25 Q. If you could turn now to Exhibit 698, Mr.

03896

1 Hua which is the --

2 A. I have that in front of me.

3 Q. What's been marked for identification as
4 Exhibit 698. Do you recognize this as the
5 Southwestern Bell decision which you cite in your
6 testimony on page 6, lines 15 through 22?

7 A. Yes. I believe staff did provide this
8 information to the company under DR 66 as well.

9 Q. And again I take it your use of the
10 quotation marks on page 6 indicate that you have taken
11 the quote out of public utilities report rather than
12 directly from the Commission order?

13 A. As again, I am paraphrasing what the
14 Commission say here but since you were concerned about
15 the language let me quote directly from the Commission.
16 Basically the Commission -- it has the same meaning
17 anyway. The Commission say, and I quote, "a rejection
18 of the adjustment should not be accepted by the
19 Southwestern Bell as the signal that we intend to
20 accept any advertising expense simply because
21 Southwestern Bell incurred some documentation of
22 advertising benefit must be developed," unquote, and
23 again the key term is additional revenue and evidence.
24 This is exactly what we're asking for in this case.

25 Q. Right. And if I could return you to

03897

1 Exhibit 698 you were reading from the upper right-hand
2 corner on page 416.

3 A. Can I have the page number one more time?

4 Q. Page 416.

5 A. Yeah, I believe so.

6 Q. And continuing on with the language you
7 just read to us, the order goes on to state, "However,
8 the Commission is sympathetic with Southwestern Bell's
9 contention that it must be announced before the fact.
10 The proposed standard and fact makes Southwestern Bell
11 the guarantor of this success of its advertising
12 program on a hindsight basis"; is that correct?

13 THE WITNESS: Your Honor, this require more
14 than a yes or no question.

15 JUDGE WALLIS: Mr. Hua, I would suggest
16 that you start off by saying yes or no. At this point
17 counsel is only asking what the order says.

18 THE WITNESS: Yeah. However, this is
19 completely different here.

20 A. Yes, it's true but we are not asking U S
21 WEST to determine its revenue before the fact. We are
22 simply asking U S WEST to determine after the fact and
23 the company has all 1995 to determine this and well
24 after 1996.

25 Q. Doesn't this language go to the issue of

03898

1 applying a standard retroactively?

2 A. Yes.

3 Q. The Commission is here enunciating a
4 standard and deciding not to apply it retroactively
5 and instead to announce the standard before the fact?

6 A. Can you direct me to where you're looking
7 at the information again?

8 Q. I'm looking at that very quote that I just
9 read to you. "The Commission is sympathetic with
10 Southwestern's Bell contention that it must be
11 announced before the fact."

12 A. Yes, that's correct.

13 Q. And isn't the effect of your adjustment is
14 to apply a standard retroactively which are just now
15 enunciating in this case?

16 A. No, that's incorrect. My position is to
17 make sure it's in the public interest and, again, the
18 company have not demonstrated this is in the public
19 interest.

20 Q. If we could turn to the previous page in
21 that Southwestern Bell decision. If you look at the
22 lower right-hand corner can on page 415. In that
23 order the Commission states, does it not, that ads
24 have been rejected in the absence of documentation
25 that additional revenues were generated during the

03899

1 test year in excess of the cost of the test year
2 advertising"; is that right?

3 A. I believe that's what it said.

4 Q. Is that basically the standard that you're
5 proposing here that you must show that there were
6 additional revenues during the test year to offset the
7 cost of test year advertising?

8 A. No. My disallowance is based on, again,
9 the considerable precedent throughout the utility
10 regulation. It's consistent with the other
11 commissions which is require additional revenue and
12 evidence. The key thing in this issue, again, is
13 evidence and additional revenues.

14 Q. Turn to the same portion of the order.
15 Doesn't the order describe the virtual impossibility
16 of ascertaining whether subscription to a new service
17 or purchase of a new product is in response to a
18 particular ad contact with Southwestern Bell or
19 influence with other satisfied customers?

20 A. I believe it say that.

21 Q. And doesn't the Commission note that in
22 that case the staff witnesses concede that it's not
23 possible to establish revenue to expense ratios for
24 individual ads or even for campaigns?

25 A. Again, we are asking U S WEST to determine

03900

1 after the fact, not asking U S WEST to determine
2 before the fact.

3 Q. And turning to the top of page 416 in that
4 order, the very first paragraph on that page.
5 Commission makes reference to the fact that there may
6 be a difference in the year in which the expense was
7 incurred and the year in which the revenue
8 materialized, doesn't it?

9 A. I believe so.

10 Q. And the Commission notes that the
11 requirement proposed in this case does not take into
12 account that present revenues are being produced by
13 prior years' advertising costs?

14 A. I believe that's what the report said.

15 Q. Doesn't your proposed treatment of
16 advertising suffer from the same problem?

17 A. I don't quite understand. Can you tie your
18 question to my judgment? I don't understand exactly
19 what --

20 Q. Under your proposal how do you determine
21 whether or not an expense occurred in one year has
22 provided a benefit to ratepayer when the revenue may
23 show up in subsequent years?

24 A. The case here, the company have not
25 provided the evidence so I was unable to make any

03901

1 determination. That's just really simple here. We
2 have not yet sufficient evidence. We was unable to
3 make the determination.

4 Q. But you're looking at test year advertising
5 expenses and you're making a disallowance based on the
6 inability to show that test year advertising expenses
7 produced revenues sufficient to offset them. My
8 question is how is that possible? Apart from the
9 evidentiary issue, how is that possible given that the
10 revenue may not show up until subsequent years?

11 A. Well, again, staff has proceeded to
12 analyzed the problem based on the fact is I don't have
13 the answer for that.

14 Q. Isn't that what the Commission was saying
15 here was that there isn't an answer to that question
16 available in this order?

17 A. I don't quite get your question.

18 Q. Would you also agree, turning to the middle
19 of the left-hand side side of the discussion there on
20 page 416 that there's also a problem of advertising
21 that may be necessary in order to try to maintain
22 market share?

23 A. I believe it is say that.

24 Q. And would you agree the order on that point
25 states that Southwestern Bell has a nearly impossible

03902

1 burden of meeting the test if it experienced declining
2 market shares as a result of competition?

3 A. Well, to me competition is people --
4 ratepayer have more choices and comparative prices but
5 many ratepayers living in U S WEST serving area I
6 don't believe they have a choice. It's not unlike
7 other businesses. If you don't like Coca-Cola you
8 have the option to buy Pepsi Cola. Similarly, if you
9 don't like your long distance carrier you have the
10 choice to switch to a different long distance carrier,
11 but in many cases I don't believe the ratepayer here
12 have a choice. So, again, it's incumbent to the
13 regulators to make sure the ratepayer is paying for
14 something that is benefit them.

15 Q. Did the Missouri Commission in this
16 precedent which you cite disallow any promotional
17 advertising expenses of the company?

18 A. About the Southwestern Bell again?

19 Q. Yes.

20 A. Can you repeat the question one more time?

21 Q. Did the Missouri Commission in this
22 precedent which you cite disallow any of the
23 promotional advertising expenses of Southwestern Bell?

24 A. The answer is no and I would like to state
25 my previous reason. Again, the company clearly -- the

03903

1 Commission is saying the company have prove evidence
2 in additional revenues.

3 Q. Can you repeat that answer, please.

4 A. Clearly the Commission is saying the
5 company have prove to evidence in additional revenue
6 offset the advertising expense. The Commission did
7 allow the advertising expense but, however, I think
8 it's important to point out the Commission is
9 satisfied with the evidence in additional revenues.

10 Q. Where does that appear in the order where
11 it says the Commission is satisfied that the company
12 has put on evidence to satisfy that standard?

13 A. I believe I quoted previously. I'm going
14 to requote it one more time. Maybe I didn't make
15 myself so clear here. The order says, and I quote --
16 I'm sorry. I quoted the wrong one. Let me requote it
17 again about the Southwestern Bell. Well, about the
18 Southwestern Bell I need to take it back. The
19 Commission put the company on notice.

20 Q. And the Commission in fact said that staff
21 and PC have attempted to apply a standard which
22 appears virtually impossible for Southwestern Bell to
23 achieve. Isn't that the language from the Commission
24 order on this one?

25 MR. TROTTER: I will object to the

03904

1 question. Number one, the order speaks for itself.
2 Number two, this question was asked a few minutes ago.
3 Asked and answered.

4 JUDGE WALLIS: I am going to allow the
5 witness to respond.

6 A. I believe it is say that.

7 Q. I have a few questions on the portion of
8 your testimony having to do with the regulatory fee
9 which you discuss on page 11 and 12 of your testimony.
10 The issues concerns the amounts accrued by the company
11 for the regulatory fee during the test period; is that
12 right?

13 A. Yeah, that's correct.

14 Q. And does the company prepare its accounts
15 on an accrual basis or a cash basis?

16 A. Accrual basis.

17 Q. And the amounts claimed by the company for
18 the regulatory fee are those accrued by the company
19 during the test year; is that correct?

20 A. Again, this needs more than a yes-no
21 answer. It's not unusual for the company to accrue
22 the expense. However, as you can see from the
23 exhibit, which was prepared by me and submitted I
24 believe as Exhibit 195, it's not being wrong for the
25 company to accrue the expense. However, the company

03905

1 need to true up the expense. In this case if you look
2 under the Exhibit 195, and first of all, the company
3 maybe assumed the revenues is constant. They accrue
4 the same amount every month. If you look at the
5 revenue, the revenues fluctuate up and down so it's
6 okay to accrue it but the company need to true it up
7 to the actual expense within the test periods, which
8 the company overstates \$274,896 for this regulatory
9 expense.

10 Q. Is it your testimony that the company must
11 restate all the amounts which it records on an accrual
12 basis during the test period?

13 A. I don't understand.

14 Q. Is it your testimony that the company is
15 required to restate all the amounts which it records on
16 an accrual basis during the test period? In other
17 words, it needs to reconcile all the accruals it makes
18 during the test period?

19 A. Well, the company need to true up to the
20 best of their knowledge, right.

21 Q. Doesn't that essentially make the company
22 put on a cash basis accounting for the test period?

23 A. No. This have nothing to do with cash
24 basis. Basically this is very simple, and I believe
25 the first \$50,000 you just multiply by .01 and the

03906

1 remainder amount you multiply by .02. This is very
2 simple. Just a matter of adding them together.

3 Q. So you're saying that the amounts that were
4 accrued by the company during the test period for its
5 regulatory fee were incorrect at the time?

6 A. Yes, that's correct. That's correct.

7 Q. And you would propose that a similar type
8 of adjustment would be made for all the entries
9 recorded on an accrual basis during the test period
10 that there needs to be a reconciliation actual for
11 virtually all the entries recorded on an accrual
12 basis?

13 A. Can you repeat the question one more time.

14 Q. Yes. Are you recommending that virtually
15 all the entries accrued by the company during the test
16 period have to be trued up to reflect the actuals?

17 A. I think the company should do that, yes.

18 MR. VAN NOSTRAND: I have no further
19 questions.

20 JUDGE WALLIS: Other questions from
21 counsel?

22 MR. VAN NOSTRAND: I would like to move the
23 admission of 698, Your Honor.

24 JUDGE WALLIS: There being no objection 698
25 is received.

03907

1 (Admitted Exhibit 698.)

2 JUDGE WALLIS: Commissioners.

3 COMMISSIONER HEMSTAD: No.

4 COMMISSIONER GILLIS: No.

5 JUDGE WALLIS: Mr. Trautman.

6 MR. TRAUTMAN: No.

7 JUDGE WALLIS: Mr. Hua, I think that's all

8 for you today. Thank you very much for appearing.

9 You're excused from the stand.

10 THE WITNESS: Thank you, Your Honor.

11 JUDGE WALLIS: Let's be off the record

12 while we bring the next witness, please.

13 (Recess.)

14 JUDGE WALLIS: Let's be back on the record,

15 please. The Commission staff at this time is calling

16 its witness Maurice Twitchell.

17 Whereupon,

18 MAURICE TWITCHELL,

19 having been first duly sworn, was called as a witness

20 herein and was examined and testified as follows:

21 JUDGE WALLIS: In conjunction with the

22 appearance of this witness a number of documents have

23 been prefiled. These are the following. The witness's

24 prefiled direct testimony of August 1995 is marked as

25 Exhibit 699T. His attachment MLT-1 is marked as

03908

1 Exhibit 700 for identification. MLT-2 as 701. MLT-3
2 as 702. MLT-4 is 703. MLT-5 as 704. MLT-6 as 705.
3 MLT-7 as 706. MLT-8 as 707. MLT-9 as 708. MLT-10 as
4 709. MLT-11 as 710. MLT-12 is marked as 711 for
5 identification. MLT-13 is marked as 712. MLT-14 is
6 marked as 713. MLT-15 is marked as 714. MLT-16 is
7 marked as 715. MLT-17 is marked as 716. MLT-18 is
8 marked as 717. MLT-19 is marked as 718. MLT-20 is
9 marked as 719. MLT-21 is marked as 720. MLT-22 is
10 marked as 721. MLT-23 is marked as 722 for
11 identification. And MLT-24 is marked as Exhibit 723
12 for identification.

13 The witness's revised testimony of October
14 1995 is marked as 724T for identification. MLT-12,
15 revision attached to that revised testimony, is marked
16 as 725 for identification. Revision to MLT-3 is
17 marked as 726 for identification. The revision to
18 MLT-4 is marked as 727 for identification. The
19 revision to MLT-5 is marked as 728 for identification.
20 MLT-6 is marked as 729 for identification and new
21 exhibit MLT-25 is marked as 730C for identification.

22 The witness has caused to be distributed
23 today an errata sheet which is marked as Exhibit
24 731 for identification. A revision dated January 8,
25 1995 to MLT-25 is marked as 732C for identification.

03909

1 I will also note that the witness presented
2 revised testimony in response to a bench request and
3 that has been marked with other materials as Exhibit
4 321 for identification. Mr. Trautman.

5 (Marked Exhibits 699T, 700-723, 724T,
6 725-729, 730C, 731, 732C, 321.)

7

8 DIRECT EXAMINATION

9 BY MR. TRAUTMAN:

10 Q. Good afternoon, Mr. Twitchell.

11 A. Good afternoon.

12 Q. Could you please give your name, spell your
13 last name and give your business address for the
14 record.

15 A. Yes. My name is Maurice L. Twitchell.
16 T W I T C H E L L. My business address is 1300 South
17 Evergreen Park Drive Southwest, P.O. Box 47250,
18 Olympia, Washington 98504.

19 Q. Did you prepare for this proceeding the
20 testimony marked 699T and the revised testimony marked
21 724T as well as the testimony in response to the bench
22 request No. 8 marked as part of Exhibit 321?

23 A. Yes, I did.

24 Q. And have you also filed the exhibits which
25 are numbered from 700 through 723, 725 through 730,

03910

1 732C and the exhibits which are included as part of the
2 response to bench request No. 8 in Exhibit 321?

3 A. Yes.

4 Q. Have you made changes to your previously
5 filed testimony or exhibits through an errata sheet
6 marked as Exhibit 731?

7 A. Yes.

8 Q. And are the testimony and exhibits which
9 you have filed in this proceeding true and correct to
10 the best of your knowledge?

11 A. Yes, with the exception that I just got a
12 revised sheet from Ken Walk on his external relations
13 that I had not updated because I was unaware of it,
14 and so with that change it would be correct. It's
15 about a \$4,000 change.

16 Q. If I were to ask you today the questions
17 contained in your testimony would your answers be the
18 same?

19 A. Yes, they would.

20 MR. TRAUTMAN: Your Honor, I would move for
21 the admission of exhibits 699T through 732C and also
22 the portion of Exhibit 321 which contains testimony in
23 response to bench request No. 8.

24 JUDGE WALLIS: Very well. I'm going to
25 treat that as the opportunity to decide on the

03911

1 admissibility of the entirety of 321, assuming that,
2 as indicated, it is not yet received in evidence.

3 MR. OWENS: Thank you, Your Honor. We
4 would object to that part of Exhibit 321 beginning at
5 page 15, line 21 and continuing through line 9 of page
6 16 and the associated exhibits identified as MLT-42 in
7 both the Exhibit 321 and as revised in Exhibit 731,
8 the errata, and the basis of the objection is that
9 this is essentially an entirely new adjustment
10 presented by the staff for the first time on December
11 20, 1995, and then revised today actually, and it
12 represents an adjustment that was not in the staff's
13 case. We don't believe it properly responds to bench
14 request which the testimony indicates that the purpose
15 of the testimony is to respond to the bench request
16 and to respond to -- or to make adjustments for
17 corrections which need to be made because of
18 additional information the company provided in its
19 rebuttal testimony filed on October 3, and we don't
20 believe it's properly responsive to that either.

21 To the extent that the bench request asked
22 the staff to reconcile its position with that of
23 public counsel, the staff could have simply indicated
24 that public counsel made a proforma debt adjustment
25 and the staff had not. Now, this testimony was filed

03912

1 on December 20 for the first time well after the
2 period for discovery, so we've not had any opportunity
3 for discovery to ascertain the method of calculation
4 which would be necessary for us to prepare to
5 cross-examine the assertion that the calculation is as
6 it has been accepted by this Commission in prior
7 cases. So we believe it's not properly responsive to
8 the bench request and it's an unfair surprise.

9 JUDGE WALLIS: Mr. Trautman.

10 MR. TRAUTMAN: Well, I would simply
11 respond that I believe it is responsive to the bench
12 request. There have been several updates made by all
13 parties in this case due to new information being
14 provided continuously. Bench request No. 8 is a
15 broadly worded request stating that several of the
16 adjustments proposed in this case -- several
17 adjustments are proposed by the company and Commission
18 staff. In some cases the differences are reconciled,
19 in others it is not. There is a request to reconcile
20 at a minimum a number of adjustments. The
21 reconciliation was not limited to those adjustments,
22 and in order to provide a complete record and to fully
23 respond to the bench request we would submit that it
24 is within the scope of the bench request.

25 MR. OWENS: Your Honor, I think that

03913

1 explanation simply proves the point that we made,
2 regardless of the assertion that it responds to the
3 bench request, it's clearly a new adjustment, and I
4 would point out that under Morgan vs. United States,
5 304 US 1, we're entitled to a reasonable opportunity
6 to know the claims of our governmental opportunity and
7 to have an opportunity to meet them and we haven't
8 been given that opportunity with regard to this
9 adjustment.

10 MR. TROTTER: Your Honor, if I could be
11 heard on this.

12 JUDGE WALLIS: Mr. Trotter.

13 MR. TROTTER: There are a lot of items in
14 this bench request. Bench requests have been admitted
15 that no party has been allowed discovery on and
16 there's been other testimony in this case that no
17 party has had discovery on. This was -- I viewed this
18 as staff indicating they didn't make a proforma debt
19 adjustment in their initial case and they are now
20 clarifying and adding such an adjustment, and because
21 of the -- as counsel stated because of the numerous
22 updates and clarifications to other testimony this
23 seemed to be within the same scope of change so we
24 would not object.

25 JUDGE WALLIS: Does that conclude your

03914

1 comments?

2 MR. TROTTER: Yes.

3 MR. OWENS: I would just observe, Your
4 Honor --

5 JUDGE WALLIS: Mr. Nichols, do you want to
6 say anything?

7 MR. NICHOLS: I have nothing to say.

8 MR. OWENS: I would observe in response to
9 public counsel's comments that an objection is waived
10 if it isn't made and the fact that other parties may
11 have allowed material to go into the record without
12 asserting their right to discovery doesn't prejudice
13 U S WEST.

14 JUDGE WALLIS: Yes. I am going to again
15 take this objection under advisement and will reserve
16 a ruling on it. You have no objection to the
17 remaining exhibits.

18 MR. OWENS: No, Your Honor.

19 JUDGE WALLIS: Those exhibits are received
20 and that portion of Exhibit 321 to which no objection
21 was stated is also received.

22 (Admitted Exhibits 699T, 700-723, 724T,
23 725-729, 730C, 731, 732C and 321.)

24 MR. OWENS: May I have a ruling that in the
25 event that you overrule our objection I may recall Mr.

03915

1 Twitchell for additional examination?

2 JUDGE WALLIS: Yes.

3 MR. OWENS: Thank you.

4 MR. TRAUTMAN: Witness is available for
5 cross.

6 JUDGE WALLIS: Mr. Owens.

7 MR. OWENS: Thank you, Your Honor.

8

9 CROSS-EXAMINATION

10 BY MR. OWENS:

11 Q. Good afternoon, Mr. Twitchell.

12 A. Good afternoon, Mr. Owens.

13 Q. We've met.

14 A. Yes, we have.

15 Q. I would like to ask you a few questions
16 about your RSA No. 16.

17 A. RSA -- go ahead.

18 Q. With all the documents that we've got to
19 deal with it may take me a minute to locate that one.
20 This is an adjustment for the effect on deferred taxes
21 of the flow through requirement with regard to the
22 pension asset; is that correct?

23 A. That's correct.

24 Q. And the basis of this is that during the
25 years between 1987 and 1993 the company normalized

03916

1 taxes on that item; is that correct?

2 A. I think that's one part of the adjustment.

3 The adjustment is made up of three different parts.

4 Q. You propose that these normalized taxes be
5 amortized back to the ratepayer over three years and
6 that would be found on page 35 of your testimony which
7 was Exhibit 699T?

8 A. That's correct. That's on line 7 on page
9 35.

10 Q. Now, moving on in that same sentence you
11 say what you're proposing, the amortization decreases
12 federal income taxes by \$7,352,586 and has the same
13 effect on the accumulated deferred income taxes; is
14 that right?

15 A. That's what my testimony says.

16 Q. And when you say it has the same effect,
17 would we correctly understand that you mean that it
18 decreases accumulated deferred income taxes by the
19 same dollar amount \$7,352,586?

20 A. That's what my testimony says, yes.

21 Q. Now directing your attention to your
22 Exhibit MLT-34. Do you have that?

23 MR. TROTTER: That's in Exhibit 321?

24 MR. OWENS: I said it would take me a
25 minute to sort this out.

03917

1 THE WITNESS: That's in the bench request
2 and I've listed it as MLT-34. So it's Exhibit 321.

3 Q. Is that one of the work papers that shows
4 the calculation of the adjustment?

5 A. Page 2 of 2 is the work papers which shows
6 the calculation of the adjustment.

7 Q. And so if we look down about a quarter of
8 the way up from the bottom of the page, the line
9 numbered 40, we would see in the column under staff
10 the number \$22,057,758?

11 A. You're on page 2 of 2?

12 Q. Yes, I am?

13 A. Line 40 labeled tax, 22,057,758.

14 Q. And if we look at the bottom line, line 45,
15 does that show the effect of the adjustment, a
16 reduction of accumulated deferred tax of \$16,465,840?

17 A. That is one of the three. That is a
18 accumulation of three different piece parts of which
19 the 7 million 352 is one part.

20 Q. Like to talk now about your adjustment to
21 taxes which you have adjusted relative to deregulated
22 operations. And that would be in Exhibit 706, is
23 that correct, or that's one of the document that
24 relates to that?

25 A. I don't know which one you're referring to.

03918

1 You're referring to the report --

2 Q. MLT-7?

3 A. Oh, yes. I know what you're talking about.

4 Q. Is it correct that you subtracted from U S
5 WEST's test year results of operations the amount in
6 line -- on line 164 in column G that's \$6,721,686?

7 A. I think the answer is yes. Let me rephrase
8 it. Are you asking me that I subtracted -- you're
9 asking me where I subtracted the 6 million 721.

10 Q. First let me ask you, did you remove that
11 amount from U S WEST's test year results of operations
12 as an adjustment?

13 A. Yes. This is the total Washington. The
14 amount shown on my Exhibit 321 marked MLT-34 shows 4
15 million 812 which is the interstate portion of that 6
16 million 721.

17 Q. And that was a component of which one of
18 your adjustments?

19 A. The one you were asking me about just a
20 minute ago, RSA No. 16 labeled system X deferred taxes
21 shown on lines 36, 37 and 38 of page 2 of 2 of Exhibit
22 321 section marked MLT-34.

23 Q. Just so the record is clear, is it correct
24 that what we've been talking about MLT-7 or Exhibit
25 706 that was the basis for your making that

03919

1 adjustment?

2 A. Yes. If you will turn to Exhibit 321, part
3 MLT-34, page 2 of 2, line 36, I have system X deferred
4 taxes MLT-7 less RSA 7. That's the basis of that
5 number.

6 Q. And RSA 7 would be the separations; is that
7 correct?

8 A. RSA 7 would be the exhibit that you --
9 well, RSA 7 was federal income tax adjustment,
10 company's presented adjustment and staff's presented
11 adjustment on MLT-6, page 1 of 2, line 18 RSA No. 7.

12 Q. Now, looking at the structure of Exhibit
13 MLT-7, you would agree with me that mathematically the
14 numbers in column G represent the difference between
15 the numbers in column C on the one hand and all of the
16 numbers in columns D, E and F on the other hand; is
17 that correct?

18 A. That's how column G is titled so I assume
19 that's correct.

20 Q. And looking at the numbers in column D,
21 that column is entitled preemptive deregulated and you
22 would agree with me, would you not, that line 154 and
23 155 indicate that those preemptive deregulated
24 operations resulted in an operating loss during the
25 test year; is that correct?

03920

1 A. No, I would not.

2 Q. You wouldn't agree that the amount of
3 expenses and operating taxes is greater than the
4 amount of revenues, operating revenues?

5 A. I will agree that the operating expenses
6 are greater than the operating revenues, but it does
7 not include the taxes which in this case appear to be
8 a negative. Therefore you would have a positive net
9 operating income.

10 Q. When you make that statement about the
11 taxes appearing to be negative, are you talking about
12 the amount on line 164?

13 A. I'm talking about the taxes on line 164, on
14 161. All of the taxes included there.

15 Q. Well, if you were constructing a
16 calculation of income tax payable, as the first step
17 would you take total operating revenue?

18 A. Yes.

19 Q. And as the second step would you subtract
20 total operating expenses from your total operating
21 revenue?

22 A. Yes.

23 Q. And as the third step would you subtract
24 total operating taxes?

25 A. Excluding federal income taxes, yes.

03921

1 Q. And if you did that in this case you would
2 have a negative number; is that correct?

3 A. It appears to be that way, yes.

4 Q. And it would be that number \$4,974,000
5 negative; is that correct?

6 A. The math is correct there, yes.

7 Q. In the real world if you had a negative
8 taxable income you wouldn't owe any taxes to the
9 government, correct, if you just looked at that one
10 calculation on a stand alone basis?

11 A. If you look at it on a stand alone and
12 you've got a business that's got several different
13 corporations within it, they pass that negative tax on
14 to another company, therefore they reduce their taxes
15 in another company rather than not pay taxes, they
16 save those tax dollars that are negative.

17 Q. The calculation of FIT current period at
18 line 172 shows a negative almost \$1.9 million, a
19 little over; is that right?

20 A. In column D?

21 Q. In column D, yes.

22 A. Yes. 1.933.

23 Q. Now, do you know whether the company's
24 mechanized process for calculating separated system X
25 costs generates that number?

03922

1 A. I asked bench request requesting the
2 calculation of that number, and have put those bench
3 requests in the record as evidence that the company
4 did not show me support of the calculation of the
5 federal income taxes in this matter.

6 Q. Well, that wasn't the question that I
7 asked.

8 A. Sorry.

9 Q. I suppose the answer is yes, no or I don't
10 know to the question I asked --

11 A. I will try and answer your question if you
12 will ask it again.

13 Q. -- which is does the company's mechanized
14 system for separating part X costs produce that
15 number?

16 A. I don't know what you mean by mechanized
17 system.

18 Q. Does the company have a computerized system
19 that performs the calculations necessary to -- for the
20 company to comply with the part X separation of
21 unregulated from regulated costs?

22 A. Yes. The company has a mechanized system
23 to calculate that tax. In a data request when I asked
24 them about that they said that the number is 50 times
25 larger than normal. I asked them for the ratemaking

03923

1 adjustments that would correct this calculation and I
2 was not given it. The answer I got was -- did not
3 explain it whatsoever. So their mechanized mechanism
4 used a plug figure which they could not support the
5 numbers with.

6 Q. Let me see if I can break that answer into
7 a couple of pieces. I asked you whether the
8 mechanized system produces the number on line 172, and
9 you said what mechanized system, and then I asked you
10 do you know whether the company has a mechanized
11 system and I believe you answered yes and then you
12 went on, so let me ask you now, do you know whether the
13 company's mechanized system that you described
14 produces the number on line 172 in column D?

15 A. It does provide that number as long as you
16 use a plug figure and the mechanized system.

17 Q. We'll get to that. Now, you mentioned the
18 response to a data request in which you stated that
19 the company said that tax was 50 times larger than
20 normal. Is that what you just said?

21 A. That's what I said. I believe I quoted it
22 right.

23 Q. Now, isn't it true that what the company
24 said was 50 times larger than normal was the number on
25 line 159, which is other net income -- strike that --

03924

1 the amount on line 164, which is what they described
2 as the balancing factor?

3 A. Could you refer me to the exhibit where the
4 company responded in rebuttal concerning this site
5 which I'm quoting from.

6 Q. Wasn't this an exhibit to Mrs. Wright's
7 testimony? Do you recall seeing it there?

8 A. Yes, I do, but I also know that in my
9 testimony where I'm testifying to this I refer to it
10 and put it as an exhibit for the sake of the
11 Commission so they can read exactly what was said.

12 MR. OWENS: Maybe we can be off the record,
13 Your Honor.

14 JUDGE WALLIS: Yes.

15 (Recess.)

16 Q. During the off the record discussion you
17 identified Exhibit 166 and 167 as the documents you're
18 referring to in your prior answers; is that right?

19 A. I did but I notice there's a sheet missing
20 here. In your support for her rebuttal testimony that
21 she provided she provided a written explanation of
22 deferred system X, and I don't see that here, but I do
23 see the data request where I asked for the proforma
24 adjustment to correct for this situation.

25 Q. And did you read the documents that you

03925

1 were provided in Exhibit 167?

2 A. Yes, I did.

3 Q. Did you read the explanation that Mrs.
4 Wright put under her rebuttal testimony as an exhibit?

5 A. Did I read what?

6 Q. The exhibit that you just referred to that
7 was part of Ms. Wright's rebuttal that isn't before
8 you right now?

9 A. Yes, I did.

10 Q. And it was that exhibit where she described
11 the impact of the depreciation represcription on the
12 balancing account entry on line 164 as being
13 approximately 50 times greater than normal; is that
14 right?

15 A. I will have to accept that subject to check
16 because I don't see -- that should be part of this
17 exhibit and I don't see it here.

18 Q. Perhaps I will move on and we can return to
19 this subject tomorrow after we have that exhibit here
20 in the hearing room if that's all right. Just one
21 clarifying point before we leave this topic. Have you
22 made an adjustment to the deferred taxes on the
23 balance sheet in the amount of this \$6,721,686 or the
24 intrastate amount of it?

25 A. Yes. That's where you began your

03926

1 examination of me was on RSA 16.

2 Q. And your testimony is that that's another
3 component of the entry on line 45, the negative
4 \$16,465,840?

5 A. What exhibit?

6 Q. MLT-34, page 2, column C?

7 A. And you say that's a component of line 45?

8 Q. That's my question to you. Is that
9 adjustment to accumulated deferred taxes another
10 component of that number?

11 A. It's one of the components of that number,
12 yes.

13 Q. You've adopted or proposed a staff
14 adjustment No. 3 for jurisdictional separations in
15 which you've used the year end number or calculation
16 of that amount; is that correct?

17 A. Your question is very general. If you mean
18 did I pick up all of the allocation factors for the
19 month of December to make that jurisdictional
20 separation and adjustment SA 3, which is a proforma
21 adjustment, the answer is correct.

22 Q. And December is actually after the end of
23 the test period in this case; is that right?

24 A. Absolutely.

25 Q. The company's case used the separations

03927

1 factors that were generated from operations conducted
2 throughout the test period; is that right?

3 A. For the 12 months of the test period that's
4 correct.

5 Q. And then would I be correct -- can you
6 answer then the question that I asked Ms. Erdahl in
7 terms of the three adjustment for overtime,
8 capitalization and jurisdictional separations that for
9 overtime and capitalization the staff has looked back
10 two years and four years respectively and for
11 separations you've looked forward ahead of the test
12 period?

13 A. I can't answer that question yes or no but
14 I can answer it. Basically the company in the
15 adjustments that Ms. Erdahl made she was making
16 proforma adjustment because in the test period the
17 amount expensed or capitalized was not reflective of
18 the typical year, so she normalized it by using a two
19 or four year average to show on an ongoing basis what
20 those expenses would be. In this adjustment I am
21 picking up a known and measurable change outside the
22 test period and reflecting it back to the test period
23 the same way the company does in RSA 1, RSA 2, PFA 1,
24 PFA 2 and several other adjustments where you step
25 outside the test period to make adjustments for proper

03928

1 proforma adjustments which are known and measurable
2 and are not offset by other factors.

3 Q. You made another adjustment for the sharing
4 in RMA 9; is that correct?

5 A. I'm sorry. All I heard was adjustment RMA
6 9.

7 Q. You've made another adjustment with regard
8 to sharing in RMA 9; is that correct?

9 A. That's correct.

10 Q. The effect of that is to reduce U S WEST's
11 revenue requirement by approximately 4.5 million; is
12 that right?

13 A. Are you using a rate of return of 9.61 to
14 calculate that number? The problem I have with your
15 question is I have reduced rate base by \$50 million.
16 In order to determine what the impact would be on
17 revenue requirement I would have to multiply that
18 times the rate of return which would be authorized in
19 this case, then use the conversion factor presented by
20 Ken Hua to factor it up to the revenue requirement,
21 and if you followed that, proceed and tell me what
22 rate of return you used then I can accept your number
23 subject to check.

24 Q. That's fine. I will ask it a different
25 way. We can start with the indication that you've

03929

1 reduced rate base by \$50 million. And the basis of
2 doing that, as I understand it, is you indicate in
3 your December testimony that should the company be
4 correct in its view that you must adjust deferred
5 taxes if you adjust the depreciation reserve then
6 there needs to be a change in the amount deemed to
7 have been shared such that the net result to
8 ratepayers equals this \$50 million rate base
9 reduction; is that right?

10 A. My testimony is that the rate base has to
11 be reduced by \$50.634 million in order for the
12 ratepayer to receive the benefit of the AFOR of the
13 dollars that were calculated or calculating the
14 reduction in depreciation expense or reserve over 1990,
15 1991, and 1993. The reason why the rate base has to be
16 reduced by this same amount, the benefit or the excess
17 earnings, is so that the ratepayer receives the time
18 value of money on those dollars. If you subtract a
19 different portion from the rate base than the excess
20 earnings then the ratepayer does not get the benefit of
21 the time value of the money.

22 Q. Directing your attention to what's been
23 marked as Exhibit 734, do you recognize that as a copy
24 of the Commission's order in the AFOR case
25 distributing the amount of undisputed 1990 excess

03930

1 revenue?

2 A. Yes.

3 Q. And at page 10 of that order in section 3
4 in the fourth paragraph, didn't the Commission order
5 \$5 million of the ratepayer's share of excess earnings
6 to be applied to increase the depreciation reserve and
7 indicate that they believed this action together with
8 U S WEST's contribution would produce a ratepayer
9 benefit similar in magnitude to the next surcharge
10 benefit discussed later in the order?

11 A. That's exactly what it says.

12 Q. You're not saying that there actually was
13 \$50 million to be shared for the period that you're
14 applying those dollars, are you?

15 A. I don't think I ever said that in my
16 testimony. The three options you have in the AFOR was
17 to give a direct benefit back to the ratepayers. I
18 don't remember all three of them right at the minute
19 -- we have the AFOR in front of us, I could turn to
20 it -- but one of them was that you take the
21 ratepayer's sharing amount plus the company's sharing
22 amount and book that to the depreciation reserve, and
23 that was to be, as it said what you have just read, we
24 believe this action by taking both the company's and
25 the ratepayer's share of the excess earnings together

03931

1 with U S WEST contribution will produce a ratepayer
2 benefit similar in magnitude to the negative surcharge
3 benefit discussed later in this order. That's what
4 it's talking about.

5 Q. And isn't it true that mathematically doing
6 what the Commission described there, that is, using
7 the ratepayer's share and the company's share, would
8 produce the amount that the company proposed and not
9 the \$50 million that you proposed?

10 A. Are you talking about the \$32 million the
11 company proposed?

12 Q. Yes.

13 A. No. This order that we just read is
14 talking about 1990 sharing. We had an amount that was
15 also shared in 1991 and 1993. If you take the total
16 sharing dollars plus the amount that was attributed to
17 E911 you get the \$50,634,000.

18 Q. Well, I'm not asking you about that. I'm
19 asking you about the amount of company sharing and
20 ratepayer sharing dollars that the company proposed.
21 Isn't that equal to the amount described in the 1990
22 order as it applied to the '94 sharing? That is,
23 the company's portion and the ratepayer's portion add
24 up to the \$32 million; isn't that right?

25 A. Yes. If you take the total sharing dollars

03932

1 that have been used by approval of the Commission to
2 reduce the depreciation reserve, it amounts to
3 \$50,634,616.

4 MR. OWENS: Your Honor, this is a
5 convenient time to break. You indicated you were
6 going to break at 5:30.

7 JUDGE WALLIS: May I ask about how much
8 more you estimate you have, Mr. Owens?

9 MR. OWENS: Well, there's a considerable
10 amount that is going to depend on what, A, you rule on
11 the objection; B, what the witness states when we get
12 the missing exhibit from Mrs. Wright's testimony here,
13 but subject to the vagaries of this kind of thing I
14 would say half an hour to 45 minutes.

15 JUDGE WALLIS: Very well. Let's take our
16 recess for the day at this point and let's resume for
17 an administrative session at 8:15, please.

18 (Hearing adjourned at 5:32 p.m.)

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