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I N D E X

3 WITNESS: DIRECT CROSS REDIRECT RECROSS JUDGE

4 PITTS 128 132 153 154

5

6 EXHIBIT MARKED ADMITTED

7 25 126 127

8 T-26 126 127

9 27 through 41 126 127

10 T-32 126 131

11 C-42 131 131

12 43 155 157

13 44 157 157

14 45 157 157

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

2 (Marked Exhibits 25 and T-26 and 27 through
3 31 and T-32 and 33 through 41.)

4 JUDGE ANDERL: Let's be back on the record.
5 Today is May 17th, 1994 and we are convened for further
6 cross-examination in consolidated dockets UT-930074.
7 Let's take appearances briefly this morning beginning
8 with you, Mr. Shaw.

9 MR. SHAW: Yes. Ed Shaw for U S WEST.

10 MR. BUTLER: Arthur A. Butler appearing on
11 behalf of TRACER.

12 MR. MANIFOLD: Robert F. Manifold, assistant
13 attorney general on behalf of public counsel.

14 MR. SMITH: Steven W. Smith, assistant
15 attorney general for Commission staff.

16 JUDGE ANDERL: Before we went on the record
17 this morning we identified the next set of testimony
18 and exhibits. Let me identify those now for the
19 record. I marked for identification as Exhibit No. 25
20 the staff data request No. 70 and the response thereto.
21 That is the response to bench request No. 3 that was
22 made yesterday. Also marked were Mr. Carver's
23 testimony and exhibits. His testimony is Exhibit T-26
24 and his Exhibits SCC 1 through 5 are Exhibits 27
25 through 31. And it's my understanding that the parties

1 have stipulated to the admission of that testimony and
2 those exhibits and that there will be no cross of that
3 witness; is that correct, Mr. Shaw?

4 MR. SHAW: Yes, Your Honor. In light of
5 Mr. Carver's illness and company does not have any
6 pressing need to examine him so we're waiving cross and
7 stipulating to the exhibits.

8 JUDGE ANDERL: Mr. Smith.

9 MR. SMITH: We'll stipulate to the admission
10 of those exhibits.

11 JUDGE ANDERL: And no objection to
12 Exhibit No. 25 then which I would like to admit.

13 MR. SHAW: None.

14 MR. SMITH: None.

15 JUDGE ANDERL: Hearing no objections I am
16 going to admit Exhibit Nos. 25, T-26 and 27 through
17 31. We also premarked the testimony of staff's witness
18 Teresa Pitts as Exhibit T-32 and her Exhibits TAP-1
19 through 9 as Exhibits 33 through 41. Mr. Smith, I
20 guess it's your turn.

21 (Admitted Exhibits 25, T-26, 27 through 31.)

22 Whereupon,

23 TERESA PITTS,

24 having been first duly sworn, was called as a

25 witness herein and was examined and testified as follows:

1

2

DIRECT EXAMINATION

3

BY MR. SMITH:

4

Q. Would you please state your name for the record and give us your business address.

6

A. My name is Teresa Pitts. My business address is Chandler Plaza Building, 1300 South Evergreen Park Drive Southwest, Olympia, Washington 98504.

10

Q. Where are you employed and in what capacity?

11

A. I'm employed with the Washington Utilities and Transportation Commission and I am employed as a policies specialist III.

14

Q. Do you have before you what's been marked for identification as Exhibit T-32?

16

A. Yes, I do.

17

Q. Is that your prefiled direct testimony in this proceeding?

19

A. Yes, it is.

20

Q. Was it prepared by you or under your direction and control?

22

A. Yes, it was.

23

Q. Do you have any corrections or additions to make to that testimony at this time?

25

A. Yes, I do. Page 1, line 10 should read,

1 "Policy specialist III."

2 MR. SHAW: I didn't catch the first one.

3 THE WITNESS: Page 1, line 10 should be

4 "policy specialist III."

5 MR. SMITH: Then you would strike "revenue
6 requirement specialist IV."

7 A. Page 10, line 5 following "ratepayer" an S
8 should be added to read "ratepayers."

9 Page 24, at line 12, the apostrophe should
10 be stricken from "employees."

11 Page 35, line 7, the "C" should be stricken
12 preceding the blank space.

13 Page 36, line 12, "A" should be replaced with
14 "an" following "implement." And on line 20 of that
15 same page the comma following period should be removed.

16 At page 37, line 8, following
17 "recalculate," "the" should be inserted. And on line
18 10 of that same page "had" should be inserted after
19 "and."

20 Q. With those corrections and additions, if I
21 were to ask you today the questions contained in
22 Exhibit T-32, would your answers be the same?

23 A. Yes, they would.

24 Q. And you also have before you what have been
25 marked for identification as Exhibits 33 through 41?

1 A. Yes, I do.

2 Q. And are those the exhibits you refer to in
3 your direct testimony?

4 A. Yes, I do.

5 Q. Were Exhibits 33, 35, 38 and 39 prepared by
6 you or under your direction and control?

7 A. Yes.

8 Q. And Exhibits 34, 36, 37, 40 and 41, can you
9 identify those exhibits generally?

10 A. Yes. Those were generally provided to me in
11 response to staff data requests.

12 MR. SMITH: Your Honor, I move for admission
13 of Exhibits T-32 through Exhibit 41.

14 JUDGE ANDERL: Okay.

15 MR. SHAW: May we go off the record for a
16 moment. We may have one confusion with the
17 confidentiality of Exhibit 40.

18 JUDGE ANDERL: Okay. Let's go off the
19 record and discuss that then.

20 (Discussion off the record.)

21 JUDGE ANDERL: Let's be back on the record.
22 During the off-the-record discussion it was agreed
23 between the parties that the figures referred to on the
24 lines referred to by Mr. Shaw would be treated as
25 confidential. Exhibit No. 40 will be admitted as

1 Exhibit No. 40 with those figures blacked out and
2 Mr. Smith will submit a late-filed exhibit with those
3 -- a confidential exhibit with those numbers in it as
4 Exhibit C-42. And so I will consider that, even though
5 it hasn't been filed yet, consider that marked or
6 identified for the record, and then I suppose you want
7 to offer them all now.

8 (Marked Exhibit C-42.)

9 MR. SMITH: Yes, Your Honor, and add C-42 to
10 the list of exhibits I moved for entry.

11 JUDGE ANDERL: When you file that identify
12 it for me as Exhibit TAP-10, please. Just so we have
13 a way of keeping them separate.

14 MR. SMITH: Yes.

15 JUDGE ANDERL: With those conditions, then,
16 do you have any objections to Exhibit T-32 through
17 C-42?

18 MR. SHAW: None.

19 JUDGE ANDERL: From any other party?

20 MR. MANIFOLD: No objection.

21 JUDGE ANDERL: Hearing none, then, those
22 documents will be admitted as identified.

23 (Admitted Exhibits T-32, 33 through 41 and
24 C-42.)

25 MR. SMITH: Ms. Pitts is available for

1 cross-examination.

2 JUDGE ANDERL: Mr. Shaw, would you like to
3 go ahead with that?

4 MR. SHAW: Thank you, Your Honor, may I
5 approach the witness and hand her a piece of paper?

6 JUDGE ANDERL: Yes.

7 MR. SHAW: Your Honor, I believe this is
8 already part of the record as part of one of our
9 petitions and I am going to ask the witness a couple of
10 questions about it.

11 JUDGE ANDERL: Okay.

12

13 CROSS-EXAMINATION

14 BY MR. SHAW:

15 Q. Ms. Pitts, do you recognize the document I
16 just handed you as December 16, 1992 letter from
17 Mr. Curl of the Commission to Mr. Moran of the company
18 granting the company's request to implement FAS 106
19 effective January 1, 1993?

20 A. Yes, it is.

21 Q. And directing your attention -- strike that.
22 Let me ask you, you were involved in the preparation of
23 this letter on behalf of the Commission, and I see that
24 you are referred as the Commission contact in the last
25 paragraph in the letter?

1 A. Yes.

2 Q. Directing your attention to subparagraph 4,
3 numbered paragraph 4 on the second page, would you read
4 that into the record for me, please.

5 A. "The appropriateness of the assumptions
6 utilized in U S WEST's calculation of the annual net
7 periodic cost of post retirement benefits will be
8 reviewed by staff in the review of the 1993 sharing
9 revenues."

10 Q. Now, that statement refers, I take it, to
11 the regularly scheduled annual review by the staff of
12 the company's filed results of operations under its
13 current AFOR?

14 A. Yes.

15 Q. And the company files in April and the staff
16 reviews those data under the AFOR, files its response
17 and views on the propriety of the company's data?

18 A. That's a long question, but staff reviews
19 the company's filing as of April 1st, yes.

20 Q. And this year, 1994, we're in the process of
21 determining the 1993 calendar year shared revenues; is
22 that correct?

23 A. Yes. I believe Mr. Damron is conducting
24 that review.

25 Q. And the company did duly file April of 1994

1 its calculation of its results of operations for the
2 calendar year 1993?

3 A. I'm not certain what date they filed it,
4 Mr. Shaw.

5 Q. Would you accept subject to your check that
6 the company did file that?

7 A. Subject to check.

8 Q. And included in that calculation is the
9 company's assertion of the 1993 expense level related
10 to FAS 106 implementation?

11 A. I have not reviewed that filing, Mr. Shaw.

12 Q. But you would accept subject to your check
13 that that in fact is the case?

14 A. Subject to check.

15 Q. And you would expect that that's what the
16 company would do given this letter allowing it to
17 implement FAS 106 in 1993 that it would in fact have
18 done that and have reflected that in its April 1994
19 filing?

20 A. I assume the company would attempt to comply
21 with this letter.

22 Q. Yes. And the staff in the context of this
23 proceeding as related in your testimony has agreed with
24 the company and other parties that the outcome of this
25 proceeding will be reflected in the 1992 calculation of

1 shared revenues, correct?

2 A. I don't believe your statement is correct.

3 Q. To the extent that it has any effect on
4 1992, the outcome of this proceeding?

5 A. Will be reflected in 1993 sharing.

6 Q. What we're trying to determine in the
7 context of this proceeding is if there will be any
8 effect on 1992 revenues to be shared in 1993.

9 A. Yes.

10 Q. And due to the extended scheduling of this
11 proceeding the staff and the company have agreed that
12 the staff's -- strike that -- not the staff but the
13 Commission's disposition of the 1993 shared revenues in
14 1994 will await the outcome of this proceeding, the
15 final order in this proceeding?

16 A. Yes.

17 Q. And further the staff has filed a letter
18 with the Commission requesting a delay in the staff's
19 audit response called for by the AFOR until after the
20 final order in this proceeding?

21 A. I'm not familiar with all of the specifics
22 behind the staff's request for extension, Mr. Shaw.

23 Q. You do know that the staff has requested
24 such an extension?

25 A. I believe they have.

1 Q. Would you accept subject to your check that
2 that is the stated rationale that it makes more sense
3 for the staff to delay its reaction to the company's
4 April 1994 filing until after the final order in this
5 case?

6 A. I believe that might be the case. I have
7 not reviewed that document.

8 JUDGE ANDERL: Ms. Pitts, could I ask you to
9 pull the microphone a little closer to you?

10 THE WITNESS: Sure.

11 Q. I take it in the testimony you filed here
12 today you are not urging the Commission to change any
13 of the terms and conditions reflected in this letter
14 I've handed you, December 16 letter of the Commission?

15 A. No. It is not staff's intention to
16 relitigate the merits of accrual versus the pay as you
17 go for SFAS 106. The discussion provided in my
18 testimony provides background regarding the uncertainty
19 that relate to 106 which go way beyond -- the
20 uncertainties go way beyond that of normal accounting,
21 and staff has provided this information as background
22 for the Commission to understand speculative nature of
23 these assumptions which supports staff's recommendation
24 to proceed cautiously with the implementation of 106 in
25 1993 rather than in 1992.

1 Q. So where you summarize your recommendations
2 in your testimony at page 36 in regard to FAS 106, and
3 you list off five of them, you agree it's not
4 appropriate for the final order in this case to
5 determine or address any one of your recommendations
6 there except No. 1, "USWC should not be allowed to
7 implement an early adoption of FAS 106," referring to
8 the petition here, to do it in 1992 instead of 1993.

9 A. No. I believe that the background
10 information that was provided in my testimony is
11 necessary to deal with staff's recommendations and to
12 provide this information in order to show the
13 uncertainties of 106 and in order to support staff's
14 recommendation of a 1993 as opposed to a '92
15 implementation.

16 Q. I understand that, why you included all that
17 discussion, but specifically addressing you to your
18 recommendations 2 through 5, you do not expect, and you
19 agree it would be inappropriate, for the final order in
20 this proceeding to address your recommendations 2
21 through 5 because pursuant to the letter of the
22 Commission of December 16, 1992 those will be
23 determined in the context of the AFOR proceeding,
24 correct?

25 A. I believe it would be difficult for the kind

1 of review that would be necessary to deal with an issue
2 such as 106 can be done in a one-month review as
3 allowed for Mr. Damron to review U S WEST's earnings.
4 This was an opportunity to address a 30,000-foot view
5 of U S WEST's 106 implementation.

6 Q. I would again redirect you to my question
7 which was quite specific. It is not the staff's
8 position in this case that the order in this case
9 should address or determine your recommendations 2
10 through 5 on your pages 36 through 37, correct?

11 A. These recommendations 2 through 5 support
12 staff's recommendation of No. 1.

13 Q. The only issue in this proceeding relative
14 to FAS 106 is whether it should be implemented by the
15 company effective the first of 1992 as opposed to
16 effective the first of 1993, correct?

17 A. I believe it is very difficult to separate
18 those two items, Mr. Shaw. That's why they have been
19 included in my testimony.

20 Q. Well, again, the December 16 letter states
21 unequivocally, does it not, that the propriety of the
22 company's assumptions will be determined in the context
23 of the 1993 shared revenues review by the staff,
24 correct?

25 A. That's what the letter states.

1 Q. And your testimony and the staff's position
2 in this proceeding is in no way to be construed as an
3 attempt to renig on that statement in numbered
4 paragraph 4 of the December 16 letter?

5 MR. SMITH: Your Honor, I am going to
6 object. The December 16, 1992 letter refers to a
7 January 1, 1993 implementation date. The testimony of
8 Ms. Pitts deals with whether that should -- that
9 implementation date should be moved back to January 1,
10 1992 and, if so, what conditions the Commission should
11 attach to that earlier implementation and those are set
12 forth in the recommendation.

13 JUDGE ANDERL: So specifically what is the
14 objection?

15 MR. SMITH: Clarify that the December 16,
16 1992 letter of Mr. Curl is the conditions the
17 Commission imposed on a January 1, 1993 implementation
18 date.

19 JUDGE ANDERL: Right.

20 Q. The objection of your counsel is your answer
21 then to my question as to the relevancy of your
22 testimony about the assumptions to be used if the
23 Commission grants the petition to implement at 1-1-92?

24 A. I'm sorry. I've lost this in the multitude
25 of questions.

1 Q. Let me start over. The staff opposes the
2 implementation of FAS 106 effective 1-1-92 on any
3 basis; is that correct?

4 A. Staff's testimony speaks to the fact that we
5 oppose the implementation, the early implementation, of
6 106 before 1993.

7 Q. And no matter what assumptions are used or
8 what conditions Commission might put on that staff
9 still opposes the implementation in 1992, correct?

10 A. Staff recommends that the Commission,
11 because of the information that is laid out in my
12 testimony, recommends that the Commission proceed with
13 caution in adopting this particular accounting change.

14 Q. At all?

15 A. No. We're not quibbling with the
16 implementation date of 1993. We are discussing the
17 merits of implementing a year earlier than was
18 authorized by the Commission.

19 Q. So I will ask my question again. The
20 staff's position as presented in your testimony is that
21 the Commission should not allow the company to
22 implement FAS 106 1-1-92 under any circumstances or any
23 conditions, correct?

24 A. No, that is not the case. If the Commission
25 chooses to allow the company to adopt as of 1-1-92 the

1 background information that has been included in my
2 testimony in 2 through 5 should be taken into
3 consideration.

4 Q. Am I to understand that answer to mean that
5 staff is not opposed to the 1992 implementation of FAS
6 106 if your recommendations 2 through 5 are adopted?

7 A. No. Staff uses those as an example of the
8 concerns with an early implementation.

9 Q. I take it from that answer that the staff
10 does not have the same concerns as reflected in your
11 testimony and your recommendations 2 through 5 in
12 regard to the adoption of FAS 106 in 1993?

13 A. No. Staff has those same concerns.

14 Q. I take it from that that when the staff does
15 submit its report in response to the company's April
16 1994 filing relating to the 1993 sharing period the
17 staff is going to make the same arguments in regard to
18 the 1993 adoption of FAS 106?

19 A. I can make no assumptions at this point in
20 time, Mr. Shaw, that that would occur.

21 Q. The upshot of this that if the Commission
22 determines to grant the company's petition to adopt FAS
23 106 effective 1992 and agrees to your recommendations 2
24 through 5, staff has no opposition to a 1992 adoption?

25 A. Staff would still hold a concern as they

1 are outlined in my testimony.

2 Q. The fact of the matter is that the staff
3 despite the stipulation in the AFOR not to oppose the
4 concept of FAS 106 considers FAS 106 to be a bad idea
5 under any circumstances, does it not?

6 A. No. That is not what staff's testimony nor
7 the stipulation agreement outlines, Mr. Shaw. The
8 stipulation agreement states that the Commission can --
9 the staff can -- the Commission can do whatever they
10 want, but the staff can deal with and look at the
11 reasonableness of the method employed by the Commission
12 for 106.

13 Q. By the company?

14 A. Pardon me?

15 Q. You said Commission. You meant the company?

16 A. The methods the company uses that staff has
17 the authority.

18 Q. I don't think that there's any disagreement
19 with that, Ms. Pitts. So the staff does not oppose the
20 concept of 106, as I understand your testimony, and the
21 only difference between adopting it effective 1-1-93
22 and 1-1-92, assuming your other concerns about
23 assumptions are met, is we start a year earlier,
24 correct?

25 A. Staff's concerns are that with the

1 implementation of 106 a year earlier this would commit
2 a known and quantifiable amount of dollars available
3 for sharing to a supposed cost savings that the company
4 has used in support of their early adoption of 106 to
5 show that ratepayers would benefit. This information
6 is provided only as background and a cautionary support
7 to the Commission that these dollars are known and
8 measurable and future savings may or may not be.

9 Q. FAS 106 is going to be adopted by U S WEST
10 pursuant to the Commission permission already granted
11 effective 1-1-93, correct?

12 A. Yes.

13 Q. So the only difference that we're addressing
14 in this proceeding is moving the effective date one
15 year back, correct?

16 A. We are addressing the uncertainties of the
17 assumptions made in the calculation of 106 as well as
18 the date of implementation.

19 Q. And your exact same concerns as to an
20 implementation in 1992 apply to an implementation in
21 1993, correct?

22 A. Yes. Those would be part of the concerns.

23 Q. Addressing your recommendation No. 3 of page
24 37, the effect of that recommendation is to disregard
25 recovery of liabilities of the company to its employees

1 that are already incurred, does it not?

2 A. No. It states that as far as rate making is
3 concerned, the most prudent level and the most
4 reasonable level of expenses should be used to
5 determine the cost of service that will be reflected in
6 rates. The company's management who have made these
7 promises to employees can choose to reflect those
8 expenses for financial reporting purposes in the
9 fashion they choose.

10 Q. The thrust of the staff's recommendation on
11 this item, then, is to urge that the Commission find as
12 imprudent and mismanagement the making of those
13 promises in the first place and the continuation of
14 those promises to pay benefits at the existing
15 levels to its employees, correct?

16 A. Staff relied on the recent Puget case in
17 which the Commission found in that case that a company
18 has the obligation to review these promises that have
19 been made to employees and should have identified the
20 cost associated with these levels of benefits and
21 sought to limit their exposure, and staff sought to be
22 consistent with the Commission's finding in that
23 proceeding in this case.

24 Q. In regard to U S WEST telecommunications
25 company, not a power company, what is the standard or

1 the benchmark that the staff is using to conclude that
2 the existing level of the company's obligations to its
3 employees is imprudent?

4 A. Staff is using the order from the Puget case
5 because the Commission does treat utility entities
6 similarly and staff has applied those same principles
7 to U S WEST.

8 Q. So it's your testimony that U S WEST is
9 precisely the same kind of company as Puget Power in
10 its industry and its needs and its promises to its
11 employees to pay benefits related to FAS 106; is that
12 correct?

13 A. No. Staff is saying that the theory can be
14 applied equally.

15 Q. I understand that. What standard, then, is
16 the staff comparing the company's practices to in this
17 regard in order to determine and urge upon the
18 Commission that the management of U S WEST has been
19 imprudent in its granting of benefits to its employees?

20 A. Staff sought to determine for U S WEST the
21 amount of changes that the company had implemented in
22 the past. Staff requested that information in a data
23 response and was not provided with that information.
24 Thus all the staff had left to them to look at in this
25 case was the negotiated agreement that the company --

1 settlement agreement the company provided to staff in a
2 response to a data request in which there was a
3 reference to a defined contribution, a potential
4 retiree contribution to future increases and expenses,
5 and that the company reserved the right to discontinue
6 these services in the future. Or amend them. Maybe
7 not discontinue but amend them.

8 Q. The sole basis of your recommendation in
9 this regard is that because the company could reduce
10 its benefit expense in the future it should be deemed
11 for rate making purposes to have already done that in
12 the past; is that correct?

13 A. For rate making purposes the Commission has
14 found in the prior Puget case that only those prudent
15 levels should be included for future rate making
16 purposes in rates and staff has recommended that
17 similar treatment in this case.

18 Q. Is Puget in an alternative form of
19 regulation where they're allowed to earn as much as
20 they can where they share on a schedule between
21 shareholders and ratepayers revenues earned over a
22 benchmark rate of return?

23 A. No.

24 Q. Are there any tariffs associated with the
25 company's adoption of FAS 106 in either 1992 or 1993?

1 A. I don't know.

2 Q. You do know that in this proceeding that the
3 company has proposed no tariffs to increase or change
4 its rates as a result of its proposal to adopt FAS 106
5 in 1992, correct?

6 A. If you're asking me if the company has filed
7 a tariff filing to increase rates for the
8 implementation of 106 -- is that your question?

9 Q. Yes.

10 A. No. They have filed no specific tariff.

11 Q. And you do know that the company's AFOR does
12 not allow general rate increases during the life of
13 that AFOR unless the company falls below a very low
14 benchmark rate of return?

15 A. I believe the company has to request a rate
16 increase and bring forth, with the burden of proof upon
17 them, a full rate case to receive an increase.

18 Q. And the immediate hurdle, that the company
19 has to be earning below a very low benchmark rate of
20 return before it could even make such a request?

21 A. I believe that's the case.

22 Q. Are you familiar at all with the company's
23 collective bargaining agreements with its unions and
24 the nature of those collective bargaining agreements?

25 A. I'm familiar only to the degree that it was

1 provided in response to a data request by staff.

2 Q. You understand that the company's unions
3 like all union heads bargain primarily for a
4 compensation package made up of pay, salary and
5 benefits?

6 A. I don't know, Mr. Shaw.

7 Q. Would you expect as a matter of common sense
8 that in order for the company to reduce benefits it
9 would be challenged by a demand from the union to
10 increase pay?

11 A. I don't know. I've never been involved in
12 contractual or negotiated settlements with a labor
13 industry or labor group.

14 Q. Turning to FAS 112, is the primary objection
15 you have to the company's adoption of that generally
16 accepted accounting principle the fact that the company
17 is not funding its obligation similar to the commitment
18 in regard to FAS 106?

19 A. No. It may not have been perfectly clear in
20 my testimony, but what staff has recommended is to
21 continue with the pay as you go amount of reflecting
22 these benefits in the cost of service for rate making
23 purposes. It is a problem that the company does not
24 intend to fund this as they have stated on numerous
25 occasions that funding these types of expenses offset

1 future costs.

2 Q. But for the commitment of the staff in the
3 context of the company's AFOR that would be your same
4 position as to FAS 106 that pay as you go accounting
5 should continue and accrual accounting should not be
6 adopted?

7 A. I can't comment on that, Mr. Shaw. The
8 staff is bound by the settlement agreement.

9 Q. But the staff is bound by no settlement
10 agreement as to FAS 112 so the staff continues with its
11 view that pay as you go accounting is preferable to
12 accrual accounting; is that correct?

13 A. I think you mischaracterized staff's
14 position. In this particular instance with the
15 adoption of 112 continuation with the pay as you go
16 allows the ratepayer the same opportunity or the same
17 obligation to be responsible for the payment of these
18 expenses at the same time the company is required to
19 make these payments.

20 Q. And that's but for the settlement agreement
21 the staff's identical view as to the FAS 106 benefits,
22 correct?

23 A. No. In the settlement agreement the staff
24 agreed to adoption of 106 but only with the ability to
25 look at the parameters which the company utilized to

1 implement 106.

2 Q. Is that because the staff entered freely
3 into that agreement in the AFOR settlement because it
4 believes in accrual accounting for employee benefits?

5 A. I don't know if you could say the staff
6 freely entered into it. I believe Mr. Damron has some
7 reservations about that.

8 Q. Raises an interesting point. Do you recall
9 Mr. Tony Cook?

10 A. No. I never met the gentleman.

11 Q. Do you understand that Mr. Cook was the
12 manager of the utilities section of the Commission
13 staff and Mr. Damron's supervisor?

14 A. That precedes my employment at this
15 Commission but I believe that's correct.

16 Q. That Mr. Cook signed the stipulation with
17 the company on behalf of the staff and Mr. Smith, the
18 staff's attorney -- strike that -- to Mr. Trotter, the
19 staff's attorney, also signed it?

20 A. I have to say I have never checked the
21 signature page.

22 Q. I take it your reference to
23 Mr. Damron is meant to include that Mr. Damron
24 disagreed with that judgment by Mr. Cook on behalf of
25 the staff; is that correct?

1 A. I couldn't comment on the specifics. I've
2 just heard stories, horror stories.

3 Q. Do you disagree with that commitment on
4 behalf of the staff at the time of the AFOR 190?

5 MR. SMITH: Your Honor, I am going to
6 object. The staff has agreed not to challenge FAS 106
7 in principle. FAS 106 has been approved. Ms. Pitts
8 has answered questions several times about her dilemma
9 of discussing something that's been decided by the
10 settlement agreement of FAS 106. It's in effect.
11 Staff went along with it, with the 1-1-93
12 implementation.

13 JUDGE ANDERL: I'm not at all sure that that
14 line of questioning is proving profitable at all,
15 Mr. Shaw.

16 MR. SHAW: Well, Your Honor, I am simply
17 attempting to address why the staff takes its position
18 on 112 as opposed to its position on the adoption of
19 106 and apparently the position is that the only reason
20 they've done it is the settlement. I think the company
21 is entitled to examine the merits of the staff's
22 opposition.

23 JUDGE ANDERL: Opposition to the adoption of
24 112?

25 MR. SHAW: Yes.

1 JUDGE ANDERL: Yes.

2 Q. I will ask you again, Ms. Pitts. Does the
3 Commission staff in light of no like stipulation in
4 regard to 112 as exists as to 106 oppose accrual
5 accounting as a matter of principle and is that the
6 primary reason for your recommendation in this case?

7 A. It is not my understanding nor is it my
8 recommendations in this case that staff in toto does
9 not agree with accrual accounting. What this testimony
10 on 112 goes to is the need to adopt accrual accounting
11 for an item that the company has stated in its
12 testimony the expenses related to that item will not be
13 materially different in the future. The company does
14 not intend to fund it to offset future costs, and it
15 allows a matching principle between matching when the
16 customer is required to pay for this service and when
17 the company is obligated to pay for this service. That
18 is what is in my testimony.

19 Q. Again, if the company would agree in the
20 context of this proceeding to fund the 112 obligation
21 if the Commission grants its petition, that would make
22 no difference in your recommendation?

23 A. No. The primary recommendation is to
24 continue with the pay as you go.

25 Q. Do you understand that the effect of the

1 adoption of 112 would be to book and recover in the
2 results of operations a catch-up entry for worker's
3 compensation and disability plans and that it has
4 nothing to do with the ongoing expense related to those
5 items?

6 A. No. It is my understanding that the \$9
7 million pre-tax amount that the company has identified
8 is related to the present value of future payments the
9 company will be obligated or could be obligated to
10 make.

11 Q. For injuries and disabilities that have
12 already happened, correct?

13 A. An incident has occurred.

14 MR. SHAW: That's all I have. Thank you.

15 JUDGE ANDERL: Thank you, Mr. Shaw.

16 Mr. Butler or Mr. Manifold, did you have cross
17 questions for this witness?

18 MR. MANIFOLD: No.

19 JUDGE ANDERL: Mr. Smith, redirect.

20 MR. SMITH: Just one, maybe two.

21

22 REDIRECT EXAMINATION

23 BY MR. SMITH:

24 Q. Ms. Pitts, has the staff compared how U S
25 WEST 106-type benefit levels compare with other

1 utilities the Commission regulates?

2 A. I believe in regard to the white paper that
3 was prepared by Cath Thomas, the U S WEST benefits
4 related to 106 were compared to the other utilities in
5 this state and that U S WEST exceeded those of any
6 other utility in this state.

7 Q. And in recent years or recently, has U S
8 WEST taken steps to lower or limit the 106-type
9 benefits?

10 A. Yes, they have.

11 MR. SMITH: That's all I have.

12 JUDGE ANDERL: Mr. Shaw, any follow-up?

13 MR. SHAW: Just one question.

14

15 RECROSS-EXAMINATION

16 BY MR. SHAW:

17 Q. You say that the comparison of U S WEST's
18 level of benefits to other companies regulated in this
19 state by this Commission was compared in the context of
20 the Commission staff writing the white paper supplied
21 to the industry on October 22, 1992 by the Commission.
22 Did I understand you correctly?

23 A. That's what I'm referring to.

24 Q. Those comparisons are not reflected in the
25 four corners of that white paper, as I read it. Would

1 you agree with that?

2 A. I believe they are reflected in there.

3 Q. To the extent that the Commission has
4 compared benefits between regulated companies in the
5 state of Washington they are reflected in the text of
6 the white paper?

7 A. I believe the costs were.

8 MR. SHAW: Well, Your Honor, not to drag
9 this out, but I would like to make a record requisition
10 to have supplied to the extent not already stated in
11 the white paper any work papers showing comparisons of
12 benefits between regulated companies in the state of
13 Washington.

14 JUDGE ANDERL: Mr. Smith, would you be able
15 to do that?

16 MR. SMITH: I believe so. Now I'm not sure
17 whether any of that information might be confidential
18 as to other companies. With that caveat we will
19 respond to that.

20 JUDGE ANDERL: And I think that's the first
21 record requisition in this hearing so it's No. 1.

22 MR. SHAW: I have nothing further.

23 JUDGE ANDERL: Anything else for this witness?

24 (Marked Exhibit 43.)

25 Ms. Pitts, thank you for your testimony, you may

1 step down. Anything further from staff?

2 MR. SMITH: Yes, Your Honor. Maybe we could
3 go off record.

4 (Discussion off the record.)

5 JUDGE ANDERL: Let's go back on the record.
6 While we were off the record we discussed some
7 late-filed exhibits and the briefing schedule.
8 Mr. Smith is going to offer the document which was
9 provided to him by the company which the company has
10 indicated is the most recent balance of the deferred
11 taxes associated with the pension credit, right?

12 MR. SMITH: That's correct, Your Honor. I
13 haven't moved for entry of that exhibit.

14 JUDGE ANDERL: That's marked for
15 identification Exhibit 43. And, Mr. Shaw, you have no
16 objection?

17 MR. SHAW: I have no objection.

18 JUDGE ANDERL: Exhibit 43 will come in. I
19 am going to give numbers to the two outstanding bench
20 requests, the responses to those 1 and 2, the responses
21 to those will be identified as Exhibits 44 and 45.
22 Mr. Shaw has indicated he might want to file a
23 late-filed exhibit. Anything that comes in after we
24 adjourn today I am going to consider admitted on
25 receipt unless within five days after it's filed I

1 receive some sort of an objection from the party in
2 which case we will take it from there in terms of what
3 we do, and the briefs are due on July 8, one round
4 simultaneous briefs. Anything else we need to talk
5 about?

6 (Admitted Exhibit 43.)

7 (Marked and Admitted Exhibits 44 and 45.)

8 MR. SMITH: Your Honor, I don't recall
9 whether we were on the record when we discussed
10 Exhibit C-42.

11 JUDGE ANDERL: I think that we were.

12 We will stand adjourned. Thank you all.

13 (Hearing adjourned at 10:45 a.m.)

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