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Via Courier

July 10, 1998

**Ms. Anne Levinson, Chairwoman
Washington Utilities and Transportation
Commission
1300 S. Evergreen Park Drive SW
P.O. Box 47250
Olympia, WA 98504-7250**

**Ms. Carole J. Washburn, Executive Secretary
Washington Utilities and Transportation
Commission
1300 S. Evergreen Park Drive SW
P.O. Box 47250
Olympia, WA 98504-7250**

**RE: U S WEST's Petition for a Declaratory Order Ending
Imputation of Revenues Derived from Transferred Yellow
Pages Publishing Business**

Dear Chairwoman Levinson and Ms. Washburn:

Enclosed for filing please find an original and 19 copies of U S WEST's Petition for a Declaratory Order Ending Imputation of Revenues Derived from Transferred Yellow Pages Publishing Business. U S WEST is filing this petition in accordance with the directives set forth in the Supreme Court's December 24, 1997 decision. It should be noted that this is a petition for declaratory ruling only. U S WEST simply seeks legal resolution of this issue and is not pursuing a tariff filing or request for a rate increase.

U S WEST believes that it is critically important from a policy and a legal standpoint to close the issue of yellow pages imputation. The Supreme Court's opinion indicated:

We note that under the Commission's order, the imputation is not necessarily permanent, . . . when the Company has shown it has received fair compensation from its affiliate for the value of the asset it transferred, imputation may cease. . . . U S WEST may petition the Commission for an end to imputation if and when it can show it has received fair value for the transfer of the asset.

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U S WEST will show that this test has been met and that imputation must cease. Moreover, both the Federal Telecommunications Act of 1996 and Washington law require a minimization of implicit or hidden rate subsidies. The laws require instead that subsidies for basic service be explicit, sufficient and competitively neutral. The yellow page advertising subsidy is one of the largest remaining such "implicit" subsidies and is therefore at odds with both federal and state law. Further, the yellow page advertising imputation has the additional deleterious impact of forestalling competition for residential telephone service.

U S WEST recognizes that this matter may become a contested proceeding and that other parties may suggest this is simply a request for a rate increase. However, such a suggestion is incorrect and any debate on this filing should be limited to the question of whether the Supreme Court's conditions for ending imputation have been met.

Ending directory imputation is one of a number of steps that need to be taken in order to enable Washington to have a statewide, state-of-the-art telecommunications infrastructure and a competitive market. U S WEST believes that this goal can be achieved by discussions regarding rate rebalancing, market freedoms and other related issues in the context of an alternative form of regulation (AFOR) proceeding pursuant to RCW 80.36.135. These discussions are critical to improving the financial and operating environment in Washington which – as measured using standard financial and accounting techniques – currently greatly discourages investment and innovation in Washington relative to other states. Moreover, there continues to be uncertainty as to the financial and operational conditions for the deployment of advanced services.

U S WEST believes that Washington state, perhaps more so than any state in the nation, requires a modern state-of-the-art telecommunications infrastructure capable of addressing the data and voice communications needs of all customers – not just large urban businesses. We further believe that the tremendous pace of change in both technology and market structure in this industry requires a regulatory system that protects the interests of basic consumers in the simplest way possible, without impeding the opportunities for customers and communities to reap the benefits of competition, innovation and new investment in advanced services.

Again, we believe AFOR discussions are probably the most appropriate forum in which to address all these issues in the overall context of maintaining affordable universally available telephone service. In such discussions, U S WEST's position will continue to be that rates for residential service should remain very affordable and below national average levels – even though this state requires a far better than average telecommunications infrastructure. To the extent that the company has a more

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favorable environment for deploying advanced services, discussions about basic service rate increases can more easily be avoided.

We believe that the fundamental legal issue of directory imputation must be resolved if further progress is to be made in developing an alternative form of regulation which will lead to the creation of the advanced telecommunications infrastructure that will drive improvements in economic opportunity and educational access across the state. Therefore, it is critical that the Commission resolve the yellow pages imputation issue via the declaratory ruling requested herein.

Sincerely,



C. Scott McClellan



Lisa A. Anderl

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