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BEFORE TI MMISSION

EXHIBIT

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IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN	)	DOCKET NO. T-01051B-99-0105

TESTIMONY OF

MAUREEN ARNOLD

ON BEHALF OF

QWEST CORPORATION

OCTOBER 27, 2000

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Maureen Arnold. My business address is 3033 N. 3rd Street, Phoenix, Arizona.

Q. WHAT IS YOUR POSITION WITH QWEST AND WHAT ARE YOUR RESPONSIBILITIES?

A. As the Director of Regulatory Matters, I am responsible for all regulatory activity for the state of Arizona.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND AND WORK EXPERIENCE?

A. I have a Bachelor of Science Degree from the University of New Mexico and a Masters of Business Administration from Webster University. In 1972 I began my career with C&P Telephone in Washington, D.C. I transferred to Albuquerque, New Mexico in 1975 and began working for Mountain Bell (now Qwest Corporation). I held various positions in the customer services area until 1985. Since 1985, I have held several positions in Regulatory Affairs in New Mexico and Arizona. I have been in Arizona Regulatory Affairs since 1993.

Q. HAVE YOU PREVIOUSLY APPEARED BEFORE THIS COMMISSION AS A WITNESS IN REGULATORY PROCEEDINGS?

A. Yes. I testified in Docket No. U-3021-96-448 et. al. (Interconnection Service

Measurements), Docket No. T-1051-97-0689 (Qwest Depreciation Rates), Docket No. T-01051B-99-0737 (Sale of Assets to Citizens), and Docket No. T-01051B-99-0497 (Qwest Merger).

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to provide the Commission with an overview of the proposed settlement (the "Proposed Settlement") agreed to by Qwest Corporation ("Qwest") and Commission Staff and to describe how the Proposed Settlement is in the public interest. The formal documentation of the Proposed Settlement is attached as Exhibit MA-1. Qwest witness George Redding will testify concerning certain financial attributes of the Proposed Settlement including the determination of fair value upon which the Proposed Settlement is based. Staff witness Harry Shooshan III will discuss the specifics of the price cap plan, which is based on the proposal contained in his direct testimony.

Q. PLEASE DESCRIBE THE PROPOSED SETTLEMENT.

A. The Proposed Settlement consists of several elements. Qwest and Staff have agreed to a price plan (the "Price Plan") which has been structured to be forward looking and to provide an effective transition from pure rate of return regulation to a regulatory environment in which competitive markets determine price and service offerings. The rate design contained in the plan includes increases to

directory assistance and private line services, decreases to a number of services, and no increase on basic residence and business rates. The specific rate changes to be made as part of the Proposed Settlement are identified in Attachment B to the Agreement.

Under the Price Plan, Qwest's services will be divided into three baskets of services. Each of these baskets of services will be subject to a price cap and certain other pricing rules. Basket 1 consists of Basic/Essential/Non-Competitive Services. The services in this basket are identified in Exhibit C to the Settlement Agreement. Basket 2 consists of wholesale services. The services in this basket are identified in Exhibit D to the Agreement. Basket 3 consists of flexibly priced competitive services. The services contained in this basket are identified in Exhibit E to the Agreement.

Q. WHAT TERMS AND CONDITIONS APPLY TO BASKET 1 SERVICES UNDER THE PRICE PLAN?

A. Basket 1 consists of services that have been described as Basic/Essential/ Noncompetitive Services. Under the Price Plan, certain basic services in Basket 1 are capped at their initial levels throughout the initial term of the Plan. The services that are capped at their initial levels are: flat rate residential, flat rate business, 2 & 4 party services, exchange zone increment charges, low use

option service, service stations service, telephone assistance programs, individual PBX Trunks, including features, Caller ID block, toll blocking, 900/976 blocking and basic listing service. Rates for these services in Basket 1 may be reduced but they may not be increased during the term of the Plan.

In addition to the price caps for this limited group of services, Basket 1 is subject to an overall price cap equal to the weighted average price level of all services contained in Basket 1. For each of the three years of the plan, that price cap is subject to possible reduction based on an "inflation minus productivity" indexing mechanism, subject to annual updates in the quantities of demand for each service.

Q. HOW DOES THE PRICE PLAN REGULATE BASKET 2 SERVICES?

A. Basket 2 consists of wholesale services. Under federal law, most of these wholesale services are governed by their own specific pricing rules. For example, rates for unbundled network elements (UNEs) have been and will continue to be set by the Arizona Corporation Commission in consolidated cost dockets. The Federal Communications Commission has prescribed a total element long run incremental cost (TELRIC) methodology to be used in setting UNE rates and the Price Plan does not change the way UNE rates are set. Similarly, the avoided cost discount provided for under the Telecommunications

Act of 1996 will continue to be set by the Commission in separate proceedings. The Price Plan will not change the way that resale discounts are established.

However, the Price Plan does provide for a change in rates for intrastate switched access, a service that has been included in Basket 2. Under the Price Plan, intrastate switched access rates will be reduced by $5 million per year for the duration of the initial term of the Plan. These $5 million decreases are intended to be revenue neutral and will be offset in the second and third year of the Price Plan by $5 million increases in the price cap applicable to Basket 3.

Q. HOW ARE BASKET 3 SERVICES TREATED UNDER THE PRICE PLAN?

A. Basket 3 consists of services that have been accorded pricing flexibility or have been determined by the Commission to be competitive under Commission Rule R14-2-1108. Basket 3 also includes new services and new service baskets offered by Qwest. Services in Basket 3 are subject to a price cap equal to 110% of the weighted average price level of all of the services in the Basket.

Q. UNDER THE PRICE PLAN, ARE THE SERVICES INCLUDED IN EACH BASKET FIXED?

A. No. The Price Plan contemplates that, as competition develops in Arizona, services may be moved from Basket 1 to Basket 3. However, a Basket 1

service may be moved to Basket 3 only upon a showing that the criteria of Commission Rule R14-2-1108 have been met. Furthermore, Qwest is free to package Basket 1 and Basket 3 services together and such a package will be treated as a Basket 3 service. However, the Basket 1 service must continue to be offered as a stand-alone service in Basket 1 at the rate set in Basket 1. Further, Qwest must inform consumers of the continued availability of those services on a stand alone basis.

Q. ARE THERE ANY OTHER FEATURES OF THE PROPOSED SETTLEMENT OR PRICE PLAN THAT YOU WOULD LIKE TO DISCUSS?

A. There are two other features that bear mention. First, while the Proposed Settlement gives Qwest flexibility to compete in the market place, the Commission will continue to make certain determinations provided for in its rules. For example, Commission Rule R14-2-1108 (regarding the classification of a service as competitive), Commission Rule R14-2-1109-A (setting a TSLRIC pricing floor for services), and Commission Rule R14-2-1109-C (prohibiting cross-subsidization of competitive services by non-competitive services) shall continue to apply. Second, the Proposed Settlement provides for certain reporting requirements which will permit the Commission to monitor the Price Plan while it is in effect and to determine at the end of the Price Plan's initial term whether it should be renewed.

Q. IS THE PROPOSED SETTLEMENT IN THE PUBLIC INTEREST?

A. Yes. The Proposed Settlement represents a reasonable compromise between the positions of the parties and has advantages both for ratepayers and for Qwest.

Q. PLEASE DESCRIBE FURTHER HOW THE PROPOSED SETTLEMENT IS IN THE PUBLIC INTEREST?

A. The Proposed Settlement serves the public interest in a number of ways. First, it benefits all residence and business customers by capping the rates that Qwest may charge for basic service. It also reduces the rates for installation of basic residence service and eliminates the initial charge to connect service in rural areas. Second, it limits the immediate rate increases to Directory Assistance and Analog Private Line service. Third, through the indexing mechanism, it provides the potential for reductions in the prices for services in Basket 1. Finally, it provides additional incentives for Qwest to meet existing service quality performance standards in Arizona.

Q. PLEASE DISCUSS THE BENEFITS ASSOCIATED WITH CAPPING THE RATES FOR BASIC RESIDENCE AND BUSINESS SERVICE?

A. The current rates for basic residence and business service were last increased in

January of 1995, or nearly 6 years ago. Under the terms of the Proposed Settlement, these rates would be capped for 3 years, or until approximately January of the year 2004. This means that basic rates will not have increased in Arizona for a total of 9 years, which is a bargain by any measure. The cap on basic rates will provide customers with greater certainty in planning and budgeting for their basic service.

Q. PLEASE EXPLAIN THE NONRECURRING CHARGES THAT ARE BEING REDUCED.

A. As part of the Proposed Settlement, Qwest has agreed to reduce the nonrecurring charge to install basic residence service from $46.50 to $35.00 and to eliminate the $53.30 nonrecurring zone connection charge that currently applies the first time service is established at a location outside of the base rate area. Therefore, not only will the monthly rates for basic service be capped for the term of the plan, but these reductions in nonrecurring rates will make it more affordable for customers to obtain service – especially in rural areas of the state.

Q. PLEASE DISCUSS THE INCREASES TO QWEST'S DIRECTORY ASSISTANCE AND PRIVATE LINE SERVICES?

A. Under the terms of the Proposed Settlement, the only two services that will be increased at this time are Directory Assistance and Private Line Service, which are

both located in Basket 3 consisting of competitive, non basic, nonessential services. Qwest's Directory Assistance (DA) service was classified by the Commission as a competitive service in December of 1999. Under the Proposed Settlement, Qwest will bundle its Complete-a-Call service with DA service and offer the combined service for $.85. Currently Qwest charges $.47 for each DA call and an additional $.35 for Complete-a-Call service, which automatically connects a DA caller with the requested number.

Under the Proposed Settlement, Private Line Service will be increased in aggregate by $13.7 million. Private Line Service is utilized primarily by businesses and carriers to provide dedicated service between two or more locations. The specific changes being proposed for Private Line service are included in Attachment B to the Proposed Settlement.

Because DA service is both competitive and discretionary, and Private Line Service is primarily used by business customers, the increases in the Proposed Settlement will have minimal impact on residential customers.

Q. HOW DOES THE INDEXING MECHANISM OF THE PROPOSED SETTLEMENT PROVIDE POTENTIAL REDUCTIONS IN BASIC 1 SERVICES?

A. The Proposed Settlement has been structured so that customers of Basket 1

services are guaranteed to realize a productivity benefit of 4.2%. If inflation is less than 4.2 % in any given year, then the weighted average price for services in Basket 1 will be reduced. If inflation is greater than or equal to 4.2%, then the weighted average price will be capped.

Q. WHAT INCENTIVES DOES THE PROPOSED SETTLEMENT PROVIDE FOR QWEST TO MEET EXISTING SERVICE QUALITY PERFORMANCE STANDARDS IN ARIZONA?

A. The Proposed Settlement creates additional incentives for Qwest to improve its service quality. Section 5 of the Settlement Agreement provides that for any year in which Qwest becomes subject to penalties under two or more of the five categories defined in Section 2.6 of the Service Quality Plan Tariff, Qwest will pay a $2.00 for each residential and business access line in Arizona. This $2.00 credit is in addition to any credits or penalties provided by the Service Quality Plan Tariff itself and further incents Qwest to improve service with respect to held orders, out of service repair, and access to its call centers.

Qwest remains committed to improving its service quality and has made substantial progress this year to implement the service quality initiatives it committed to in the merger docket. The Proposed Settlement demonstrates further that Qwest is committed to provide quality service to its Arizona

customers.

Q. ARE THERE ANY ADDITIONAL RATEPAYER BENEFITS FROM THE SETTLEMENT?

A. Yes. Qwest has also agreed to lower intrastate switched access rates by $ 5 million in each year of the price plan. Assuming the interexchange carriers pass these reductions on to their customers, intrastate long distance rates should go down.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN	)	DOCKET NO. T-01051B-99-0105

EXHIBIT OF

MAUREEN ARNOLD

ON BEHALF OF

QWEST CORPORATION

OCTOBER 27, 2000

BEFORE THE ARIZONA CORPORATION COMMISSION

CARL J. KUNASEK
Chairman
JAMES M. IRVIN
Commissioner
WILLIAM MUNDELL
Commissioner

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN.	DOCKET NO. T-01051B-99-0105 NOTICE OF FILING SETTLEMENT AGREEMENT.

Pursuant to the Procedural Order issued October 17, 2000 in the above-captioned docket, the Arizona Corporation Commission Utilities Division Staff ("Staff") and Qwest Corporation ("Qwest"), formerly U S WEST Communications, Inc., hereby jointly provide notice of filing the attached settlement agreement that has been reached between the parties.

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RESPECTFULLY SUBMITTED this 20th day of October, 2000.

ARIZONA CORPORATION COMMISSION
Lyn Farmer, Chief Counsel

By _____
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COPY of the foregoing hand-delivered this 20th day of October, 2000, to:

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Jerry L. Rudibaugh, Chief Administrative Law Judge
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Monica A. Martinez

SETTLEMENT AGREEMENT

Qwest Corporation (Qwest) and the Arizona Corporation Commission Staff (Staff) (collectively "the Parties") hereby agree to a settlement (the "Agreement") of the pending Qwest general rate case in Docket No.T-01051B-99-0105 (the Rate Case). The following terms and conditions, including Attachments (A) through (E) appended hereto (hereinafter referred to as the Price Cap Plan), are intended to resolve all of the issues among the Parties associated with the Rate Case.

RECITALS

WHEREAS, the Parties desire to adopt this Agreement and Price Cap Plan for Qwest to create incentives for Qwest to improve its efficiency, to provide new and innovative service offerings and to reduce the opportunity for cross-subsidization of competitive services by non-competitive services.

WHEREAS, by adopting the Price Cap Plan, the Parties intend to avoid the need for any general rate proceeding for the next three years, provide rate stability to Qwest's Arizona consumers by capping rates for essential services and create an opportunity for Qwest's customers to benefit from productivity improvements in the form of decreased rates.

WHEREAS, the Parties agree that the price caps provided for in this Agreement will ensure that rates for Qwest's telecommunications services are based on the fair value of Qwest's property devoted to the provision of intrastate telecommunications services in Arizona and to result in the establishment of just and reasonable rates for Qwest's Arizona customers; and

WHEREAS, the Parties agree that nothing in this Agreement is intended to in any way restrict or modify the Commission's current authority or jurisdiction over Qwest as provided under Arizona law; and

WHEREAS, the Parties agree that this Settlement is in the public interest.

TERMS

1. FAIR VALUE RATE BASE AND REASONABLE RATE OF RETURN. For ratemaking purposes and in accordance with the terms of this Agreement, the Parties agree that the "fair value" of Qwest's Arizona rate base for the test year ending December 31, 1999 (the "Test Year") is $1,446.0 million. For ratemaking purposes and in accordance with the terms of this Agreement, the Parties agree that a reasonable return on the fair value of that rate base is 9.61%. The Parties stipulate to the adoption of the foregoing fair value rate base and reasonable rate of return and agree that the resultant increased revenue requirement, as identified in Section 2 below, results in just and reasonable rates for Qwest.

2. REVENUE REQUIREMENT DEFICIENCY. For ratemaking purposes and in accordance with the terms of this Agreement, the Parties agree that Qwest's jurisdictional revenue requirement deficiency is $ 42.9 million.

3. RATE DESIGN. The Parties agree that the revenue requirement set forth in Section 2 above shall be recovered through (a) a combination of increases and decreases in rates for services reflected on Attachment B hereto to recover $ 17.6 million of Qwest's Test Year revenue requirement and (b) the opportunity for revenue from flexibly-priced services contained in Basket 3 of the Price Cap Plan discussed in Section 4 of this Agreement to recover $25.3 million of Qwest's Test Year revenue requirement. The initial rates set forth on Attachment B include rate adjustments based on Test Year revenue levels as follows:

$ Million	
23.1	Increase revenues from directory assistance rates which shall be capped at $ 0.85 per call for one year
13.7	Increase in Private Line Services
-5.0	Reduction in Intrastate Access Charges for First Year of Agreement
-7.9	Reduction in Residential Basic Service Nonrecurring Charges from $ 46.50 to $ 35.00
-1.5	Revenue Reduction from Basic Residential Service from Change in U-1 Base Rate Area Boundaries
-1.9	Revenue Reduction from Basic Residential Service from Change in U-2 Base Rate Area Boundaries
-2.3	Elimination of Residential Non-recurring Zone Connection Charge
-0.2	Elimination of Business Non-Recurring Zone Connection Charge
-0.2	Revenue Reduction from Basic Business Service From Change in U-1 Base Rate Area Boundaries
-0.2	Revenue Reduction from Basic Business Service From Change in U-2 Base Rate Area Boundaries
17.6	Overall Immediate Revenue Change
25.3	Increase in available additional revenue in Basket 3 services except directory assistance for one year
42.9	Overall Net Revenue Change Authorized

The Parties further agree that rates for Intrastate Switched Access Service shall be reduced at the start of the second year of the Price Cap Plan to cause an additional $ 5 million reduction in revenues from that service and reduced again at the start of the third year of the Price Cap Plan to cause an additional $ 5 million reduction in revenues. The Parties agree that the revenues available under the Cap for Basket 3 Services, as described in the next Section of this Agreement, shall be increased by $ 5 million at the start of the second year of the Price Cap Plan and an additional $ 5 million at the start of the third year of the Price Cap Plan to correspond on a revenue requirement basis to the reduction in access revenues.

The Parties agree that Qwest's Due Date Change Tariff and Start-Up Package Elimination Tariff may be implemented upon Commission approval of this Agreement. The

Parties also agree that all multi-party grades of residential and business basic service should be eliminated. The net effect of the approval of these tariffs and the elimination of multi-party service is to increase Qwest's revenues by $247,856 and to require investment of approximately $4 million. These amounts are in addition to the amount set forth in section 2 as the change in revenue requirement.

4. PRICE CAP PLAN. The Parties agree to create a Price Cap Plan, described in this Section and Attachments (A) through (E) appended hereto, as part of the resolution of the Rate Case. The term of the Price Cap Plan shall be three years from the effective date as specified in the Commission's Order approving this Agreement and Price Cap Plan. The Parties agree that the initial rates set forth on Attachment B and the flexibility for Basket 3 Services under the Price Cap Plan result in just and reasonable rates for Qwest's Arizona intrastate operations. Upon approval of this Agreement by the Commission, Qwest will file its intrastate tariffs in accordance with this Agreement, which rates shall take effect as specified in the Commission's order approving of this Agreement and Price Cap Plan.

The Price Cap Plan creates three "baskets" of services. Basket 1 consists of Basic/Essential Non-Competitive Services. The services in Basket 1 are identified on Attachment C to this Agreement. Basket 1 will be capped, using an "Inflation minus Productivity" indexing mechanism, subject to annual updates in the quantity of demand as set forth on Attachment A. As a compromise to the respective positions of the parties, the productivity factor (X) for the initial term of the Plan is set at 4.2%, which includes a 0.5% consumer dividend. The productivity offset for each year of the initial term applied to the Price Index cap for Basket 1 shall be equal to (GDP-PI) – X, where zero is equal to or greater than "(GDP-PI) – X". The parties agree to conduct studies and submit productivity evidence in the

scheduled review of the Plan's initial term. Basket 2 consists of Wholesale Services. The services in Basket 2 are identified on Attachment D to this Agreement. Except as otherwise provided in this Agreement, services in Basket 2 will be capped at the levels existing on the date of execution of this Agreement and will remain subject to the specific pricing rules for those services, as interpreted by the Commission and the Courts. Basket 3 consists of Flexibly-Priced Competitive Services. The Services contained in this Basket are identified on Attachment E to this Agreement. Basket 3 will be capped at an index, subject to annual updates in the quantity of demand, which index will be calculated as set forth in subpart 4(c) of Attachment A. Notwithstanding, the additional revenue level for purposes of headroom in Basket 3, shall be capped at $25.3 million, on a test year basis, for the term of the Price Cap Plan. Basket 3 will also be subject to an upward adjustment of $5 million per year in the second year of the Price Cap Plan and an additional $5 million per year in the third year of the Price Cap Plan to offset the annual reductions to intrastate switched access revenue under this Agreement. The details of the Price Cap Plan and the procedural mechanisms for the implementation of price changes under that Plan are set forth on Attachment A to this Agreement.

Nine months prior to the expiration of the Price Cap Plan, Qwest will submit an application with its recommendation for extension, or revision of the Price Cap Plan for review by Staff, the Residential Utility Consumer Office ("RUCO") and the Commission. The Application will be available for review and comments by other interested parties. The Application will include the following information:

a. A detailed statement of price and revenue changes effected during the initial term of the Price Cap Plan;

b. A statement of the aggregate investment and retirements in plant, and associated depreciation for the preceding calendar year;

c. A statement of the operating income and return on investment for the preceding calendar year;

d. Service quality comparative data during the initial term of the Price Cap Plan as specified by Staff; and

e. Updated analysis of productivity data applicable to the Price Cap Plan.

Staff may request and Qwest will provide, pursuant to A.R.S. § 40-204, such other additional information as Staff determines necessary for the analysis of Qwest's application. Staff agrees to withdraw its recommendation concerning a plant modernization credit, subject to a review of Qwest's capital investment during the initial term of the Price Cap Plan.

Renewal or modification of the Price Cap Plan at the end of the initial term is subject to approval by the Commission. Until the Commission approves the Price Cap Plan, or orders a termination of the Plan after its term, the Plan shall continue in effect.

The Parties further agree that if the Federal Communications Commission ("FCC") or the Commission orders, adjusts or raises an assessment for the support of Universal Service during the initial term of the Price Cap Plan, the recovery of that assessment is not subject to the provisions of the Price Cap Plan and Qwest may pass through that assessment in the form of a surcharge(s) without filing a general rate case. Any additional federal or state universal service funding received by Qwest will be considered an adjustment to the price caps established under this Plan.

5. SERVICE QUALITY CREDITS. To ensure service quality during the initial term of the Price Cap Plan. the Parties agree that, for any year in which Qwest becomes subject to penalties

under two or more of the five categories defined in Section 2.6 of the Service Quality Plan Tariff [i.e., Section 2.6.1(E) through Section 2.6.1(F)], additional credits shall be implemented after each of the initial three Price Cap Plan years if existing penalties are payable. Such additional credits shall take the form of one-time credits of $2.00 for each residential and business access line in Arizona. Qwest shall issue these credits no later than March 31 of the year in which the foregoing Section 2.6 penalties are paid. The foregoing credits are additional to any credits and penalties provided by the Service Quality Plan Tariff. No service quality penalties or credits shall be assessed during the initial term of the Price Cap Plan other than those provided for in the Service Quality Plan Tariff as modified by Decision No. 62672 and in this Agreement, except for any wholesale standards and penalties adopted in Docket No. T-00000B-97-0238 or in any other Commission proceeding addressing wholesale service quality standards or penalities.

6. NOTICE TO CONSUMERS. Following Commission approval of the Settlement Agreement and Price Cap Plan, Qwest will provide, in two subsequent bills sent to Qwest's Arizona consumers, information regarding the services for which rates and charges may change without Commission approval. The bill inserts shall also inform Qwest's customers that essential basic services which are part of any packaged offering remain available and can be obtained by the customer as a separate offering. The bill inserts shall also inform consumers that the Arizona Corporation Commission remains the regulatory agency responsible for overseeing the terms, conditions, rates and quality of service provided by Qwest and that complaints regarding any of Qwest's regulated services should be directed to the Commission's Consumer Services Section. The bill inserts will be provided to Staff for its review and approval prior to being sent to consumers. In connection with the implementation of this Agreement, Qwest will prepare

training materials for customer service representatives to use in interfacing with customers in conjunction with the implementation of the Price Cap Plan.

7. MORATORIUM ON AND PROCEEDINGS FOR FUTURE RATE INCREASES. The Parties agree that no Party shall file an application for or complaint seeking an adjustment in Qwest's general rates and charges that would be effective during the initial term of the Price Cap Plan (the "Rate Proceeding Moratorium Period"). The Rate Proceeding Moratorium Period shall be extended for each additional period of extension or revision of the Price Cap Plan.

8. COMMISSION APPROVAL AND SEVERABILITY. Each provision of this Agreement is in consideration and support of all other provisions, and expressly conditioned upon acceptance and approval by the Commission without material change. Unless the Parties to this Agreement otherwise agree, in the event that the Commission fails to accept and approve this Agreement according to its terms, then it shall be deemed withdrawn by the Parties and the Parties shall be free to pursue their respective positions in the Rate Case without prejudice.

9. COMPROMISE. This Agreement represents the Parties' mutual desire to compromise and settle disputed claims and issues regarding the prospective just and reasonable rate levels of Qwest in a manner consistent with the public interest and based upon the pre-filed testimony, and exhibits and the evidentiary record developed in the Rate Case. This Agreement represents a compromise of the positions of the Parties. Acceptance of this Agreement is without prejudice to any position taken by any party in the Rate Case and none of the positions taken herein by any of the Parties may be referred to, cited or relied upon by any other party in any fashion as precedent or otherwise in any proceeding before this Commission or any other regulatory agency

or before any court of law for any purpose except in furtherance of the purposes and results of this Agreement.

10. PRIVILEGED AND CONFIDENTIAL COMMUNICATIONS. All negotiations relating to or leading to this Agreement are privileged and confidential, and no party is bound by any position asserted in negotiations, except to the extent expressly stated in this Agreement. As such, evidence of conduct or statements made in the course of negotiation of this Agreement are not admissible as evidence in any proceeding before the Commission, any other regulatory agency or any court.

11. COMPLETE AGREEMENT. This Agreement represents the complete agreement of the Parties. There are no understandings or commitments other than those specifically set forth herein. The Parties acknowledge that this Agreement resolves all issues that were raised in the Rate Case and is a complete and total settlement between the Parties.

12. SUPPORT AND DEFEND. Each Party will support and defend this Agreement and any order entered by the Commission approving this Agreement before the Commission or other regulatory agency or before any court in which it may be at issue.

13. APPEALS AND CHANGE OF LAW. The Parties hereto believe that the Settlement Agreement and Price Cap Plan provided for herein are lawful and consistent with the Arizona Constitution and case law interpreting the Arizona Constitution. If the Arizona courts should ultimately find, in a final, nonappealable order, that the Price Cap Plan is unlawful, or there is other significant change in controlling federal and state law, Staff and Qwest shall review the court decision or other change in law and discuss whether the Plan can be modified to meet the order or change in law. Further, Qwest shall have no obligation to refund revenues collected

during the period of time the Price Cap Plan is in effect. If Staff and Qwest are unable to reach an agreement on how to modify the Price Cap Plan, the Plan shall end, and the Commission shall determine the appropriate method of regulation for Qwest.

DATED this 20th day of October, 2000.

ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION STAFF

BY:_____
Deborah Scott, Director

QWEST CORPORATION

BY Teresa Wahlert
Teresa Wahlert, Arizona Vice-President

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ARIZONA CORPORATION COMMISSION
UTILITIES DIVISION STAFF

BY: _____
Deborah Scott, Director

QWEST CORPORATION

BY_____
Teresa Wahlert, Arizona Vice-President

Attachment A:
Terms, Conditions and Operation of the Price Cap Plan

Price Cap Plan

1) Baskets
   a) Basket 1: Basic/Essential Non-competitive Services
   b) Basket 2: Wholesale Services
   c) Basket 3: Flexibly-Priced Competitive Services

2) Basket 1: Basic/Essential Non-competitive Services
   a) A list of the individual services in Basket 1 is appended hereto as Attachment C.
   b) Cap on Basket 1
      i) The Arizona Corporation Commission ("Commission") Staff recognizes the advantages of an "Inflation minus Productivity" price cap index mechanism. Given the uncertainty of recent interpretations of Arizona law regarding rate increase mechanisms, for the initial three year term of the plan, the weighted average price level (or "Price Index") of all services contained in Basket 1 is capped, using an "inflation minus productivity" indexing mechanism, subject to annual updates in the quantities of demand for each service.
      ii) The Productivity Offset, which is the X Factor in the formula in subpart 2 b) vi) below, shall be equal to 4.2 percent.
      iii) The measure of inflation used in the Price Cap Index mechanism is the annual percent change in the Gross Domestic Product Price Index ("GDP-PI"), using a seasonally-adjusted, chained price index, as calculated by the Department of Commerce. The percent change in the GDP-PI from the most recently available quarter and the same quarter from the previous year, shall be the basis for the calculation of inflation in the Price Cap Mechanism. The "Inflation minus Productivity" calculation shall be performed once annually on January 1st.
      iv) The "Inflation Minus Productivity" calculation shall be capped at zero and has no lower bound. Therefore, the Price Cap Index is capped at 1.00 and has no lower bound.
      v) In the first quarter of the third year of the Price Cap Plan, Qwest shall file, along with other required materials, productivity evidence for the past 2 years under price regulation.
      vi) The formula for the Price Index for Basket 1 is:

$$1.00 + \%\Delta\text{GDP-PI} - \text{X Factor} \geq [\text{SUM } [P_N * Q_C]\,] \,/\, [\text{SUM } [P_C * Q_C]\,]$$

The numerator of the Price Index of Basket 1 is the sum of the proposed/new prices multiplied by the "current" quantities of demand. Current demand will be the quantities of demand from the most recent year. Where price changes have not occurred, the current/existing price of the service is used. The denominator is the sum of existing prices multiplied by the "current" quantities of demand. Section (6) below details the data that Qwest shall provide to enable calculation and monitoring of the cap.

With each price change, Qwest must provide the existing and new price to Staff, as well as Qwest's calculation of the Price Index following implementation of the price change. Staff will use the Price Cap Database to check Qwest's calculation. All price changes must be demonstrated to be within the cap. The Price Cap Index calculation will be cumulative in a given year.

c) Service Pricing Flexibility
   i) Certain Basic services are to be capped at their initial levels throughout the term of the Price Cap Plan. These service prices may be reduced as they are included in the calculation of the Basket 1 Price Index. These services are: flat rate residential; flat rate business; 2 & 4 party service; exchange zone increment charges; low use option service; service stations service; telephone assistance programs; individual PBX Trunks, including features; Caller ID block; toll blocking; 900/976 blocking; and basic listing service.
   ii) The remaining services in Basket 1 may increase or decrease within the band established by the Price Index.
   iii) Individual service prices within Basket 1, other than those services listed in subpart i) above, may increase no more than 25 percent within a year.
   iv) Individual service prices must exceed the service's Total Service Long Run Incremental Cost (" TSLRIC"), unless a different cost standard applicable to all telecommunications service providers is determined appropriate by the Commission.
   v) Changes to Terms and Conditions of services in Basket 1 shall be submitted to the Commission for Staff review and approval. All services in this Basket shall be continued statewide at the tariffed rate, unless or until the Commission orders retail geographic rate de-averaging, or unless Qwest demonstrates a cost difference for a new service on which to base the price difference. Nothing in this Price Cap Plan shall preclude the Commission from deaveraging wholesale rates on a cost basis.
   vi) Price increases for services in this Basket require 30 day notice to the Commission by submission to Staff, and 30 days notice to consumers.

3) Basket 2: Wholesale Services
   a) The services included in Basket 2 at the Price Cap Plan's inception include: Intrastate Carrier Switched Access, Discounted Wholesale Offerings, Unbundled Network Element (UNE) Offerings, Wholesale services such as PAL lines, and all other wholesale offerings unless specifically listed in Attachments C and E as included in either Basket 1 or 3. A list of wholesale services, with the exeption of UNEs, included in Basket 2 at the Price Cap Plan's inception is contained in Attachment D.
   b) Basket 2 consists of wholesale services many of which are governed by their own specific pricing rules and will continue to be governed by such rules, as interpreted by the Commission and the Courts, under this Price Cap Plan.

c) UNEs and discounted Wholesale Offerings are priced based on the provisions of the Telecommunications Act of 1996 (1996 Act), FCC implementing regulations and Commission rules.
d) An exception includes Intrastate Switched Access Services which are to be reduced by $5 million per year for the duration of the initial term of the Plan, with further reductions in Intrastate Switched Access Service rates taking place during any subsequent term of the Price Cap Plan with the objective of obtaining parity with interstate switched access rates.
e) Service prices are capped for the term of the Price Cap Plan, or until the specific pricing rules are changed or the Commission determines that other prices are appropriate.
f) New wholesale services are to be added to this Basket when those services are implemented.
g) Nothing in this Price Cap Plan is intended to change or modify in any way the imputation requirements contained in A.A.C. R14-1-1310.

4) Basket 3: Flexibly-Priced Competitive Services
a) This Basket includes only those services that have been accorded pricing flexibility or have been determined by the Commission to be competitive under A.A.C. R14-2-1108 , and new services and new service packages offered by Qwest. Any new services and new service packages offered by Qwest shall be subject to the prior review and approval of the Commission, as provided in subpart e) below. A list of services included in Basket 3 at the inception of this Price Cap Plan is appended hereto as Attachment E.
b) The price cap for this Basket is the weighted average price level of all the services in the Basket as calculated by the formula set forth in subpart c) following, subject to annual updates in quantities. Notwithstanding, the additional revenue level for purposes of headroom in Basket 3, shall be capped at $25.3 million, on a test year basis, for the term of the Price Cap Plan. The price cap will be adjusted upward $5 million in the second year of the Plan and an additional $5 million in the third year of the Plan, to reflect the switched access charge reductions in those years.
c) The formula for the calculating the Price Index for Basket 3 is:

$$1.0 \geq [\text{SUM } (Pn * Qc)] / [\text{SUM } (1.10 * Pc * Qc)]$$

The numerator is the sum of the proposed/new prices multiplied by the "current" demand. Current demand will be demand from the most recent year. Where price changes have not occurred, the current/existing price of the service is used. The denominator is the sum of 110 percent of the existing prices multiplied by current demand.
d) New services and service packages shall be added to the calculation of the price cap index, in both the numerator and denominator, at the end of the year in which they were introduced, to obtain actual experience with the service, so the

calculation is not based solely upon projections. Qwest shall provide notification to Staff of the new services/packages and their prices as provided in subpart e) below.

e) Any services in Basket 1 may be the components of any new package that would be offered in Basket 3. Each Basket 1 service that is included in a package offered in Basket 3 shall continue to be offered in its current form in Basket 1 as of the commencement of the Price Cap Plan. Such new packages that involve the capped services in Basket 1, or any new services proposed to be included in Basket 3, shall be submitted at least thirty days in advance of the proposed effective date of the tariff of the new package or service and shall be subject to Commission consideration as provided in A.R.S. § 40-250. The price of the new package or service shall exceed the TSLRIC of the package or service. For purposes of combining Basket 1 services with Basket 3 services and setting a floor for that package, the price of 1FR service shall be the applicable retail price for that service.
   i) Qwest shall be required to inform consumers, through its marketing of such new packages, including through its bill inserts, educational materials and customer representative scripts, that the services in Basket 1 remain available and can continue to be purchased as separate offerings.
   ii) The mere repackaging of existing Basket 1 services does not qualify the existing services to be "new services."

f) Individual service and package prices must provide revenues in excess of the service's or package's TSLRIC subject to the provisions of subpart e) above, unless a different cost standard applicable to all telecommunications service providers is determined appropriate by the Commission.

g) New services and packages in Basket 3 may be offered to selected customer groups based on their purchasing patterns or geographic location, for example. This provision shall not be construed to permit red-lining based on criteria such as wealth or race, or to permit Qwest to discriminate against any class of customers in violation of A.R.S. Section 40-334.

h) Existing services in Basket 3 shall continue to be offered to existing customer groups. Qwest must receive Commission approval for discontinuation or revision of services, terms and conditions.

i) A Basket 1 service may be moved to Basket 3 upon Qwest meeting the criteria of R.14-2-1108. Staff and Qwest agree that Staff will process such an Application as expeditiously as reasonably possible and, in any event, will complete such processing within a period of six months, unless another time period is agreed to by Qwest, or the six month time period is waived by the Commission.

j) If a service is moved from Basket 1 to Basket 3 because it has met the criteria of R14-2-1108, the Basket 3 price and quantities for the numerator and the denominator for that service shall be the prices and quantities for that service contained in the numerator of the Basket 1 PCI formula at the time that the service is moved, and the 1.1 factor will not be applied to these services for the remaining term of the plan.

k) The Commission's existing rules (A.A.C. R14-2-1109) which prohibit cross-subsidization of competitive services (Basket 3) by non-competitive services (Baskets 1 and 2) shall continue to apply to all services offered by the Company under this Price Cap Plan.

l) Price changes to flexibly priced and competitive services contained in Basket 3 shall comply with the requirements of A.A.C. R14-2-1109.

5) Annual Filing of Price Cap Data

a) Price Cap Database: For the first year of the Price Cap Plan, Qwest will file, in electronic form, an Excel spreadsheet that is a database of the prices and quantities of each service in Baskets 1 and 3. The spreadsheet will include the formula for calculating the index of Baskets 1 and 3. The spreadsheet format should enable the Staff to type in a price change and instantaneously observe the effect of the price change on the weighted average price level of the affected Basket. The data in the spreadsheet shall include the following columns for each Basket:

Basket X: (Denominator or Numerator of Price Index)					
Service Name	Tariff Section	Date of Most Recent Price Change	Price	Quantity Demanded	Revenue
A	x.x	01/01/2001	$x.xx	x,xxx	$xx,xxx
B	x.x	01/01/2001	$x.xx	x,xxx	$x,xxx
TOTAL	---	---	---	---	$xxx,xxx

This data will be fixed for calculation of the Price Index denominator at each service's price at the beginning of the Price Cap year. A second set of this same data shall be included in the spreadsheet for each Basket and will be updated with each price change throughout the year, cumulatively, in order to calculate the Price Index numerator. The Index for the Basket is calculated as the ratio of the numerator data over the denominator data, as described above for each Basket. The calculated Price Index for each Basket shall remain below the Basket's assigned Price Cap in order for rate changes to be considered lawful upon filing. The spreadsheet shall be equipped with the formula that enables instantaneous verification that a price change by Qwest is within the prescribed cap. For the initial prices, it will suffice to establish the date of most recent price change at 01/01/2001 for all services, particularly if the last price change is unknown. For each subsequent year of the Price Cap Plan, the most recent price change may be recorded as 01/01/xx, to indicate the starting price for the service in year xx.

b) The Price Cap Database shall be updated annually, reflecting end of year prices and quantities which represent existing prices and current quantities to be used in the next year of the plan.

c) As individual price changes are filed, the Staff shall examine their effect on the affected Baskets' Price Index, using the Price Cap Database. If a price change results in a Price Index above the Cap, the price change does not comply with the

Plan and Staff may recommend rate reductions that should occur in order to meet the constraints of the Cap.

6) Renewal of the Price Cap Plan
   a) The Price Cap Plan shall have an initial term of three years at the end of which Qwest may propose to either:
      i) Renew the Price Cap Plan under the current terms and conditions; or
      ii) Renew the Price Cap Plan with proposed revisions.
   b) Qwest's proposal shall be filed along with other monitoring information requested at the end of the first quarter of the third year of the Price Cap Plan.
   c) Whether and under what terms and conditions to renew the Price Cap Plan will be determined by negotiations among Staff, Qwest, and other parties subject to the Commission's approval. Contested hearings on renewal of the plan may or may not occur depending on the disposition of negotiations among parties. Nothing herein, however, shall preclude any party from requesting a hearing on the Company's proposal to renew the Price Cap Plan. Nothing herein shall affect the Commission's jurisdiction or authority to determine the most appropriate form of regulation for Qwest at the end of the three year term of the Price Cap Plan, including termination of the Plan.

7) Applicability of Commission Rules

Unless expressly provided herein, this Price Cap Plan is not intended to alter or eliminate the application of current Commission rules and orders to Qwest.

Element	TIM Code	USOC	Current Rate	Proposed Rate	Difference	Revenue Effect	Location
Directory Assistance	C6.2.4 & E5.7.2	NA	$0.47	$0.85	$0.38	$24,572,391	REC Priceout - Pages 70, 71, 182 & 183. Also see Dunkel Surrebutal Testimony, Schedule WDA-31
Complete A Call	C6.2.6	NA	$0.35	$0.00	($0.35)	($1,159,775)	REC Priceout - Pages 184 & 185
Residence NRC - Low Use Option	E5.2.2	NA	$46.50	$35.00	($11.50)	($30,015)	NRC Priceout - Page 20
Residence NRC - Flat Rate Service	E5.2.4	NA	$46.50	$35.00	($11.50)	($7,968,113)	NRC Priceout - Page 22
Residence NRC - Reseller	E5.2.4RSR	NA	$35.47	$26.70	($8.77)	($137,990)	NRC Priceout - Page 24
Business Zone Connection Charge (NRC)	E4.2.1	SYE	$53.30	$0.00	($53.30)	($170,720)	NRC Priceout - Page 16
Residence Zone Connection Charge (NRC)	E4.2.1	SYE	$53.30	$0.00	($53.30)	($2,267,789)	NRC Priceout - Page 17
Business Zone 1 Change	E5.1.7	U1	$1.00	$1.00	$0.00	($189,312)	REC Priceout - Page 1, change in quantities only
Business Zone 2 Change	E5.1.8	U2	$3.00	$3.00	$0.00	($192,888)	REC Priceout - Page 1, change in quantities only
Residence Zone 1 Change	E5.1.6	U1	$1.00	$1.00	$0.00	($1,497,276)	REC Priceout - Page 2, change in quantities only
Residence Zone 2 Change	E5.1.6	U2	$3.00	$3.00	$0.00	($1,941,876)	REC Priceout - Page 2, change in quantities only
Carrier Common Line	A3.8R	CARR	$0.016573	$0.015864	-$0.000709	($1,189,627)	REC Priceout - Page 369
Switched Transport	A6.8.1	EF2AX	$ 25.50	$64.67	$39.17	$310	REC Priceout - Page 370
	A6.8.1	1YTXB	$ 12.55	$25.96	$13.41	$5,625	REC Priceout - Page 370
	A6.8.1	1YTXB	$ 0.80	$0.17	-$0.63	($1,219)	REC Priceout - Page 370
	A6.8.1	1YTXC	$ 12.15	$25.96	$13.81	$1,763	REC Priceout - Page 370
	A6.8.1	1YTXC	$ 0.85	$0.17	-$0.68	($1,200)	REC Priceout - Page 370
	A6.8.1	1YTXD	$ 9.50	$25.96	$16.46	$198	REC Priceout - Page 370
	A6.8.1	1YTXD	$ 1.05	$0.17	-$0.88	($465)	REC Priceout - Page 370
	A6.8.1	1YTXE	$ 8.50	$32.45	$23.95	$3,777	REC Priceout - Page 370
	A6.8.1	1YTXE	$ 1.10	$0.45	-$0.65	($15,561)	REC Priceout - Page 370
	A6.8.1	COMMMU	$ -	$0.00	$0.00	$56,049	REC Priceout - Page 370
	A6.8.1	P4TRX	$ -	$6.59	$6.59	$549,960	REC Priceout - Page 370
	A6.8.1R	TRANDSW	$0.006750	$0.005000	-$0.001750	($715,949)	REC Priceout - Page 371
	A6.8.1R	TAND 0-8	$0.000431	$0.000199	-$0.000232	($29,974)	REC Priceout - Page 371
	A6.8.1R	TAND 0-8	$0.000024	$0.000020	-$0.000004	($2,843)	REC Priceout - Page 371
	A6.8.1R	TAND 8-25	$0.000480	$0.000255	-$0.000225	($43,356)	REC Priceout - Page 371
	A6.8.1R	TAND 8-25	$0.000025	$0.000023	-$0.000002	($5,533)	REC Priceout - Page 371
	A6.8.1R	TAND 25-50	$0.000490	$0.000263	-$0.000227	($20,003)	REC Priceout - Page 371
	A6.8.1R	TAND 25-50	$0.000025	$0.000023	-$0.000002	($6,261)	REC Priceout - Page 371
	A6.8.1R	TAND 50+	$0.000551	$0.000265	-$0.000286	($57,885)	REC Priceout - Page 371
	A6.8.1R	TAND 50+	$0.000027	$0.000023	-$0.000004	($75,244)	REC Priceout - Page 371
Local Switching	A6.8.2	ENDOFC	$ -	$0.0013	$0.0013	$531,847	REC Priceout - Page 372
	A6.8.2	P4TWX	$ -	$9.01	$9.01	$996,309	REC Priceout - Page 372
Interconnection Charge	A6.8.4	INTERCON	$ 0.006212	$ 0.002450	$ (0.003762)	($5,000,542)	REC Priceout - Page 375
Wholesale Directory Assistance	A9.6R	DA	$ 0.2255	$ 0.3544	$ 0.1289	$5,224	REC Priceout - Page 377
Private Line Service						$13,697,701	See Appendix A
TOTAL						$17,399,740	

ELEMENT/SERVICE		USOC	PRESENT PRICE	PROPOSED PRICE	DIFFERENCE	ANNUAL REV. EFF.
Analog						
NETWORK ACCESS CHANNEL (NAC)						
2-WIRE		1DC2X	11.50	29.10	17.60	7,016,820
4-WIRE		1DC4X	23.00	58.20	35.20	2,943,248
	NAC ANNUAL REVENUE EFFECT					$9,960,068
CHANNEL PERFORMANCE						
LOW SPEED DATA						
(END-LINK/MID-LINK)	No Qtys, Eliminate					
LS1	No Qtys, Eliminate	PCW3X	5.00	13.50	8.50	
LS2	No Qtys, Eliminate	PCW4X	16.00	16.00		
MT3	No Qtys, Eliminate	PJWAX	1.50	7.00	5.50	
TG1	No Qtys, Eliminate	PCW5X	30.00	30.00		
TG2	No Qtys, Eliminate	PCW6X	35.00	35.00		
(END-TO-END)						
LS31 MCCULLOH		PCWTX	4.62	7.50	2.88	33,132
VOICE GRADE						
(END-LINK/MID-LINK)						
VG1	No Qtys, Eliminate					
NO SIGNALING	No Qtys, Eliminate	PCWEX	7.50	9.00	1.50	
LOOP START	No Qtys, Eliminate	PCWYX	18.70	18.70		
GROUND START	No Qtys, Eliminate	PCWJX	14.70	14.70		
VG2						
NO SIGNALING		PCWEX	8.05	14.00	5.95	3,998
LOOP START - LS		PJWHX	11.50	16.00	4.50	3,726
MANUAL RINGDOWN		PCWFX	23.69	27.00	3.31	
AUTO RINGDOWN		PCWGX	13.00	18.00	5.00	300
CODE-SELECT		PCWHX	10.50	24.00	13.50	
VG3						
E & M SIGNALING		PCWKX	21.50	23.50	2.00	240
TYPE - DX		PJWOX	15.10	18.00	2.90	
TYPE - DY		PJWPX	13.90	18.00	4.10	

ELEMENT/SERVICE		USOC	PRESENT PRICE	PROPOSED PRICE	DIFFERENCE	ANNUAL REV. EFF.
VG5						
NO SIGNALING		PCWEX	5.18	13.75	8.57	
VG7						
NO SIGNALING		PCWEX	9.50	13.25	3.75	
LOOP START -						
- LC		PCWCX	24.50	13.00	-11.50	
- LO		PJWCX	11.60	13.00	1.40	
- LS		PJWHX	14.00	13.00	-1.00	
GROUND START		PCWJX	12.70	11.00	-1.70	
E&M SIGNALING		PCWKX	17.40	25.50	8.10	
SF SIGNALING		PCWZX	22.10	16.00	-6.10	
TYPE - DX		PJWOX	12.75	18.00	5.25	
TYPE - DY		PJWPX	12.75	18.00	5.25	
VG8	No Qtys, Eliminate					
LOOP START	No Qtys, Eliminate	PCWYX	27.50	29.00	1.50	
E&M SIGNALING	No Qtys, Eliminate	PCWKX	18.60	25.00	6.40	
SF SIGNALING	No Qtys, Eliminate	PCWZX	17.50	22.00	4.50	
VG-9	No Qtys, Eliminate					
NO SIGNALING	No Qtys, Eliminate	PCWEX	6.90	15.00	8.10	
E&M SIGNALING	No Qtys, Eliminate	PCWKX	20.13	25.00	4.87	
SF SIGNALING	No Qtys, Eliminate	PCWZX	17.50	22.00	4.50	
VG10						
NO SIGNALING		PCWEX	4.65	11.50	6.85	164
DATA STREAM		PCWLX	21.00	18.25	-2.75	-363
(END-TO-END)						
VG32						
NO SIGNALING		PCWEX	8.05	9.20	1.15	34,286
LOOP START- LO		PJWCX	10.00	10.20	0.20	479
VG33						
NO SIGNALING		PCWEX	9.50	12.00	2.50	835
REV BAT SIG		PCW1X	7.90	7.25	-0.65	

ELEMENT/SERVICE	USOC	PRESENT PRICE	PROPOSED PRICE	DIFFERENCE	ANNUAL REV. EFF.
VOICE GRADE BASIC					
NO SIGNALING	PCWEX	3.00	10.50	7.50	1,065
LOCAL AREA DATA SERVICE (LADS)					
NO SIGNALING	PCWXX	5.45	25.00	19.55	84,515
(DSAS) DATAPHONE SELECT-A-STATION					
END TO END	PJW7X	14.00	18.00	4.00	15,028
END LINK MID LINK	PJW7X	14.20	18.00	3.80	
AUDIO					
(END-LINK/MID-LINK) No Qtys, Eliminate					
AP1 No Qtys, Eliminate	PJW1X	3.25	12.00	8.75	
AP2 No Qtys, Eliminate	PJW2X	13.26	16.00	2.74	
AP3 No Qtys, Eliminate	PJW3X	15.40	18.00	2.60	
AP4 No Qtys, Eliminate	PJWBX	26.20	26.20		
(END-TO-END)					
AP31	PCWNX	3.25	12.00	8.75	1,155
AP32	PCWOX	13.26	16.00	2.74	181
AP33	PCWQX	15.40	18.00	2.60	
AP34	PJW5X	26.20	26.20		
FCO					
LOOP ST	PJWFX	8.48	12.00	3.52	299,154
GR ST	PJWMX	8.48	12.00	3.52	154,232
REV BAT	PJWZX	19.25	12.00	-7.25	-24,954
EXCHANGE SERVICE EXTNS	PJWGX	6.50	10.25	3.75	64,819
TAS	PJWJX	5.85	10.25	4.40	16,496
CHANNEL PERFORMANCE ANNUAL REVENUE EFFECT					688,488

ELEMENT/SERVICE		USOC	PRESENT PRICE	PROPOSED PRICE	DIFFERENCE	ANNUAL REV. EFF.
TRANSPORT MILEAGE						
	Fixed-Over 0 to 8	FQYX1	17.00	25.00	8.00	1,179,679
	Fixed-Over 8 to 25	FQYX2	17.00	25.00	8.00	736,403
	Fixed-Over 25 to 50	FQYX3	17.00	25.00	8.00	105,459
	Fixed-Over 50	FQYX4	17.00	25.00	8.00	102,398
	Per Mi.-Over 0 to 8	3LBXA	1.00	1.25	0.25	193,195
	Per Mi.-Over 8 to 25	3LBXB	1.10	1.35	0.25	309,013
	Per Mi.-Over 50	3LBXD	1.45	1.55	0.10	103,137
AUDIO						
AP 1 OR AP 31	Fixed-Over 0 to 8	FQYX1	17.00	25.00	8.00	264
	Fixed-Over 8 to 25	FQYX2	17.00	25.00	8.00	
	Fixed-Over 25 to 50	FQYX3	17.00	25.00	8.00	
	Fixed-Over 50	FQYX4	17.00	25.00	8.00	
	Per Mi.-Over 0 to 8	3LBXA	1.00	1.25	0.25	50
	Per Mi.-Over 8 to 25	3LBXB	1.10	1.35	0.25	
	Per Mi.-Over 50	3LBXD	1.45	1.55	0.10	
AP 2 OR AP32	Fixed-Over 0 to 8	FQYX1	34.00	44.00	10.00	
	Fixed-Over 8 to 25	FQYX2	34.00	44.00	10.00	
	Fixed-Over 25 to 50	FQYX3	34.00	44.00	10.00	
	Fixed-Over 50	FQYX4	34.00	44.00	10.00	
	Per Mi.-Over 0 to 8	3LBXA	1.00	3.35	2.35	
	Per Mi.-Over 8 to 25	3LBXB	1.10	3.55	2.45	
	Per Mi.-Over 25 to 50	3LBXC	1.45	3.75	2.30	
	Per Mi.-Over 50	3LBXD	1.45	3.95	2.50	
AP3 OR AP 33	Fixed-Over 0 to 8	FQYX1	51.00	65.00	14.00	
	Fixed-Over 8 to 25	FQYX2	51.00	65.00	14.00	
	Fixed-Over 25 to 50	FQYX3	51.00	65.00	14.00	
	Fixed-Over 50	FQYX4	51.00	65.00	14.00	
	Per Mi.-Over 0 to 8	3LBXA	1.00	3.75	2.75	
	Per Mi.-Over 8 to 25	3LBXB	1.10	4.05	2.95	
	Per Mi.-Over 25 to 50	3LBXC	1.45	4.35	2.90	
	Per Mi.-Over 50	3LBXD	1.45	4.65	3.20	

ELEMENT/SERVICE		USOC	PRESENT PRICE	PROPOSED PRICE	DIFFERENCE	ANNUAL REV. EFF.
AP4 OR AP 34	Fixed-Over 0 to 8	FQYX1	112.00	125.00	13.00	
	Fixed-Over 8 to 25	FQYX2	112.00	125.00	13.00	
	Fixed-Over 25 to 50	FQYX3	112.00	125.00	13.00	
	Fixed-Over 50	FQYX4	112.00	125.00	13.00	
	Per Mi.-Over 0 to 8	3LBXA	1.00	5.00	4.00	
	Per Mi.-Over 8 to 25	3LBXB	1.10	5.40	4.30	
	Per Mi.-Over 25 to 50	3LBXC	1.45	5.80	4.35	
	Per Mi.-Over 50	3LBXD	1.45	6.20	4.75	
TRANSPORT MILEAGE ANNUAL REVENUE EFFECT						2,729,596
OPTIONAL FEATURES AND FUNCTIONS						
LOW SPEED DATA						
	TELEGRAPH BRIDGING					
	0 TO 75 BAUD	B5NJF	4.60	23.00	18.40	80,758
	0 TO 150 BAUD	B5NKF	47.00	68.00	21.00	
	DIRECT BRIDGING	BMW	2.85	3.25	0.40	88
VOICE GRADE						
	BRIDGE LIFTER	BLBV2	1.00	2.00	1.00	165
	SPLIT FREQ BRDGNG					
	TWO-WIRE	B5NVB	3.60	10.00	6.40	
	FOUR-WIRE	B5NVC	12.20	12.20		
	PASSIVE BRIDGING	B5NVP	5.25	7.00	1.75	110
	SUMMATION BRIDGIN	B5NVS	5.85	10.00	4.15	

ELEMENT/SERVICE		USOC	PRESENT PRICE	PROPOSED PRICE	DIFFERENCE	ANNUAL REV. EFF.
CONDITIONING, PER NAC END LINK - MID LINK						
	IMPROVED ATTENUATION DISTORTION	UHW	0.40	0.50	0.10	2
DSAS	2-WIRE BRIDGING	DSK	6.40	7.00	0.60	2,224
AUDIO SERVICE						
	AUDIO BRIDGING					
	AP1/31	BCNPT	4.00	8.00	4.00	
	AP2/32	BCNPT	5.20	10.00	4.80	
	OPTIONAL FEATURES & FUNCTIONS ANNUAL REVENUE EFFECT					83,347
				Analog Subtotal		13,461,499

ELEMENT/SERVICE	USOC	PRESENT PRICE	PROPOSED PRICE	DIFFERENCE	ANNUAL REV. EFF
DDS					
RECURRING:					
NETWORK ACCESS CHANNEL (NAC)					
DDS (4-WIRE)	1DC4X	31.50	70.00	38.50	473,088
CHANNEL PERFORMANCE					
(END-LINK/MID-LINK)					
2.4 kbit/s	PJWQX	46.00	50.00	4.00	
4.8 kbit/s	PJWRX	46.00	50.00	4.00	
9.6 kbit/s	PJWSX	62.00	60.00	-2.00	-168
19.2 kbit/s	PMW7X	71.00	60.00	-11.00	
56 kbit/s	PJWTX	80.00	70.00	-10.00	-6,120
64 kbit/s	PM2LX	80.00	70.00	-10.00	
(END-TO-END)					
2.4 kbit/s	PJWUX	46.00	50.00	4.00	
4.8 kbit/s	PJWVX	46.00	50.00	4.00	384
9.6 kbit/s	PJWWX	62.00	60.00	-2.00	-3,024
19.2 kbit/s	PMW8X	71.00	60.00	-11.00	-5,148
56 kbit/s	PJWYX	80.00	70.00	-10.00	-95,040
64 kbit/s	PM2KX	80.00	70.00	-10.00	-120
CHANNEL PERFORMANCE SUBTOTAL					-109,236
TRANSPORT MILEAGE					
PRESENT:					
FIXED-LESS THAN 1 MILE					
2.4 kbit/s	XUQ1X	15.00		-15.00	
4.8 kbit/s	XUQ1X	20.00		-20.00	
9.6 kbit/s	XUQ1X	30.00		-30.00	-2,520
19.2 kbit/s	XUQ1X	40.00		-40.00	-960
56 kbit/s	XUQ1X	45.00		-45.00	-12,960
64 kbit/s	XUQ1X	50.00		-50.00	
FIXED-1 THRU 25 MILES					
2.4 kbit/s	XUQ2X	55.00		-55.00	
4.8 kbit/s	XUQ2X	55.00		-55.00	-1,320
9.6 kbit/s	XUQ2X	65.00		-65.00	-40,560
19.2 kbit/s	XUQ2X	90.00		-90.00	-14,040
56 kbit/s	XUQ2X	110.00		-110.00	-360,360
64 kbit/s	XUQ2X	110.00		-110.00	

ELEMENT/SERVICE	USOC	PRESENT PRICE	PROPOSED PRICE	DIFFERENCE	ANNUAL REV. EFF.
FIXED-OVER 25 MILES					
2.4 kbit/s	XUQ3X	60.00		-60.00	
4.8 kbit/s	XUQ3X	60.00		-60.00	-4,320
9.6 kbit/s	XUQ3X	80.00		-80.00	-6,720
19.2 kbit/s	XUQ3X	100.00		-100.00	-20,400
56 kbit/s	XUQ3X	110.00		-110.00	-212,520
64 kbit/s	XUQ3X	120.00		-120.00	-1,440
PER MI-1 THRU 25 MILES					
2.4 kbit/s	1LNP/42	0.78		-0.78	
4.8 kbit/s	1LNP/42	1.11		-1.11	-986
9.6 kbit/s	1LNP/42	1.20		-1.20	-5,645
19.2 kbit/s	1LNP/42	1.20		-1.20	-2,650
56 kbit/s	1LNP/42	1.20		-1.20	-48,802
64 kbit/s	1LNP/42	1.20		-1.20	
PER MI-OVER 25 MILES					
2.4 kbit/s	1LNP/43	0.95		-0.95	
4.8 kbit/s	1LNP/43	0.95		-0.95	-3,659
9.6 kbit/s	1LNP/43	0.95		-0.95	-9,952
19.2 kbit/s	1LNP/43	0.95		-0.95	-13,087
56 kbit/s	1LNP/43	0.95		-0.95	-68,309
64 kbit/s	1LNP/43	0.95		-0.95	-445
PROPOSED, ALL SPEEDS (QUANTITIES DIVIDED AMONG PROPOSED MILEAGE BANDS)					
FIXED-OVER 0 TO 8 MILES	FQYX1		70.00	70.00	142,800
FIXED-OVER 8 TO 25 MILES	FQYX2		70.00	70.00	142,800
FIXED-OVER 25 TO 50 MILES	FQYX3		70.00	70.00	112,896
FIXED-OVER 50 MILES	FQYX4		70.00	70.00	48,384
PER MILE-OVER 0 TO 8 MILES	3LBXA		1.25	1.25	30,293
PER MILE-OVER 8 TO 25 MILES	3LBXB		1.50	1.50	36,351
PER MILE-OVER 25 TO 50 MILES	3LBXC		1.75	1.75	105,500
PER MILE-OVER 50 MILES	3LBXD		2.00	2.00	80,381
					-132,250
					231,602

ELEMENT/SERVICE	USOC	PRESENT PRICE	PROPOSED PRICE	DIFFERENCE	ANNUAL REV. EFF.
NONRECURRING:					
SERVICE PROVISIONING					
INITIAL	SCH		240.00	240.00	36,950
SUBSEQUENT	SCHAX		170.00	170.00	408
CHANNEL PERFORMANCE					
END TO END					
2.4 KBPS	PJWUX	370.50	105.00	-265.50	
4.8 KBPS	PJWVX	370.50	105.00	-265.50	-191
9.6 KBPS (DIGICOM I)	PJWWX	370.50	105.00	-265.50	-1,051
9.6 KBPS (DIGICOM II	PJWWX	345.50	105.00	-240.50	-1,443
19.2 KBPS (DIGICOM I	PMW8X	370.50	105.00	-265.50	-797
56 KBPS (DIGICOM I)	PJWYX	370.50	105.00	-265.50	-2,899
56 KBPS (DIGICOM II)	PJWYX	345.50	105.00	-240.50	-6,407
64 KBPS	PM2KX	345.50	105.00	-240.50	
END LINK - MID LINK					
56 KBPS (DIGICOM II)	PJWTX	345.50	105.00	-240.50	-19,971
					4,599
				DDS Subtotal	236,201
			Total Analog + DDS		13,697,701

Exhibit C

PROPOSED SETTLEMENT

TIMCODES
1999 TEST YEAR

BASKET 1 – Non-Wholesale, Non Flexibly Priced Services

TIMCODE	TARIFF DESCRIPTION
E5.1.6	LOCAL SERVICE INCREMENTS BUS
E5.2.1	MEASURED SERVICE
E5.2.2	LOW USE OPTION SERVICE
E5.2.4	FLAT RATE SERVICE BUS
E5.2.4	FLAT RATE SERVICE BUS ZONE INCREMENT SHIFT
E5.2.4	FLAT RATE SERVICE RES
E5.2.4	FLAT RATE SERVICE RES ZONE INCREMENT SHIFT
E5.2.5.A	SERVICE STATIONS BUS
E5.2.5.A	SERVICE STATIONS RES
E5.2.5.D	SECRETARIAL ANSWERING SERVICE
E5.2.5.E	STAND-BY LINE SERVICE
E5.2.8	HOME BUSINESS LINE (HBL) SERVICE
E5.3.4	DIRECT-INWARD-DIALING (DID) SERVICE
E5.4.3	CUSTOM CALLING SERVICES
E5.4.4	MARKET EXPANSION LINE (MEL) SERVICE
E5.4.5	BASIC EXCHANGE ENHANCEMENT
E5.4.8	OPEN SWITCH INTERVAL PROTECTION (OSIP)
E5.4.9	CALLER IDENTIFICATION - BULK
E5.4.10	US WEST CUSTOM RINGING SERVICE
E5.4.11	HUNTING SERVICE
E5.4.15	SINGLENUMBER SERVICE
E5.4.16	U S WEST FINDME SERVICE
E5.6	JOINT USER SERVICE
E5.7.1	LISTING SERVICES
E5.7.7	U S WEST CUSTOM NUMBER SERVICE
E5.2.6	TELEPHONE ASSISTANCE PROGRAMS
E5.3.3	FLAT RATE TRUNKS
E5.2.4	FLAT RATE RES - ADDITIONAL LINE
E5.2.4	FLAT RATE RES - ADDITIONAL LINE ZONE INCREMENT SHIFT
E5.2.4	FLAT RATE BUS - ADDITIONAL LINE
E5.2.4	FLAT RATE BUS - ADDITIONAL LINE ZONE INCREMENT SHIFT
E5.9.1	PACKAGES ACCOCIATED WITH BASIC EXCHANGE SERVICE
E5.9.2	PACKAGES NOT ASSOCIATED WITH BASIC EXCHANGE SERVICE
E5.10	RESALE/SHARING OF COMPANY SERVICES
E9.2.1	UNIVERSAL EMERGENCY NUMBER SERVICE-911
E9.2.5	EMERGENCY TRANSPORT BACKUP (ETB)
E9.4.4	UNIFORM CALL DISTRIBUTION
E10.3.2	CENTRAL OFFICE MAKE BUSY/STOP HUNT
E10.4.1	CUSTOMNET SERVICE
E10.4.3	BILLED NUMBER SCREENING (BNS)
E10.5.2	CODE BILLING
E10.10.1	MESSAGE DELIVERY SERVICE
E10.10.2	MESSAGE WAITING INDICATION
E10.10.8	DISASTER RECOVERY SERVICES
E10.4.4	TOLL RESTRICTION
E10.4.5	SCOOPLINE SERVICE ACCESS RESTRICTION

~~Intra LATA call~~

Hardcap features

Exhibit C

PROPOSED SETTLEMENT

TIMCODES
1999 TEST YEAR

BASKET 1 -- Non-Wholesale, Non Flexibly Priced Services

TIMCODE	TARIFF DESCRIPTION
E10.4.6	900 SERVICE ACCESS RESTRICTION
E10.4.7	BLOCKING FOR 10XXX1+/10XXX011+
E105.10	RESALE/SHARING OF COMPANY SERVICES
E15.1	DIGITAL SWITCHED SERVICES (DSS)
E15.3	UNIFORM ACCESS SOLUTION SERVICE
E105.10R	RESALE/SHARING OF COMPANY SERVICES
E25.1	CUSTOMIZED SERVICES OF EQUIPMENT OR SERVICE ARRANGEME
E105.3.4	DIRECT-INWARD-DIALING (DID) SERVICE
E105.3.5	IDENTIFIED OUTWARD DIALING (IOD)
E105.4.3	CUSTOM CALLING SERVICES
E105.4.14	CUSTOM SOLUTIONS
E105.4.15	SINGLENUMBER SERVICE
E105.4.17	SELECT CALL ROUTING SERVICE
E105.7.1	LISTING SERVICES
E109.1.2	ELECTRONIC SWITCHING SYSTEM (ESS) SERVICE
E109.1.6	AIRPORT INTERCOMMUNICATING SERVICE
E109.1.10	OPTIONAL FEATURES
E109.2.3	EMERGENCY ALARM AND REPORTING SERVICE
E110.3.1	ARRANGEMENTS FOR NIGHT
E110.4.2	TOLL DIVERSION
E110.8	NETWORK CONNECTING ARRANGEMENTS
E120.5	800 PAGELINE SERVICE
E125.1	CUSTOMIZED SERVICES OF EQUIPMENT OR SERVICE ARRANGEME

Exhibit D

PROPOSED SETTLEMENT

TIMCODES
1999 TEST YEAR

BASKET 2 – Wholesale Services

TIMCODE	TARIFF DESCRIPTION
A3.8R	CARRIER COMMON LINE ACCESS SERVICE
E5.4.13	ANSWER SUPERVISION - LINE SIDE
E5.5.7	PUBLIC ACCESS LINE SERVICE (PAL)
A6.8.1	SWITCHED TRANSPORT
A6.8.2	LOCAL SWITCHING
A6.8.3R	MESSAGE UNIT CREDIT
A6.8.4	INTERCONNECTION CHARGE
A6.8.5R	EQUAL ACCESS AND NETWORK RECONFIGURATION
A9.6R	DIRECTORY ASSISTANCE SERVICE (WHOLESALE)
A12.3.3	ACCESS TESTING SERVICES
A15.8	COMMON CHANNEL SIGNALING NETWORK
E20.1	INTERCONNECTION
E20.3	WIDE AREA CALLING SERVICE
E20.4	500 ACCESS SERVICE
E20.6	INTERCONNECTION FOR TYPE 2

Exhibit E

PROPOSED SETTLEMENT

TIMCODES
1999 TEST YEAR

BASKET 3 -- Flexibly Priced Services	
TIMCODE	TARIFF DESCRIPTION
E5.7.2	DIRECTORY ASSISTANCE SERVICE
E14.2.1	SINGLE LINE ISDN SERVICE
E14.3.1	PRIMARY RATE SERVICE
E14.4	INDIVIDUAL CASE ISDN SERVICE
E15.3	UNIFORM ACCESS SOLUTION SERVICE (CONTRACT BILLED)
E15.4	INTEGRATED T-1 SERVICE
C5.4.7	INTRACALL SERVICE
C6.2.1	TWO-POINT MESSAGE TELECOMMUNICATION SERVICE
C6.2.3	1-800 U S WEST CALLING SERVICE
C6.2.4	DIRECTORY ASSISTANCE SERVICE
C6.2.6	U S WEST COMPLETE-A-CALL SERVICE
C6.2.8	OPERATOR VERIFICATION/INTERRUPT SERVICE
C6.3.1	METROPOLITAN PREFERRED AREA CALLING SERVICE
C6.3.14	VOLUMN DISCOUNT
C6.3.17	GUARANTEED RATE CALLING CONNECTION
C6.3.18	CALLING CONNECTION PLANS
C7.1.1	OUTWARD WATS
C7.1.2	800 SERVICE
C7.1.3	800 SERVICELINE OPTION
C7.1.5R	LARGE USER DISCT-OUTWARD WATS
C9.1.7	CUSTOMIZED CALL MANAGEMENT SERVICES/CENTRON I SERVICE
C9.1.10	OPTIONAL SERVICE FEATURES
C9.1.13	CENTRON CUSTOM SERVICE
C9.1.16	CENTREX PLUS SERVICE
C9.1.17	CENTREX 21 SERVICE
C9.1.18	CENTREX PRIME SERVICE
C9.4.5	CENTRAL OFFICE - AUTOMATIC CALL DISTRIBUTION (CO-ACD)
C9.5.3	SCOOPLINE SERVICE (SLS)
C9.8.2	SCAN-ALERT SERVICE
C10.10.4	TRAFFIC DATA REPORT SERVICE (TDRS)
C10.14.1	CALL DATA COLLECTION AND TRANSMISSION SERVICE
C10.14.2	TRACKLINE PLUS SERVICE
C13.3	RESIDENCE PREMISES WIRE MAINTENANCE
C13.4	UNISTAR SERVICE/U S WEST REPAIR COORDINATION SERVICE
C15.2	SWITCHNET 56 SERVICE
C106.2.5	SPECIAL REVERSED CHARGE LONG DISTANCE SERVICE
C106.3.1	METROPOLITAN PREFERRED AREA CALLING SERVICE
C109.1.7	CUSTOMIZED CALL MANAGEMENT SERVICES/CENTRON I SERVICE
C109.1.12	CENTRON 6 AND CENTRON 30 SERVICE
C109.1.16	CENTREX PLUS SERVICE
E109.1.1	CENTREX SERVICE
K9.8.1	VERSANET SERVICE
K10.12.1	RESIDENCE VOICE MESSAGING SERVICE
K10.12.2	BUSINESS VOICE MESSAGING SERVICE
Q4.3.2	FACILITIES PROTECTION-SPECIAL FAC ROUTING
Q4.4	PROTECTION SERVICE FOR HIGH VOLTAGE ENVIRONMENTS
Q4.5	COMMAN A LINK - NETWORK RECONFIGURATION SERVICE
Q4.6	TELECOMMUNICATION SERVICE PRIORITY (TSP) SYSTEM
Q5.1.4	RATE STABILIZED AND DISCOUNT PRICING
Q5.3	CUSTOM SERVICE ARRANGEMENTS
Q6.2.1	LOW-SPEED DATA SERVICE
Q6.2.2	VOICE GRADE SERVICE
Q6.2.4	LOCAL AREA DATA SERVICE (LADS)
Q6.2.5	AUDIO SERVICE
Q6.2.6	FOREIGN EXCHANGE SERVICE
Q6.2.7	FOREIGN CENTRAL OFFICE SERVICE
Q6.2.8	EXCHANGE SERVCIE EXTENSIONS
Q6.2.9	TELEPHONE ANSWERING SERVICE
Q6.2.10	DIGICOM I
Q6.2.11	DIGICOM II
Q6.2.12	SIMULTANEOUS VOICE DATA SERVICE
Q6.2.13	U S WEST DS1 SERVICE
Q6.2.14	U S WEST DS3 SERVICE
Q6.2.15	SELF-HEALING NETWORK SERVICE (SHNS)
Q7.9.1	SWITCHED TRANSPORT

Toll Features

Exhibit E

PROPOSED SETTLEMENT

TIMCODES
1999 TEST YEAR

BASKET 3 – Flexibly Priced Services

TIMCODE	TARIFF DESCRIPTION
Q15.8	COMMON CHANNEL SIGNALING NETWORK (DS1 & DS3)
Q21.4.1	SWITCHED ACCESS SERVICE (DS1 & DS3)
Q105.2.2	SERIES 5000 CHANNELS
Q105.2.3	DATAPHONE SELECT-A-STATION(DSAS)
Q105.2.4	LOCAL AREA DATA SERVICE (LADS)
Q105.2.9	TELEPHONE ANSWERING SERVICE
Q105.2.10	DATAPHONE DIGITAL SERVICE
Q105.2.13	U S WEST DS1 SERVICE
ACS104R	TRANSPARENT LAN SERVICE
ACS5R	ADVANCED COMMUNICATION SERVICE FRAME RELAY
ACS7R	ATM CELL RELAY SERVICE
ACS8.5.1	MEGASUBSCRIBER SERVICES
ACS8R	MEGABIT SERVICES
ACS9R	LAN SWITCHING SERVICE
SPEC.ASSM	SPECIAL ASSEMBLY NOT TARIFFED

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, AND TO APPPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN.	)	**DOCKET NO. T-01051B-99-0105**
	)	**AFFIDAVIT OF MAUREEN ARNOLD**
	) :	**ss**
STATE OF ARIZONA	)	
COUNTY OF MARICOPA	)	

Maureen Arnold, of lawful age being first duly sworn, depose and states:

1. My name is Maureen Arnold. I am Director – Regulatory Matters for Qwest Corporation in Phoenix, Arizona. I have caused to be filed written testimony and exhibits in support of settlement in Docket No. T-01051B-99-0105.

2. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Further affiant sayeth not.

Maureen Arnold

Maureen Arnold

SUBSCRIBED AND SWORN to before me this 27th day of October, 2000.

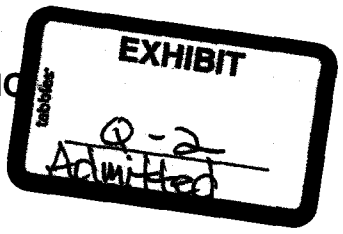
Josie Maldonado

Notary Public

My Commission Expires: 9-18-04

"OFFICIAL SEAL"
Josie Maldonado
Notary Public-Arizona
Maricopa County
My Commission Expires 9/18/2004

BEFORE THE ARIZONA CORPORATION COMMISSION



IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN	)	DOCKET NO. T-01051B-99-0105

REBUTTAL TESTIMONY

OF

MAUREEN ARNOLD

ON BEHALF OF

QWEST CORPORATION

NOVEMBER 20, 2000

REBUTTAL TESTIMONY OF MAUREEN ARNOLD
INDEX OF TESTIMONY

IDENTIFICATION OF WITNESS 1

PURPOSE OF TESTIMONY 1

SETTLEMENT AGREEMENT ISSUES 4

CONCLUSION 9

IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.

A. My name is Maureen Arnold. My business address is 3033 N. 3rd Street, Phoenix, Arizona.

Q. DID YOU PREVIOUSLY FILE DIRECT TESTIMONY IN SUPPORT OF THE PROPOSED SETTLEMENT BETWEEN STAFF AND QWEST?

A. Yes.

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR REBUTTALTESTIMONY?

A. The purpose of my rebuttal testimony is to address and clarify issues pertaining to the settlement agreement, which have been raised by witnesses who filed testimony in opposition to the agreement. Specifically, I will rebut portions of the testimony of Dr. Lee Selwyn, Ms. Arleen Starr, Dr. Ben Johnson, Dr. Francis Collins, and Mr. Al Sterman. George Redding is filing rebuttal testimony which addresses the accounting and productivity issues raised by Dr. Lee Selwyn and Ms. Susan Gately on behalf of AT&T, and Dr. Ben Johnson and Mr. Ralph Smith on behalf of RUCO. Scott McIntyre's rebuttal testimony addresses the testimony of Dr. Lee Selwyn, Ms. Arleen Starr, and Dr. Francis Collins regarding switched access rates. Finally, David Teitzel's testimony rebuts issues raised

by Dr. Selwyn, Dr. Johnson, and Dr. Collins with respect to the allocation of services to appropriate baskets, competitive classification of services, and imputation of wholesale elements into retail service prices.

Q. WILL YOU ADDRESS ALL OF THE ISSUES RAISED BY OPPOSING PARTIES IN THIS DOCKET?

A. No. Several of the witnesses have gone beyond the scope of the procedural order, which limited testimony and cross examination to "those areas filed as specific disagreements/testimony/comments."

Q. IN GENERAL TERMS, HOW WOULD YOU CHARACTERIZE THE TESTIMONY FILED BY THE VARIOUS PARTIES WHO OPPOSE THE SETTLEMENT AGREEMENT?

A. The testimony of most of the parties who oppose the agreement focuses on self-interest, rather than the public interest. For instance, AT&T and RUCO would like to see rates go down. COX and AT&T are opposed to allowing Qwest to enjoy any of the competitive freedoms that they currently enjoy. Just because the settlement agreement may not include all of a given party's wish list, does not mean that it is not in the public interest.

Parties opposing the agreement make arguments against specific provisions of the plan, such as the productivity factor or how many baskets there are, without

recognizing that each element is part of a comprehensive settlement of numerous issues. These arguments may be appropriate when individual issues are litigated, but should be given the appropriate weight in the context of a negotiated settlement of numerous contested issues. The Settlement Agreement, as currently constructed, constitutes a reasonable compromise of the contested issues in this case and is, therefore, in the public interest. It is also noteworthy that the Department of Defense has recognized that the settlement is in the public interest, even though the agreement does not go as far as they argued in their earlier testimony. (See testimony of Richard Lee on behalf of the Department of Defense.) The Communications Workers of America (CWA) supports the agreement and it is my understanding that the Arizona Payphone Association (APA) also supports the agreement and is planning on filing testimony to that effect. Of the nine active participants in this docket (those who have or will file testimony in one or more phases), a majority fully agree that this settlement is in the public interest. Further, although it has presented other arguments against the agreement, COX has gone on record stating that the three year term of the plan, the 4.2% productivity factor, the use of GDP-PI for the inflation index, the service quality measures, a fair value return on rate base of 9.61%, and the price cap formula are "within the bounds of reasonableness for use in a 'settlement' approach."[1]

[1] See Testimony of Dr. Francis R. Collins, November 13, 2000, page 7.

SETTLEMENT AGREEMENT ISSUES

Q. ON PAGE 26 OF HIS TESTIMONY, DR. JOHNSON STATES THAT "IT IS UNCLEAR WHAT WOULD RULE AFTER THREE YEARS, IF THE PLAN HAS NOT BEEN FORMALLY EXTENDED OR MODIFIED. QWEST COULD BE FREE TO CHARGE 'WHAT THE MARKET WILL BEAR' FOR BASKET 1 SERVICES." IS THIS A CORRECT STATEMENT?

A. This is not a correct statement. Earlier, on page 20 of his testimony, Dr. Johnson quotes page 6 of the Settlement Agreement, which states:

> "Until the Commission approves the price cap plan, or orders a termination of the Plan after its term, the Plan shall continue in effect."

There is no ambiguity about what happens at the end of the initial three year term of the plan. Quite simply, the hard caps on individual services, as well as the Price Cap Index for Basket 1 services would continue to apply and Qwest would not be free to charge "what the market will bear", as RUCO alleges. Dr. Johnson's criticism that consumers are potentially vulnerable because of this nonexistent uncertainty, is clearly not supported by the language of the Agreement.

Q. WOULD YOU PLEASE ADDRESS THE STATEMENT ON PAGE 6 OF DR. SELWYN'S TESTIMONY WHICH STATES THAT QWEST HAS THE ABILITY TO ASK FOR EXTRA-ORDINARY RELIEF OR A RETURN TO RATE OF RETURN REGULATION SHOULD IT FAIL TO ACHIEVE ADEQUATE EARNINGS?

A. Certainly. Dr. Selwyn is attempting to create the appearance of a disparity in the

relative protection afforded to Qwest versus its customers. Paragraph 7 of the terms of the Agreement specifically prohibits Qwest, or any other party to the agreement, from seeking an adjustment to its rates in the event of an under-earnings situation. Further, there is no guarantee that the Company would be allowed to return to rate of return regulation following the term of the plan even if it so requested. The Agreement provides that the Price Cap Plan can be extended or modified. If neither happens, the Commission determines the appropriate form of regulation for Qwest. Ratepayers have numerous other benefits under the plan that must be taken into consideration as well. These benefits include, among others, hard caps on basic/essential services, inclusion of a .5% consumer productivity dividend, service quality credits, the opportunity for reduced prices when inflation is low, and a reassessment of the productivity factor after 3 years. Qwest views it as a significant concession on its part that it will be prohibited from raising rates in years when inflation exceeds the productivity offset. This demonstrates, once again, the importance of viewing the agreement in its totality instead of trying to fully litigate individual issues on a stand-alone basis.

Q. ON PAGE 35 OF HIS TESTIMONY, DR. SELWYN DISCUSSES SEVERAL CONCERNS HE HAS WITH BASKET 3, SUCH AS THE LACK OF AN IMPUTATION REQUIREMENT AND THE INAPPLICABILITY OF THE PRICE CAP INDEX TO NEW SERVICES. HAS HE PROPERLY INTERPRETED THE SETTLEMENT AGREEMENT IN THIS REGARD?

A. No. The agreement provides that Qwest would be required to follow the Commission's rules on price floors and imputation[2], and sufficient language to that effect is contained within the agreement.[3] David Teitzel's testimony further discusses issues related to imputation. As to the issue of new basket 3 services not being subject to the price cap index, that is simply not true. Paragraph 4.a of the Price Cap Plan states that new services and new service packages will be included in Basket 3. Paragraph 4.b describes the price cap applicable to Basket 3 services. There is nothing in the agreement that would exclude any new service or package from being subject to the price cap index for its associated basket of services.

Q. DO YOU HAVE ANY COMMENTS CONCERNING RUCO WITNESS BEN JOHNSON'S ARGUMENT THAT INITIAL RATES SHOULD DECREASE PRIOR TO ALLOWING QWEST TO UTILIZE PRICING FLEXIBILITY BECAUSE THIS HAS BEEN DONE IN OTHER STATES.

A. Yes. As stated in the Rebuttal Testimony of Qwest witness George Redding, Dr. Johnson's testimony offers no evidence to support this proposal. Further, the point that so many parties seem to be missing is that all of the services to be included in Basket 3 at the beginning of the plan are already flexibly priced today. In this regard, Qwest is not being given any new pricing freedoms. Further, the pricing

[2] See Settlement Agreement, Attachment A, paragraphs 3.g, 2.c.(iv), 4.e, 4.f, and 7.
[3] This applies as well to the testimony of Ms. Arleen Starr, page 10.

flexibility for Basket 1 services is constrained by the fact that the revenues in this basket, excluding changes in demand, cannot increase over the life of the plan. Therefore, Basket 1 pricing flexibility will be limited to either decreases, or revenue neutral changes. Since Qwest already enjoys a considerable degree of pricing flexibility for its Basket 3 services, there is no reason for it to settle for a decrease in revenues simply for the right to continue to utilize that flexibility. The "price of admission" that Dr. Johnson seeks is that the price cap plan imposes tighter constraints on the Company's pricing flexibility than that which currently exists, as well as all of the other consumer benefits that are discussed elsewhere in the testimony presented by Qwest and the Commission Staff.

Q. DO YOU AGREE WITH DR. JOHNSON THAT THE BASKET DETERMINATIONS ARE CONFUSING?

A. No. Dr. Johnson's statement appears to be based on the general language used in the testimony of Staff witness Shooshan to describe each of the baskets. However, Attachments C, D, and E of the settlement agreement give specific details which unambiguously define the services for each basket by specific tariff section. Therefore, the naming and structure of the baskets being proposed cannot be considered a serious deficiency in the Agreement, as alleged by Dr. Johnson.

Q. DO YOU HAVE ANY OBSERVATIONS ABOUT THE COMMENTS FILED BY

MR. ALBERT STERMAN ON BEHALF OF THE ARIZONA CONSUMERS COUNCIL?

A. Yes. Mr. Sterman primarily echoes the sentiments of RUCO with respect to fully litigating all of the issues in the rate case. This has been discussed previously in other portions of my testimony, as well as that of other Qwest and Staff witnesses. Mr. Sterman also makes the statement that consumers will be forced to pay higher prices for services not needed due to bundling and the ability to move services between baskets. This fear is unfounded for several reasons. First, the only way Qwest could move a service completely out of Basket 1 and into Basket 3 would be for it to satisfy the requirements of Section 1108, which would require a showing of competitive alternatives. When this occurs, market forces will constrain Qwest from inappropriately increasing prices. Second, any services from Basket 1 that are part of a new bundle of services must continue to be made available on a stand-alone basis in Basket 1. Therefore, no one will be forced to pay for something they do not want.

Q. ON PAGE 5 OF HIS TESTIMONY, DR. COLLINS TAKES ISSUE WITH THE INCLUSION OF THE "SUPPORT AND DEFEND" PROVISION OF THE SETTLEMENT AGREEMENT, STATING THAT THE CLAUSE IS AMBIGUOUS AND EXPOSES CARRIERS TO FINANCIAL RISK. DO YOU AGREE?

A. No. My understanding of this language is that it would only apply to parties who

sign the agreement. The "Support and Defend" provision of the Settlement Agreement is not ambiguous, but rather a standard provision used when entering into settlement agreements (rate or otherwise). In this case, as applied to signatories other than Qwest and Staff, the obligation is in effect limited to an obligation to not challenge or support a challenge to the settlement.

CONCLUSION

Q. WOULD YOU PLEASE SUMMARIZE YOUR REBUTTAL TESTIMONY?

A. Certainly. Qwest has shown through both its direct and rebuttal testimony in support of the Settlement Agreement that the agreement is in the public interest. The arguments offered by those who oppose the settlement are not substantive and should be disregarded. I would therefore urge the Commission to adopt the proposed settlement.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, AND TO APPPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN.	)	**DOCKET NO. T-01051B-99-0105**
	)	**AFFIDAVIT OF MAUREEN ARNOLD**
STATE OF ARIZONA	)	
COUNTY OF MARICOPA	)	**ss**

Maureen Arnold, of lawful age being first duly sworn, depose and states:

1. My name is Maureen Arnold. I am Director – Regulatory Matters for Qwest Corporation in Phoenix, Arizona. I have caused to be filed written rebuttal testimony in support of settlement in Docket No. T-01051B-99-0105.

2. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Further affiant sayeth not.

Maureen Arnold

Maureen Arnold

SUBSCRIBED AND SWORN to before me this 20h day of November, 2000.

Josie Maldonado

Notary Public

My Commission Expires: 9/18/2004

"OFFICIAL SEAL"
Josie Maldonado
Notary Public-Arizona
Maricopa County
My Commission Expires 9/18/2004

BEFORE THE ARIZONA CORPORATION COMMISSION

EXHIBIT
Q-3
Admitted

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN	)	DOCKET NO. T-01051B-99-0105

TESTIMONY OF

GEORGE REDDING

ON BEHALF OF

QWEST CORPORATION

OCTOBER 27, 2000

Q. PLEASE STATE YOUR NAME, TITLE, EMPLOYER AND ADDRESS.

A. My name is George Redding. I am employed by Qwest Corporation ("Qwest" or the "Company") as a Director - Regulatory Finance. My business address is 1801 California, Denver, Colorado.

Q. PLEASE LIST YOUR QUALIFICATIONS AND EXPERIENCE.

A. I have a Bachelor of Science in Business Administration degree from the University of Montana and a Juris Doctor from the University of Colorado. I hold both a CPA certificate in Montana as well as Membership in the Bar in Colorado. I have worked for Qwest since 1977 and have held a number of positions in Regulatory and Corporate Accounting. I have testified to financial matters before the Arizona Corporation Commission, the New Mexico Public Regulation Commission, the New Mexico State Corporation Commission, the Colorado Public Utility Commission, the Public Service Commission of Utah and the Public Utility Commission of Idaho.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony will support the settlement agreement that has been reached in Docket No. T-1051B-99-105 between the Company and the Staff of the Arizona Corporation Commission ("Staff"). It will address the derivation of the revenue requirement in the settlement and how the settlement satisfies the fair value requirements of the Arizona Constitution.

Q. HAVE THE PARTIES ARRIVED AT A MUTUALLY AGREEABLE REVENUE REQUIREMENT?

A. Yes, we have. We arrived at a revenue requirement by agreeing on the basic elements required under the Arizona Constitution as I understand them from a non-legal perspective. Namely, we have agreed on a fair value rate base, a fair rate of return to be applied to the fair value rate base, the level of income available from current operations and the resulting additional income and revenues required.

Q. WHAT IS THE ADDITIONAL REVENUE REQUIREMENT?

A. It is $42.9M.

Q. WOULD YOU PLEASE ADDRESS THE FAIR VALUE RATE BASE?

A. The fair value rate base has historically been comprised of 50% original cost and 50% Replacement Cost New Less Depreciation ("RCND"). For purposes of this settlement we accepted Staff's derivation of this fair value rate base of $1,445.8M.

Q. DID STAFF USE A DIFFERENT RCND METHODOLOGY THAN THAT USED BY THE COMPANY TO ARRIVE AT THE RCND PORTION OF THE FAIR VALUE RATE BASE?

A. Yes, they did. My Exhibit GR-1 is an affidavit from Nancy Heller-Hughes, the Company's RCND witness in Docket No. T-1051B-99-105. In her affidavit, she acknowledges that the method used by Staff in their RCND calculations is an acceptable and reasonable method. Therefore, the Company agreed to Staff's fair value rate base as being acceptable and fulfilling the requirements, as I understand them, of the Arizona Constitution to arrive at a fair value rate base. Only three parties, the Company, Staff and RUCO submitted fair value rate bases in their testimony. The rate base used for the settlement is the lowest of these three fair value rate bases.

Q. WHAT IS THE NEXT ELEMENT?

A. It is the rate of return to be applied to the fair value rate base. Again, the parties agreed to accept the rate of return used by Staff in their filings in Docket No. T-1051B-99-105.

Q. HOW DID THE PARTIES ARRIVE AT THE INCOME AVAILABLE FROM CURRENT OPERATIONS?

A. Again, this was a product of negotiations. In discussions related to issues, the parties generally followed the disposition of the issues in the last rate case, Docket No. E-1051-93-183. As Mr. Brosch, representing the Staff points out in his testimony, there were several adjustments discussed during the negotiations. They included the adjustments related to capitalized software, overheads

assigned to the sale of exchanges, incentive compensation and out of period wage and salary increases. These adjustments were either not at issue in Qwest's last rate case or contrary to the outcome found by the Commission in the last proceeding. During the negotiations, both sides analyzed their positions relative to these adjustments.

In the end, the parties agreed on two points. First, the parties agreed that the settlement should have no precedential value in any future proceeding. Second, in order to achieve this objective, the parties agreed to an income available from operations that was not based on a compellation of specific adjustments. Rather, it was the product of mutual agreement using the adjusted net operating income shown on the Staff's Schedule A and approximately one half the value of the adjustments described above.

Q. HOW WAS THE ADDITIONAL REVENUE REQUIREMENT CALCULATED?

A. The difference between the total income required derived from application of the rate of return to the fair value rate base and the mutually agreed income available from current operations was calculated and multiplied by the income to revenue multiplier. This yielded the $42.9M additional revenue requirement. This calculation is shown in the table below:

1.	Fair Value Rate Base (Staff, Schedule A)	$1,445.8M
2.	Rate of Return	9.61%
3.	Total Income Required (Ln1*Ln2)	$138.9M
4	Income Available from Current Operations (As Negotiated)	$113.7M
5.	Additional Income Required (Ln3-Ln4)	$25.2M
6.	Income to Revenue Multiplier (Staff Schedule A)	1.6995
7.	Additional Revenue Required (Ln5*Ln6)	$42.9M

Q. DOES THE COMPANY BELIEVE THAT THE SETTLEMENT IS A REASONABLE COMPROMISE OF THE POSITIONS OF THE PARTIES?

A. Yes, it does. Ms. Maureen Arnold discusses the public interest benefits of the settlement, the price cap plan and the impact on the various rates in her testimony. In terms of the revenue requirements advanced by the various parties in this case, the Company and the Staff believe that this settlement is a reasonable compromise of their positions on all of the various elements of the revenue requirement calculation.

Q. DOES THIS COMPLETE YOUR TESTIMONY?

A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN	)	DOCKET NO. T-01051B-99-0105

EXHIBIT OF

GEORGE REDDING

ON BEHALF OF

QWEST CORPORATION

OCTOBER 27, 2000

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, AND TO APPPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN.	)	**DOCKET NO. T-01051B-99-0105**
STATE OF WASHINGTON	)	**AFFIDAVIT OF NANCY HELLER HUGHES**
COUNTY OF KING	)	**ss**

Nancy Heller Hughes, of lawful age being first duly sworn, depose and states:

1. My name is Nancy Heller Hughes. I am a Senior Director of R. W. Beck, Inc., in Seattle, Washington. I have previously filed written direct, supplemental and rejoinder testimony and exhibits in support of Qwest Corporation in Docket No. T-01051B-99-0105 regarding the Reproduction Cost New Less Depreciation (RCNLD) value of Qwest's Arizona plant in service.

2. I have reviewed the direct testimony of William Dunkel filed on behalf of Staff regarding the RCNLD value of Qwest's plant in service as of December 31, 1999.

3. The methods used by Qwest to estimate the RCNLD value and the method used by Staff are both acceptable methodologies to use in calculating the RCNLD value of Qwest's Arizona plant in service.

4. The RCNLD value is a key component used to calculate the fair value rate base.

5. The method used by Staff to calculate the RCNLD value of Qwest's Arizona plant in service as of December 31, 1999 is not unreasonable to use and would satisfy the constitutional requirements of the State of Arizona regarding fair value rate base.

6. I hereby swear and affirm that the statements in this affidavit are true and correct to the best of my knowledge and belief.

Further affiant sayeth not.

Nancy Heller Hughes

SUBSCRIBED AND SWORN to before me this 16 day of October, 2000.

JEANETTE M. RUUD
COMMISSION EXPIRES
NOTARY
PUBLIC
JUNE 19, 2001
STATE OF WASHINGTON

Jeanette M. Ruud
Notary Public residing at
King County, Washington

My Commission Expires: June 19, 2001

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, AND TO APPPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN.	)	DOCKET NO. T-1051B-99-105 AFFIDAVIT OF GEORGE REDDING
STATE OF COLORADO	) :	ss
COUNTY OF DENVER	)	

George Redding, of lawful age being first duly sworn, depose and states:

1. My name is George Redding. I am Director – Regulatory Finance of Qwest Corporation in Denver, Colorado. I have caused to be filed written direct testimony in support of settlement in support of Qwest in Docket No. T-01051B-99-0105

2. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Further affiant sayeth not.

Redding
George Redding

SUBSCRIBED AND SWORN to before me this 26th day of October, 2000.

Maija Beck
Notary Public

NOTARY PUBLIC

My Commission Expires: May 8, 2004

BEFORE THE ARIZONA CORPORATION COMMISSION

EXHIBIT
Q-4
Admitted

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN	)	DOCKET NO. T-01051B-99-0105

REBUTTAL TESTIMONY

OF

GEORGE REDDING

ON BEHALF OF

QWEST CORPORATION

NOVEMBER 20, 2000

REBUTTAL TESTIMONY OF GEORGE REDDING

INDEX OF TESTIMONY

IDENTIFICATION OF WITNESS 1

REBUTTAL OF MR. SMITH (RUCO) 2

REBUTTAL OF MS. GATELY (AT&T) 5

REBUTTAL OF DR. JOHNSON (RUCO) 11

REBUTTAL OF DR. SELWYN (AT&T) 13

IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME, TITLE, EMPLOYER AND ADDRESS.

A. My name is George Redding. I am employed by Qwest Corporation ("Qwest" or the "Company") as a Director - Regulatory Finance. My business address is 1801 California, Denver, Colorado.

Q. ARE YOU THE SAME GEORGE REDDING WHO FILED DIRECT TESTIMONY IN SUPPORT OF THE SETTLEMENT BETWEEN QWEST AND THE STAFF OF THE ARIZONA CORPORATION COMMISSION?

A. Yes, I am.

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. My purpose is to respond to the testimonies—related to the settlement between Staff and Qwest in this proceeding—of Mr. Ralph Smith and Dr. Ben Johnson on behalf of RUCO and of Ms. Susan Gately and Dr. Lee Selwyn on behalf of AT&T. Specifically, I will explain why I believe the arguments these witnesses raise should not cause the Commission to reject the settlement between Staff and Qwest. I will not attempt to respond to all of the arguments raised by these witnesses but will, instead, comment on selected issues which I believe will help inform the

Commission about the settlement and the process used in developing the agreement.

REBUTTAL OF MR. SMITH (RUCO)

Q. AT THE BOTTOM OF PAGE TWO AND THE TOP OF PAGE THREE OF HIS TESTIMONY, MR. SMITH OUTLINES HIS PRESUMPTION REGARDING THE DEVELOPMENT OF THE AGREED REVENUE REQUIREMENT OF $42.9M. HAS HE DESCRIBED THE PROCESS ACCURATELY?

A. No, he has not. The exact process was described on pages two through five of my direct testimony and summarized on page five of my direct. Mr. Brosch described the same process on page four of his direct testimony. This process was further clarified through the answers to interrogatories in RUCO33-01 and RUCO35-01.

As Mr. Brosch's and my testimony explain, Qwest and Staff settled on a revenue requirement by;

1) settling on a number for fair value rate base
2) settling on an authorized rate of return
3) considering the merits of adjustments proposed by the various parties, *including* RUCO and AT&T
4) settling on the total amount of these adjustments
5) settling on an income from operations of $113.7 million
6) deriving the resultant revenue requirement of $42.9 million.

1

2 **Q. AT PAGE TWO OF HIS TESTIMONY, MR. SMITH CLAIMS, "IT DOES**
3 **NOT APPEAR THAT THE REVENUE REQUIREMENT CALCULATIONS**
4 **OF THE OTHER PARTIES, OR THEIR RECOMMENDED**
5 **ADJUSTMENTS, WHICH IN A NUMBER OF INSTANCES WERE**
6 **EITHER DIFFERENT THAN, OR SUPPLEMENTAL TO, STAFF'S RATE**
7 **BASE AND NET OPERATING INCOME ADJUSTMENTS, WERE**
8 **FACTORED INTO THE SETTLEMENT AGREEMENT REVENUE**
9 **REQUIREMENT." IN REACHING SETTLEMENT, DID QWEST**
10 **CONSIDER THE ADJUSTMENTS THAT RUCO AND AT&T**
11 **PROPOSED?**
12 A. Yes. The fact Mr. Brosch's and my testimony do not specifically mention
13 the adjustments proposed by RUCO and AT&T does not indicate such
14 adjustments were disregarded. Staff and Qwest both received copies of
15 all testimony filed by AT&T and RUCO. Staff received copies of all
16 responses Qwest made to AT&T's and RUCO's discovery. Consequently,
17 Staff and Qwest were well aware of the arguments and evidence
18 concerning all of the adjustments that AT&T and RUCO proposed in this
19 matter.
20
21 Qwest considered all of AT&T's and RUCO's proposed adjustments and,
22 in determining the basis upon which it was willing to settle, accorded those

proposals the weight Qwest believed they deserved. I have no reason to believe Staff did anything different.

Mr. Smith, at page three of his testimony, states that RUCO believes that the evidence presented by all of the parties in this proceeding concerning the revenue requirement does not justify a revenue increase for Qwest. The Company disagrees with that opinion. By their nature, settlements are a compromise of contested positions. If Qwest were to continue to litigate this matter, then its position would reflect its opinion about the arguments and evidence. RUCO offers nothing to show that the compromise Staff and Qwest have reached is unreasonable but, instead, merely reiterates its original position regarding the case.

Q. MR. SMITH, AT PAGE FOUR, OBSERVES THAT UNDER THE TERMS OF THE SETTLEMENT, QWEST WOULD HAVE NO OBLIGATION TO REFUND REVENUES IF THE PRICE CAP PLAN IS FOUND TO BE UNLAWFUL. DOES QWEST BELIEVE THAT THIS TERM OF THE SETTLEMENT IS REASONABLE UNDER ARIZONA LAW?

A. It is a reasonable term. As Qwest's answer to RUCO data request 36-11 explains:

> Under Mountain States, Etc. v. Ariz. Corp. Com'n, 124 Ariz. 433, 604 P.2d 1144 (App. 1979), the Arizona Corporation Commission (Commission) retains the discretion to determine whether any

retroactive refund is necessary and appropriate, in cases where utility rates are subsequently invalidated by an appellate court. Under these circumstances, a utility has no automatic obligation to refund customers. In this case, the settlement agreement and price cap plan provide *both rate increases and decreases* to various subscribers. Therefore, there is nothing inappropriate about the Commission agreeing not to issue a refund because the matter is within its discretion and on balance neither a refund or surcharge may be warranted.

Q. MR. SMITH, ON PAGE THREE OF HIS TESTIMONY, STATES THAT THE RUCO WITNESS RECOMMENDED AN 11.5% RETURN ON EQUITY, YET THIS WAS NOT TAKEN INTO CONSIDERATION. DO YOU HAVE ANY COMMENTS?

A. Yes, I do. Qwest accepted Staff's rate of return on equity of 11.75%, which is a lot closer to RUCO's advocated position of 11.5% than it is to Qwest's position of 14%.

REBUTTAL OF MS. GATELY (AT&T)

Q. WOULD YOU NOW PLEASE TURN TO MS. GATELY?

A. Certainly.

Q. MS. GATELY ASSERTS THAT THE METHODOLOGY STAFF AND QWEST EMPLOYED TO SETTLE ON A $42.9 MILLION REVENUE REQUIREMENT WAS ARBITRARY. DO YOU AGREE?

A. No. She mistakenly concludes that Qwest and the Staff just "split the baby" without giving any consideration to the underlying facts. Indeed, she goes so far as to state that the Company and Staff would have just "split the baby" regardless of the underlying facts. Ms. Gately can conclude that the settlement Staff and Qwest reached was arbitrary only by *assuming,* as she does on page four, that "the negotiation did not take into consideration the merits of any of the adjustments proposed by Staff." Nothing in Staff's or Qwest's testimony or responses to data requests supports this assumption. In a leap of logic, Ms. Gately infers from the negotiations' outcome that the settlement process was unreasoned and arbitrary. Nothing supports her inference.

The settlement process was highly contentious and hard fought. The result reflects the parties' view of the strength of the arguments and voluminous testimony and evidence presented in this case, including direct, rebuttal, surrebuttal and rejoinder testimony by over a dozen witnesses representing several different parties. That testimony was developed in the light of multiple rounds of discovery that yielded answers to hundreds of questions. Both parties carefully considered the Commission's position on issues in Qwest's last rate case. The process of reaching a compromise on the many contested positions in this case was carefully considered and far from arbitrary.

Q. MS. GATELY GOES ON TO AMPLIFY HER PRESUMPTION THAT THE UNDERLYING FACTS WERE IGNORED IN HER UNREALISTIC EXAMPLE ON PAGE SEVEN OF HER TESTIMONY. HOW DOES SHE JUSTIFY SUCH A CLAIM?

A. She justifies using this example by saying on page six of her testimony that "to the extent that Staff overlooked any adjustments that should legitimately have been made to Qwest's numbers . . . those adjustments didn't get accounted for at all." Ms. Gately has no reason to assume Qwest or the Staff overlooked any adjustments. Just since the update to the 1999 test year was filed in May of this year there were in excess of 600 interrogatories of a financial nature that were issued. Furthermore, these interrogatories were posed in light of the numerous interrogatories, and onsite visits by Staff's experts, that were posited related to the original test period. It is highly unlikely that anything of a significant nature was missed by the parties based on this thorough examination of the Company's results.

Q. MS. GATELY, AT PAGE 6, THEN ALLEGES THAT STAFF OVERLOOKED ADJUSTMENTS PROPOSED BY OTHER PARTIES THAT SHOULD LEGITIMATELY HAVE BEEN MADE TO QWEST'S NUMBERS. WHAT IS YOUR RESPONSE?

A. Ms. Gately's erroneous conclusion that Staff and Qwest "split the baby" on adjustments proposed by Staff leads her to conclude that Staff and Qwest did not consider adjustments proposed by other parties. Because her primary conclusion is false, her secondary conclusion is also false.

Qwest's response to RUCO33-01, which was served to all parties, stated that:

> Several adjustments, such as the out of period wage adjustment, the incentive compensation adjustment, the software capitalization adjustment and the access line sale adjustment were <u>specifically</u> discussed during negotiations. Considering the quantification of these adjustments as a whole, the Company and the ACC Staff agreed that the income available from current operations should be $113.7M, <u>which is approximately one half</u> of the income available of these adjustments subtracted from the adjusted operating income on ACC Staff Joint Accounting Exhibit, Schedule A. (emphasis added)

Although many proposed adjustments were not specifically discussed, Qwest, in reaching a compromise with Staff, was fully cognizant of the fact that if this case were to continue to be litigated, the Commission would be presented with arguments and supporting evidence for each and every position taken by each and every witness sponsored by every party in this case, not just Staff's. It follows that the compromise Qwest reached reflects its assessment of all of the positions and supporting evidence of all of the parties, not just Staff's.

1 **Q. MS. GATELY, SIMILAR TO MR. SMITH, IS SUGGESTING THAT THE**
2 **SETTLEMENT IS INVALID BECAUSE EVERY ONE OF THEIR**
3 **ADJUSTMENTS WERE NOT EXPLICITLY DISCUSSED. WHAT IS**
4 **YOUR REACTION?**
5 A. They are grasping at straws. AT&T continues to present the same
6 adjustments here in the settlement that hey made in the rate case. Ms.
7 Gately's directory adjustment, for example, is worthy of some comment.
8 Both the Staff and RUCO limited their adjustment to the $43M imputation
9 set forth in a 1988 settlement agreement. The Company agreed with this
10 amount of directory imputation in the settlement. Ms. Gately, in the face of
11 a court order to the contrary, suggests that an excess profits imputation be
12 used on the basis of a Washington state order. She apparently did not
13 look at the Arizona settlement agreement nor the court case upholding
14 that agreement, which specifically denied the use of the excess profits
15 methodology for directory imputation. Yet, she continues to propose this
16 adjustment in her testimony related to the current settlement between
17 Staff and the Company. AT&T's adjustments were considered during the
18 negotiations, and were given their due weight based on their underlying
19 infirmities.
20
21 **Q. MS. GATELY ARGUES AT PAGE EIGHT THAT "ANY REVENUE**
22 **ADJUSTMENT FLOWING OUT OF A SETTLEMENT MUST TREAT**

1 **EQUALLY PROPOSED ADJUSTMENTS OF ALL OF THE PARTIES TO**
2 **THE PROCEEDING." DO YOU AGREE?**
3 A. No. Ms. Gately's recommended approach would be arbitrary because it
4 requires the parties to ignore the merits of proposed adjustments. As has
5 been previously stated, the merits of the various proposed adjustments by
6 all parties were considered.
7
8 **Q. AT LINE SIX ON PAGE EIGHT MS. GATELY SUGGESTS THAT "ANY**
9 **CORRECTIONS TO QWEST'S REVENUE REQUIREMENT ESTIMATE**
10 **MADE BY OTHER PARTIES THAT ARE NOT DUPLICATIVE OF**
11 **ADJUSTMENTS PROPOSED BY STAFF SHOULD BE ACCORDED**
12 **THE SAME 'SPLIT THE BABY' TREATMENT AS WAS USED FOR THE**
13 **STAFF AND QWEST ESTIMATES". HOW DO YOU RESPOND?**
14 A. I recommend the Commission reject this suggestion because it would
15 require the parties to the settlement to ignore the merits of the proposed
16 adjustments.
17
18 In reaching settlement with Staff, Qwest did not ignore the merits of the
19 positions the parties took in this matter. I have no reason to believe Staff
20 ignored them either. Any recommendations suggesting that the
21 Commission require the parties to ignore the merits of the case should be
22 rejected for obvious reasons. In any event, AT&T's manifestly self-serving

proposal is moot because Qwest would not agree to be party to a settlement that required such arbitrary terms.

REBUTTAL OF DR. JOHNSON (RUCO)

Q. ARE YOU NOW READY TO TURN TO DR. JOHNSON AND DR. SELWYN?

A. Yes, I am.

Q. AT PAGE NINE OF HIS TESTIMONY, DR. JOHNSON ARGUES FOR REJECTING THE SETTLEMENT BETWEEN STAFF AND QWEST IN PART BECAUSE "IN OTHER JURISDICTIONS LECS HAVE OFTEN ACCEPTED, OR BEEN REQUIRED TO IMPLEMENT, RATE REDUCTIONS IN ORDER TO GAIN THE INCREASED PRICING FREEDOM AND OTHER BENEFITS OF PRICE CAP REGULATION." HOW DO YOU RESPOND?

A. Dr. Johnson would have the Commission reject the settlement because Qwest has not "paid" for price caps regulation with a rate reduction. He fails to offer any cost of service rate-making principle in support of his proposal. He fails to offer any reason why the public interest requires Qwest to pay for a different form of regulation. He also fails to show that

the rate reductions that were imposed on or agreed to by other companies in other states were, in fact, "payment" for price caps regulation. He makes no effort to show that the circumstances of Qwest in Arizona are the same as the circumstances of the other instances he cites. Accordingly, his proposal to exact a duty from Qwest as a price Qwest must pay for price cap regulation should be rejected as unsubstantiated and self-serving.

Q. DR. JOHNSON SPENDS SEVERAL PAGES OF HIS TESTIMONY ARGUING THAT THERE SHOULD BE A DOWNWARD ADJUSTMENT TO THE INFLATION FACTOR. DO YOU HAVE ANY OBSERVATIONS?

A. First and foremost, Dr. Johnson makes no specific recommendation. He also does not reconcile his proposal for a downward adjustment in the inflation factor with the customer dividend that has been added to the productivity factor. In the final analysis, on page 19 of his testimony, he states that "4.2% is within a plausible range for this particular variable, when looked at in isolation." His caveat is that there is not a price decrease initially, so therefore the productivity offset is too low. Again, he resorts to unsupported reasoning to arrive at his end point that prices must be decreased in order to agree to a price cap plan.

Q. ON PAGE 19 OF HIS TESTIMONY, DR. JOHNSON ARGUES THAT QWEST SHOULD BE SUBJECT TO A HIGHER PRODUCTIVITY FACTOR IN LIGHT OF THE SYNERGIES EXPECTED TO BE ACHIEVED FROM THE MERGER. PLEASE COMMENT.

A. First, Dr. Johnson is engaging in speculation. At this time, there is no way to appropriately quantify what those synergies will be. As pointed out in my rebuttal of Dr. Selwyn, the agreed productivity factor of 4.2% is at the high end of the productivity factors used in various state jurisdictions. It represents the best efforts of Qwest and the Staff to forecast the future and capture any benefits that may result.

REBUTTAL OF DR. SELWYN (AT&T)

Q. PLEASE TURN TO DR. SELWYN'S DISCUSSION OF PRODUCTIVITY. PLEASE ADDRESS HIS ISSUES.

A. Certainly. Dr. Selwyn spends considerable time arguing that the FCC productivity factor should be used. However, he states several times in his testimony that he is not adverse to a jurisdictional productivity factor. In fact, a jurisdictional factor was used in developing the productivity factor contained in the settlement. Dr. Selwyn apparently does not like it because it was not high enough to suit him, therefore he arbitrarily advocates the FCC factor.

Q. DR. SELWYN BOLSTERS HIS ARGUMENT BY SUGGESTING AT PAGE 20 OF HIS TESTIMONY THAT THERE IS NO REASON WHY ARIZONA SHOULD ACCEPT A 4.2% VALUE FOR X THAT DIFFERS FROM 6.2%, THE VALUE THAT QWEST HAD ACCEPTED IN UTAH. IS DR. SELWYN'S DISCUSSION OF THE 6.2% PRODUCTIVITY FACTOR IN UTAH COMPLETE?

A. No. Dr. Selwyn correctly observes that Qwest agreed to a 6.2 percent productivity factor for at least the first year in which indexing will apply under Utah's price cap statute. However, Dr. Selwyn fails to disclose that Qwest agreed to 6.2% for the first year of indexing as part of a settlement of disputed issues in the matter of the *merger* of the parent Corporations of Qwest Communications Corporation, LCI International Telecom Corp. and U S WEST Communications, Inc., Utah Public Service Commission Docket No. 99-049-41. Qwest agreed to 6.2% as a concession in settlement of a wide variety of contested issues in that merger docket, not because it believed 6.2% was necessarily an appropriate productivity factor. Under the terms of the merger settlement, the 6.2% may not be changed for the first year of price caps in Utah. However, after that, it may be revised. Qwest fully intends to seek such a revision and will present evidence that 6.2% is far too high.

Dr. Selwyn's suggestion that Arizona should adopt a higher productivity factor because Qwest agreed to higher productivity factor in settlement of a different kind of case in another jurisdiction makes no sense.

Q. IS THERE ANYTHING ELSE MISSING FROM DR. SELWYN'S ANALYSIS?

A. Yes, there is. Dr. Selwyn fails to review the productivity factors used in various other jurisdictions. Overall, they are considerably lower than the FCC factor. Based on some research performed for the Company in June of this year, the factors used in various states are as follows:

State	X		State	X
Connecticut (1996)	5.00%		Pennsylvania (1994)	2.93%
Maine (1995)	4.50%		North Dakota (1994)	2.75%
Illinois (1995)	4.30%		Maryland (1997)	2.70%
Mass. (1995)	4.10%		Iowa (1995)	2.60%
Kentucky (1995)	4.00%		Michigan (1995)	2.00%
Rhode Island (1996)	4.00%		New Jersey (1993)	2.00%
Alabama (1995)	3.00%		North Carolina (1996)	2.00%
Delaware (1994)	3.00%		Pennsylvania (1996)	2.00%
DC (1996)	3.00%		Tennessee (1996)	2.00%
Georgia (1995)	3.00%		Wisconsin (1994)	2.00%
Ohio (1994)	3.00%		Florida (1996)	1.00%
Wisconsin (1994)	3.00%			
			Average	**2.95%**

These factors are obviously much lower than the FCC factor. In fact, the 4.2% factor agreed to by the Company and the Staff is near the top of the

range. It appears that Dr. Selwyn is skewing his advocacy by only presenting selected facts.

Q. AT PAGE 12, DR. SELWYN CLAIMS QWEST/US WEST SUPPORTED THE ADOPTION OF THE 6.5% X-FACTOR AS PART OF THE CALLS SETTLEMENT. IS THIS CLAIM CORRECT?

A. No, it is not. Qwest was not part of the original CALLS coalition and did not advocate the CALLS plan. After the FCC had ruled on the plan, Qwest did sign on. However, this was not because the Company agreed with the plan. It was a plain and simple economic choice between the better of, in Qwest's view, two bad alternatives.

Q. PLEASE SUMMARIZE YOUR VIEW OF THE PRODUCTIVITY OFFSET AGREED TO IN THE SETTLEMENT BETWEEN THE STAFF AND QWEST.

A. When all of the facts are known, the productivity offset contained in the settlement is fair. Despite Dr. Johnson's and Dr. Selwyn's protests to the contrary, the factor is fair and will yield a fair result. In fact, it is at the upper end of the range used by states that have a productivity offset.

Q. DOES THIS CONCLUDE YOUR REBUTTAL TESTIMONY?

A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, AND TO APPPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN.	)	DOCKET NO. T-1051B-99-105 AFFIDAVIT OF GEORGE REDDING
STATE OF COLORADO	) :	ss
COUNTY OF DENVER	)	

George Redding, of lawful age being first duly sworn, depose and states:

1. My name is George Redding. I am Director – Regulatory Finance of Qwest Corporation in Denver, Colorado. I have caused to be filed written rebuttal testimony in support of settlement in support of Qwest in Docket No. T-01051B-99-0105

2. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Further affiant sayeth not.

George Redding

SUBSCRIBED AND SWORN to before me this 16TH day of November, 2000.

Notary Public

My Commission Expires: 8/11/2003

BEFORE THE ARIZONA CORPORATION COMMISSION

EXHIBIT
Q-5
admitted

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN	)	DOCKET NO. T-01051B-99-0105

REBUTTAL TESTIMONY

OF

SCOTT A. MCINTYRE

ON BEHALF OF

QWEST CORPORATION

NOVEMBER 20, 2000

REBUTTAL TESTIMONY OF SCOTT A. MCINTYRE
INDEX OF TESTIMONY

IDENTIFICATION OF WITNESS 1

PURPOSE OF TESTIMONY 1

REBUTTAL OF ARLEEN M. STARR 2

REBUTTAL OF LEE L. SELWYN 6

REBUTTAL OF DR. FRANCIS R. COLLINS 9

REBUTTAL SUMMARY 11

IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND PLACE OF EMPLOYMENT.

A. My name is Scott A. McIntyre. I work for Qwest Corporation ("Qwest", or "Company") (formerly known as U S WEST Communications, Inc.). My title is Director – Product and Market Issues. My responsibilities include developing market and pricing strategies for Qwest and supporting these positions in the regulatory arena. My business address is 1600 7th Avenue, Room 3009, Seattle, Washington 98191.

Q. ARE YOU THE SAME SCOTT A. MCINTYRE WHO FILED SUPPLEMENTAL AND REJOINDER TESTIMONY IN EARLIER PHASES OF THIS CASE?

A. Yes, I am.

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR REBUTTAL TESTIMONY?

A. The purpose of my rebuttal testimony is to address and clarify certain issues raised by AT&T witnesses Arleen M. Starr, and Lee L. Selwyn. I will also respond to testimony offered by Dr. Francis R. Collins on behalf of Cox Arizona telecom, L.L.C. The testimony of these three witnesses and my rebuttal focuses on the intrastate switched access rates proposed in the Settlement Agreement between Qwest and the Arizona Commission Staff.

REBUTTAL OF ARLEEN M. STARR

Q. WHAT IS YOUR UNDERSTANDING OF AT&T'S POSITION ON SWITCHED ACCESS AS OFFERED BY AT&T WITNESS ARLEEN STARR?

A. Ms. Starr asserts that switched access rates should be set at forward looking economic cost and that the Carrier Common Line charge (CCL) and the Interconnection Charge (IC) should be reduced to zero. As a secondary proposal, Ms. Starr suggests switched access rates be lowered to interstate rates over a five-year period.

Q. DO YOU AGREE THAT ACCESS PRICES SHOULD BE SET AT COST?

A. Absolutely not. This would not only eliminate any support for basic exchange services; it also would eliminate any contribution to the running of the business.

Q. IS THERE ANY REQUIREMENT BY ANY JURISDICTION THAT REQUIRES PRICES TO BE SET AT COST?

A. None that I am aware of and I'm quite sure that Ms. Starr would have referred to any such requirement had she known of any such ruling.

Q. MS. STARR ASSERTS THAT INTERCONNECTION CHARGES AND CARRIER COMMON LINE CHARGES SHOULD BE ELIMINATED. DOES QWEST PLAN TO ELIMINATE THESE CHARGES?

A. The Settlement Agreement proposes to reduce switched access revenues by $15M over a three year period. The interconnection charge (IC) and the Carrier Common Line charge (CCL) are primary candidates for the rate reductions

necessary to meet the plan criteria. Within the rules of the plan, Qwest will also look at additional rate rebalancing or universal service funding to further reduce or eliminate these charges.

Q. AS A SECONDARY PROPOSAL, MS. STARR SUGGESTS THAT SETTING SWITCHED ACCESS RATES AT THE SAME LEVEL AS INTERSTATE RATES MIGHT BE ACCEPTABLE TO AT&T. ARE INTERSTATE RATES APPROPRIATE IN THIS SITUATUION?

A. Only if all the rate elements are included. The key element that Ms. Starr does not mention is the End User Common Line charge (EUCL). Switched access revenue, in the interstate environment is collected through three major rate elements. Switching and transport charges are collected from carriers and the EUCL charge is collected directly from end users. The EUCL is a flat rated charge that is currently set at $4.35 for single line residence and business customers. This charge represents a significant source of switched access revenue. One reason interstate switching and transport rates can be so low is that this EUCL charge is relatively high. For the average customer, if charged on a per-minute basis, it would represent about 2 cents per minute. By comparison, the switching and transport rates charged to carriers, average about .6 cents per minute. If the Arizona Commission wishes to implement the same rate structure as the Federal Communications Commission (FCC), including end user charges, then Qwest would consider supporting similar rates for switching and transport.

Q. WHY DOES MS. STARR NOT MENTION THE EUCL IN HER PROPOSAL?

A. AT&T does not pay the EUCL charge in the interstate environment, so they tend to ignore it. Also, carriers don't mention this charge because it reminds state commissions that the rate structure is as important as the rates themselves. Carriers want the rates for switching and transport to mirror interstate rates but they know that shifting a revenue stream from carriers to end users is a concern for most state commissions. Such shifts of revenue affect the public policy of pricing basic exchange services.

Q. GIVEN THE CURRENT STRUCTURE, ARE RATES PROPOSED IN THE SETTLEMENT AGREEMENT REASONABLE?

A. Yes, they represent a significant rate reduction for carriers while maintaining balance with other services provided by Qwest in Arizona.

Q. MS. STARR SUGGESTS THAT RATE CHANGES IN NEW MEXICO ARE MORE SIGNIFICANT THAN THOSE PROPOSED IN THE ARIZONA SETTLEMENT AGREEMENT. IS THIS RELEVANT TO THIS PROCEEDING?

A. No, New Mexico has its own set of prices that encompass all services offered by Qwest. The circumstances are different, the public policy issues are different, and the current rates are significantly different.

Q. DO YOU FIND IT ODD THAT MS. STARR HAS CHOSEN TO COMPARE THE ARIZONA SETTLEMENT AGREEMENT WITH RECENT PROCEEDINGS ON SWITCHED ACCESS IN NEW MEXICO?

A. Yes, because the rates proposed in the Arizona Settlement Agreement are lower than those proposed in New Mexico. Ms. Starr is claiming that the percentage

decrease proposed in New Mexico is the significant item, but New Mexico currently has higher rates than Arizona. Although the percentage decrease proposed for New Mexico is indeed higher than that proposed in Arizona, the actual rate in Arizona will be about 12% lower. I view the final rate as the significant issue and the proposed Arizona average rate is almost ½ cent per minute lower than that proposed in New Mexico.

Q. MS. STARR SEEMS CONCERNED THAT THE SPECIFICS OF RATE DESIGN IN YEARS TWO AND THREE ARE NOT CONTAINED IN THE SETTLEMENT AGREEMENT. IS THIS IMPORTANT?

A. I think Ms. Starr is trying to poke holes in the Settlement Agreement. It is true, depending on the exact rates proposed that different carriers could be affected differently because carriers purchase different amounts of each rate element. The overall reductions are significant however, and the average price per minute reductions will benefit all carriers. It is my experience that AT&T usually beats the average in such situations so I can't believe Ms. Starr's concern in this area is anything more than posturing for effect. Assuming the Settlement Agreement is approved by the Commission, specific rate designs will be submitted by Qwest for final approval, based on the situation at the time. Interested parties will, no doubt, provide input on these proposals.

Q. MS. STARR ALSO SEEMS CONCERNED THAT THE SETTLEMENT AGREEMENT CONTAINS NO REQUIREMENT THAT SWITCHED ACCESS BE SET AT INTERSTATE LEVELS. SHOULD THIS BE A REQUIREMENT?

A. Definitely not. There is no requirement that switched access mirror interstate levels, especially since the structure is not the same.

Q. THE SETTLEMENT AGREEMENT STATES THAT INTERSTATE RATES ARE AN "OBJECTIVE" WITH NO SPECIFIC TIMETABLE. IS THIS REASONABLE?

A. Yes. There is no specific timetable because there are many factors involved and how exactly this might occur is unknown at this time. Interstate rates could be achieved soon, for example if the Commission were to order the intrastate structure to mirror the interstate structure. If an end user charge were established to emulate the EUCL charge in the FCC environment, revenue would be shifted from the switching and transport elements to this end user charge. In Arizona, a charge of $1.63 per month per residence and business line would generate about $47M. This would allow switching and transport to mirror the FCC rates and the two structures would match as well. There are other ways to accomplish this revenue shift but they require careful examination and they too will have consequences that must be reviewed. For now, the proposed price reductions are significant and are in the public interest.

Q. DOES ANY OTHER AT&T WITNESS DISCUSS SWITCHED ACCESS RATES?

A. Yes, Lee L. Selwyn also discusses switched access briefly.

REBUTTAL OF LEE L. SELWYN

Q. DOES DR. SELWYN AGREE WITH MS. STARR THAT SWITCHED ACCESS RATES SHOULD BE SET AT COST?

A. No, Dr. Selwyn asserts that interstate rates are reasonable.

Q. DOES DR. SELWYN ADDRESS THE ISSUE OF THE DIFFERENT STRUCTURE BETWEEN INTERSTATE AND INTRASTATE ENVIRONMENTS?

A. No, like Ms. Starr, he does not address the structural differences. He focuses only on rate elements that are paid by carriers in the interstate arena. He ignores the revenue provided by end users in support of interstate switched access. It presumably would complicate his argument.

Q. DR. SELWYN RAISES THE ISSUE OF STIMULATION IF SWITCHED ACCESS RATES ARE REDUCED. DOES THE COMMISSION REQUIRE THAT RATE STIMULATION BE FACTORED INTO THE DEMAND USED TO DETERMINE REVENUE IMPACTS OF RATE CHANGES?

A. No, the Commission has no such requirement.

Q. WHY DOESN'T THE COMMISSION REQUIRE THAT STIMULATION BE FACTORED INTO THE DEMAND USED TO DETERMINE REVENUE IMPACTS OF RATE CHANGES?

A. I do not believe that the Commission requires that stimulation be considered, primarily because stimulation modeling is a very inexact science. There are too many factors operating in the market that must to be considered and adjusted, in order to isolate the precise effect of any specific rate change. Among those factors are the likelihood; (1) that any Qwest switched access rate reduction will

be passed through to the carriers end user, (2) that if passed through, any such pass-through will even be obvious to that end user, and (3) that the amount of rate change would induce stimulation, even if it were obvious.

Qwest believes, as I suspect does the Commission, that any model, that purports to reflect the exact stimulation effect of a rate change, would be highly suspect, and probably unattainable at best.

Q. DO YOU BELIEVE THAT SWITCHED ACCESS REVENUES WILL BE STIMULATED BY THE CURRENTLY PROPOSED REDUCTIONS?

A. No. First of all, it is unlikely that reductions in switched access rates will be passed on to end users by all carriers. I have, so far, seen little evidence that carriers respond to switched access reductions with rate reductions for their customers. If such rate reductions do not occur, there will be no stimulation except in the profits for carriers. Second, intrastate toll reductions do not seem to stimulate additional calling anyway. Customers seem to focus on interstate advertised rates and have little knowledge of intrastate rates. Third, if carriers were to pass along some rate reductions to customers, and if this did indeed stimulate additional intrastate toll calling, Qwest would just lose more intrastate toll to the carriers. Any incremental increase in switched access usage as a result, would be more than offset by the loss of Qwest toll revenues.

Q. DR. SELWYN CONTENDS THAT THE PROPOSED TREATMENT OF BASKET 2 SERVICES VIOLATES THE TELECOMMUNICATIONS ACT. DO YOU AGREE WITH HIS ASSESSMENT?

A. No, not at all. Like Dr. Selwyn, I am not an attorney, however the Settlement Agreement seems clearly to accommodate existing rules for pricing. It states in Section 3(b), that "Basket 2 consists of wholesale services **many of which are governed by their own specific pricing rules and will continue to be governed by such rules** (emphasis added), as interpreted by the Commission and the Courts, under this Price Cap Plan." This clearly states that any existing pricing that has been established in compliance with the Telecommunications Act will continue to apply. The most obvious example in Basket 2 are Unbundled Network Elements (UNEs). Rules for pricing UNEs have been established by this Commission and these rules will continue to apply. Section 3(c) of the Settlement Agreement states: "UNEs and discounted Wholesale Offerings are priced based on the provisions of the Telecommunications Act of 1996 (1996 Act), FCC implementing regulations and Commission rules." The only way to assume that this Settlement Agreement violates the Telecommunications Act is to assume that violations already exist. I believe current rules, approved by this Commission, to be in compliance with The Act and the proposed Settlement Agreement just continues that compliance. Putting different wholesale services in the same basket does nothing to change current compliance.

REBUTTAL OF DR. FRANCIS R. COLLINS

Q. IS ANY OTHER TESTIMONY OFFERED ON THE TOPIC OF SWITCHED ACCESS?

A. Yes, Dr. Francis R. Collins, on behalf of Cox Arizona Telcom, L.L.C., makes some brief comments of concerns about mirroring the FCC structure for switched access.

Q. WHAT IS DR. COLLINS' CONCERN ABOUT THE NOTION OF BRINGING INTRASTATE SWITCHED ACCESS IN LINE WITH INTERSTATE RATES?

A. Dr. Collins appears concerned that the interstate rate structure may contain some elements that could create additional costs for his company. He specifically addresses Signaling System 7 (SS7) as an example of how introducing new rate elements in the FCC tariff can affect his costs of doing business. Since the Settlement Agreement only addresses bottom line revenues and not specific rates, he is concerned about the language that sets an "objective of parity with the interstate switched access rates".

Q. IS DR.COLLINS' CONCERN VALID?

A. I understand his concern, but the introduction of messaging elements in the interstate environment was unique. The same situation will not occur when such elements are introduced in Arizona. When these message elements were introduced in the FCC tariff, there was a known element of demand (transit traffic) that could not be quantified. Transit traffic, that is, traffic that does not originate or terminate in Qwest's territory, could not be tracked separately given existing tracking methods. In the FCC filing, demand was determined based on the known Qwest originating and terminating traffic. As a result, the total revenue effect from all sources was impossible to predict and as a result, understated. When these elements are introduced in Arizona, the revenue effect will be known because we now have months of history on message units for all traffic types. The overall result will be revenue offsets with other rate elements. If done at the time of the year 2, or year 3, adjustments prescribed by the

Settlement Agreement, the revenue from these new elements will be offset by deeper cuts in other rates. If done separately, as stand alone adjustments, their introduction will also be revenue neutral. In either case, Cox Arizona Telcom L.L.C. will not see the same kind of effect as caused by the introduction of these elements in the FCC tariff.

This discussion does point out an issue that I spoke of earlier. Adopting the FCC rates also raises structural issues that are not easily resolved. AT&T chose to merely ignore the structural differences and focus on the rate elements they care about. Dr. Collins suggests there are other structural issues about which he is wary. The Settlement Agreement proposes a $15M reduction in switched access over the term of the plan. Before the "objective of parity" can be attained, the structural differences between interstate and intrastate tariffs must be addressed.

REBUTTAL SUMMARY

Q. WOULD YOU PLEASE SUMMARIZE YOUR REBUTTAL TO MS. STARR'S, DR. SELWYN'S, AND DR. COLLINS' TESTIMONIES?

A. Ms. Starr asserts that switched access rates should be set at cost, but there is no requirement anywhere that establishes this as a goal. I believe Ms. Starr throws out this extreme suggestion merely to make her request for rates set at interstate levels sound more reasonable. Ms. Starr ignores the revenue shortfall implications of such rates because she ignores the structural differences between interstate and intrastate tariffs. Her desire for lower rates is understandable but she ignores the bigger picture that the Commission must

address. The Arizona Settlement Agreement deals with overall rate rebalancing and represents a fair compromise between various parties' positions.

Dr. Selwyn doesn't bother with even suggesting that rates be set at cost but recommends that rates for switched access mirror the interstate rates. Dr. Selwyn also ignores the structural differences and ignores how the revenue shortfall might be addressed. His view is also narrow in scope and only deals with AT&T's desire for lower rates. While this is understandable, it does not address the larger issues contained in the Settlement Agreement.

Dr. Selwyn's assertion that the Settlement Agreement violates the Telecommunications Act can't be taken seriously. The Settlement Agreement clearly states that compliance with The Act will continue to govern pricing for wholesale services, where appropriate.

Dr. Collins has concerns about the "objective of obtaining parity" between intrastate and interstate switched access rates. Dr. Collins recognizes the structural differences between interstate and interstate environments and he realizes that such parity is more complex than might appear on the surface. For the purposes of this Settlement Agreement, Dr. Collins need not be concerned. The introduction of message rate elements into the Arizona intrastate tariff will be done in concert with the year 2 or year 3, $5M rate reductions or on a separate but revenue neutral basis. The Settlement Agreement as it stands, will accommodate such minor restructures.

Overall, none of the witnesses have raised any issue significant enough to effectively challenge the proposed Arizona Settlement Agreement. I recommend that the Commission approve the Settlement Agreement as proposed.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, AND TO APPPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN.	)	DOCKET NO. T-01051B-99-0105
	)	AFFIDAVIT OF SCOTT A. MCINTYRE
STATE OF WASHINGTON	) :	ss
COUNTY OF KING	)	

Scott A. McIntyre, of lawful age being first duly sworn, deposes and states:

1. My name is Scott A. McIntyre. I am Director – Product and Market Issues for Qwest Corporation (Formerly, U S West Communications, Inc.), in Seattle, Washington. I have caused to be filed written testimony in support of settlement in Docket No. T-01051B-99-0105.

2. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Further affiant sayeth not.

Scott A. McIntyre

SUBSCRIBED AND SWORN to before me this 20th day of November, 2000.

Notary Public

My Commission Expires: 09/15/02

EXHIBIT
Q-6
Admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN	)	DOCKET NO. T-01051B-99-0105

REBUTTAL TESTIMONY

OF

DAVID L. TEITZEL

QWEST CORPORATION

NOVEMBER 20, 2000

REBUTTAL TESTIMONY OF DAVID L. TEITZEL

INDEX OF TESTIMONY

IDENTIFICATION OF WITNESS 1

RESPONSE TO DR. LEE SELWYN TESTIMONY 2

RESPONSE TO DR. BEN JOHNSON TESTIMONY 13

RESPONSE TO DR. FRANCIS COLLINS TESTIMONY 20

SUMMARY 26

IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is David L. Teitzel. I am employed by Qwest Corporation as Director-Product and Market Issues. My business address is 1600 7th Avenue, Room 2904, Seattle, WA, 98191.

Q. HAVE YOU PREVIOUSLY FILED TESTIMONY IN THIS DOCKET?

A. Yes. I filed Direct Testimony on January 8, 1999, Supplemental Direct Testimony on May 19, 2000, Rebuttal Testimony on August 21, 2000, and Rejoinder Testimony on September 19, 2000.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony responds to issues surrounding the proposed Settlement Agreement raised by Dr. Lee Selwyn, AT&T, Dr. Ben Johnson, RUCO, and Dr. Francis Collins, Cox. Specifically, my testimony addresses these intervenors' comments with respect to allocation of services to the appropriate "baskets," competitive classification of services, and imputation of wholesale rate elements into Qwest's retail service prices.

RESPONSE TO DR. LEE SELWYN TESTIMONY

Q. DO YOU HAVE ANY OBSERVATIONS ON DR. SELWYN'S TESTIMONY WITH REGARD TO BASKET 3 SERVICES?

A. Yes. Dr. Selwyn appears to be inconsistent in his concern about the pricing rules for this basket. On the one hand, he seems very concerned that Qwest will price below the TSLRIC price floor for these services and drive its competitors out of business. Then, he goes on to argue that he fears Qwest will increase these same services by the full amount of headroom contemplated in the Settlement Agreement.

Q. DR. SELWYN SUGGESTS THAT THE REASON QWEST IS WILLING TO ACCEPT A PORTION OF THE REVENUE REQUIREMENT AS HEADROOM IN BASKET 3 IS THAT THE SERVICES IN THAT BASKET ARE NOT COMPETITIVE AND THEREFORE QWEST IS GUARANTEED TO EARN THAT MONEY.[1] IS THAT A CORRECT INTERPRETATION OF THE SETTLEMENT AGREEMENT?

A. No. Qwest is not guaranteed a recovery of the portion of the revenue requirement representing headroom in Basket 3. The services in that basket are competitive or non-essential. The market (and the behavior of Qwest's competitors) will determine whether Qwest recovers that revenue.

[1] Susan Gately also alleges this on Page 3 of her testimony.

Further, little has changed from today's environment with respect to the pricing flexibility for the services in Basket 3. All of these services are flexibly priced today. To date, not one complaint has been filed alleging that Qwest has priced a service below the required price floor. Further, despite already having the ability to increase many of these rates by as much as 100% under the existing tariffs, you will find over the past several years that a few rates have increased, others have decreased, but the vast majority have remained unchanged.

Q. DOES DR. SELWYN GIVE EXAMPLES OF BASKET 3 SERVICES THAT HE BELIEVES CAN BE INCREASED BECAUSE THEY LACK SUFFICIENT COMPETITION?

A. Yes. He cites several and I would like to address each one of them. First, he alleges that there is no effective competition for local directory assistance (DA) service. However, the Commission, in its December 14, 1999 Order in Docket No. T-01051B-99-0362, after examining all evidence, determined that Qwest's local and national DA service should be classified as competitive pursuant to A.A.C. R14-2-1108. I find Dr. Selwyn's concern about the possibility of Qwest increasing its DA rates interesting in light of a request made earlier this year by AT&T to increase the maximum rates for its own DA service. In Docket No. T-02428A-00-0100, AT&T was allowed to set the maximum rate for its DA service at

$3.00, or roughly 3.5 times the amount for Qwest's DA service under the Settlement Agreement. (This represented an increase of 500 percent and 260 percent for DA service in connection with its Custom Network Services and Message Telecommunications Service, respectively.) AT&T would clearly have the Commission believe that the ability to increase the price of its own DA service means nothing with respect to how competitive that service is. The same analysis applies to Qwest.

Second, he cites ISDN Basic Rate Interface (BRI) service. Although BRI service has not yet been classified as competitive under Section 1108, it has none the less been flexibly priced since its introduction back in 1994. At that time, the maximum rate was established at $138 per month, with an initial monthly rate of $68.00 for 200 hours of usage. In 1997, the rate was restructured to provide 400 hours of service each month for the same maximum rate. The monthly rate was increased at that time to $79.00, but has since been reduced to $69.00 and the 400 hour monthly usage limitation has been eliminated. Contrary to what Dr. Selwyn fears could happen, quite the opposite has occurred. Qwest's BRI customers are receiving more service at a lower rate today than what they were 5 years ago when it was first introduced. And this is despite the fact that Qwest could have doubled the rates using the pricing flexibility afforded this service.

The third example used by Dr. Selwyn is Metropolitan Preferred Area Calling Service (METROPAC). Customers with this plan are billed for a fixed period of time, i.e. 3 hours, each month for calls to predetermined exchanges within a relatively close radius to their serving exchange. Because customers are billed for 3 hours of usage each month whether they use that much or not, and because they can only use the plan to call a relatively few selected exchanges, there were fewer than 700 METROPAC customers during the test year. For this reason, Qwest requested approval to grandfather this service as part of its rate design proposal in the rate case. Although this request to grandfather is not addressed in the Settlement Agreement, Qwest would have no objection to doing so in a separate proceeding, if the Commission were to concur. But even if that does not occur, it is doubtful that AT&T is being greatly harmed by a service utilized by so few customers and it certainly has no bearing on whether or not the Settlement Agreement is in the public interest.

Q. WITH RESPECT TO QWEST'S DIRECTORY ASSISTANCE SERVICE, DID DR. SELWYN ALSO RECOMMEND THE COMMISSION RECLASSIFY THE SERVICE AS NON-COMPETITIVE BECAUSE THE "411" DIALING PATTERN IS NOT OFFERED TO COMPETITIVE DA PROVIDERS?

A. Yes. On Page 38, Lines 8-12 of his testimony, Dr. Selwyn contends that Qwest has not offered the "411" dialing pattern to its competitors, as he claims was mandated in the federal Telecommunications Act of 1996 (Act). He therefore recommends reclassifying the service from a "competitive Basket 3" service to a "monopoly Basket 1" service. Contrary to Dr. Selwyn's claims, the Act does not specify that Qwest is required to offer all competitors access to the 411 dialing pattern for DA. It indicates, as Dr. Selwyn points out in his testimony on Page 37, Lines 21-24, that competing providers are required to be afforded nondiscriminatory access to certain services, including directory assistance, with no unreasonable dialing delays. Nowhere is the prefix 411 specified. In actuality, Qwest provides competitors with nondiscriminatory access to DA services, as this Commission has substantiated by its approval of that item on the 271 checklist. Competitors are able to make the offering available to their customers using whatever dialing pattern they so designate.

The issue of "411" dialing parity was one factor considered by the Commission in Docket No. T-01051B-99-0362 when it evaluated whether Directory Assistance should be classified as competitive. AT&T had the opportunity to intervene in that proceeding to make their case at that time. Its decision not to participate in that proceeding is not sufficient justification to have the Commission second-guess previous decisions. In

truth, AT&T's suggestion that the Commission reevaluate this and other previous decisions (see Selwyn, Page 36, Lines 22-23 – Page 37, Line 1) is nothing more than a tactic to thwart the progress of competition through redundant and unnecessary regulatory proceedings.

Further, local Directory Assistance service has been reclassified as fully competitive in a number of Qwest states on the basis of the presence of a wide range of viable and effective competitive alternatives to Qwest's Directory Assistance service, absent 411 dialing parity. Specifically, Qwest's most significant competitors, AT&T and Worldcom, have been very successful in winning local Directory Assistance call volumes from Qwest through their widely advertised "00" and "10-10-9000" services. A variety of other competitive Directory Assistance options, including dial-around services, wireless services and Internet directory services are available in Arizona. Additionally, the FCC has specifically reviewed Directory Assistance and determined that it is not a "monopoly bottleneck" service, and declined to rule that it must be offered as an Unbundled Network Element in view of the variety of means through which this service can be provided to consumers. Dr. Selwyn's arguments are contrary to previous findings by the FCC, other state Commissions and findings of the ACC and should be rejected.

Q. HAS DR. SELWYN ACCURATELY DESCRIBED THE RESTRICTIONS IMPOSED ON QWEST IN THE SETTLEMENT AGREEMENT ASSOCIATED WITH BASKET 3 SERVICES?

A. No. Dr. Selwyn has mischaracterized the pricing flexibility Qwest is afforded for Basket 3 services. On page 33 of his testimony, lines 17-19, Dr. Selwyn claims that the only restriction imposed on Basket 3 prices is that geographical pricing cannot have the effect of red-lining with respect either to race or wealth. This statement ignores several restrictions contained in Attachment A, Section 4 of the Settlement Agreement, regarding the price Qwest may charge for Basket 3 services, i.e.:

- Section 4 (b) establishes the price cap for Basket 3 services,
- Section 4 (d) indicates new services and service packages contained within Basket 3 will be subject to the price cap,
- Section 4 (e) indicates the price of the new service or package is subject to a TSLRIC price floor,[2]
- Section 4 (k) prohibits cross subsidization of competitive services by non-competitive services, and
- Section 4 (l) requires price changes to Basket 3 services comply with the requirements of A.A.C. R14-2-1109.

In addition to these constraints, Section 4 (g) prohibits Qwest from discriminating against any class of customer in violation of A.R.S. Section 40-334. Far from being a blank check, the Settlement Agreement

[2] The price of the 1FR is to be used as the retail price floor for service packages combining Basket 1 and Basket 3 services. Settlement Agreement, Attachment A, Section 4 (e).

provides numerous specific guidelines as to how Qwest may price Basket 3 services, contrary to Dr. Selwyn's characterization.

Q. ON PAGES 34-36 OF HIS TESTIMONY, DR. SELWYN MAINTAINS THAT UNDER THE SETTLEMENT AGREEMENT, QWEST COULD CREATE A CROSS-SUBSIDY FLOW BETWEEN SERVICES, RESULTING IN A DIRECT VIOLATION OF SECTION 254 (K) OF THE FEDERAL TELECOMMUNICATIONS ACT (ACT), AS WELL AS A.A.C. R14-2-1109(C). PLEASE COMMENT.

A. In order for a cross subsidy to exist, some services must be priced below TSLRIC. All services currently allocated to Basket 3 are priced above TSLRIC. Potential new services and packages which may reside in Basket 3 will be required to be priced, at a minimum, above a TSLRIC price floor.[3] Further, Dr. Selwyn cites AAC R14-2-1109(c) as requiring that "a competitive telecommunications service shall not be subsidized by any rate or charge for any noncompetitive service." If Dr. Selwyn is concerned that incorporation of a residential access line in a package consisting of Basket 3 services would drive the overall package price below its aggregate TSLRIC and thereby create a subsidy flow from other Basket 3 services to the below-cost package, it would be the **above cost** elements of Basket 3 providing subsidy to the **below cost** residential

[3] Settlement Agreement, Attachment A, Section 4 (e).

access line. So long as the revenues generated by the package, excluding the residential access line, exceed TSLRIC, no subsidies from Basket 3 services to the below-cost residential access line exist. According to terms associated with the original Settlement Agreement, a residential access line could be included in a Basket 3 service package in full compliance with existing rules. It is important to note that, so long as prices for Basket 3 services remain above TSLRIC, by definition, no cross subsidy between these services is possible. Therefore, Dr. Selwyn's concern that Qwest will violate A.A.C. R14-2-1109 and the Act is unfounded and should be dismissed.

Q. DR. SELWYN RAISES THE CONCERN THAT UNDER THE SETTLEMENT AGREEMENT, QWEST WILL BE ABLE TO DISCRIMINATE AGAINST CUSTOMERS OF BASKET 3 SERVICES THAT DO NOT CONFRONT ACTUAL COMPETITION. (PAGE 36, LINES 16-21). DO YOU AGREE?

A. No. Dr. Selwyn's concern is apparently based on the provision in the Settlement Agreement, Attachment A, Section 4 (g), which allows Qwest to offer new services and service packages to selected customer groups. He indicates Qwest could discriminate against customers of Basket 3 services by increasing prices for those customers who do not have competitive alternatives and decreasing prices for those that do have

competitive alternatives. He also maintains that Qwest will use this flexibility to eliminate competition. This is simply not true.

Qwest's services are available for resale and as unbundled elements on a statewide basis. If Qwest prices a Basket 3 service at an inappropriately high level, Qwest's competitors could purchase the wholesale services and price beneath the higher rate and win market share. Attachment A, Section 4 (g) of the Settlement Agreement will further competition, benefiting consumers by making available additional non-essential options and alternatives.

In addition, this section of the Settlement Agreement contains provisions prohibiting Qwest from discriminating against any class of customer. Qwest is currently adhering to Commission rules regarding discrimination and will continue to do so under the Settlement Agreement. Dr. Selwyn's concern that Qwest will use this flexibility to drive out competition and discriminate against different classes of customers is unfounded.

Q. DR. SELWYN DISAGREES WITH PLACING NEW SERVICES IN BASKET 3. WHY IS THIS APPROPRIATE?

A. All services included in Basket 3 are non-essential, i.e., they are optional services not necessary for the provision of basic telephone service.

1 Customers may choose to purchase Basket 3 services as enhancements
2 to their basic service, however, it is entirely an optional arrangement. It is
3 appropriate to include new services in Basket 3, as basic access lines
4 reside within Basket 1. Any new services will simply be enhancements to
5 the basic transmission of voice provided over access lines. Treatment of
6 new services in this manner will facilitate the rapid deployment of new
7 technologies and non-essential, optional alternatives to Arizona
8 consumers. Other states have adopted similar rules concerning new
9 services. For example, in Montana, new services are automatically
10 afforded pricing flexibility and are treated as detariffed services. The
11 same is true in Utah. In Oregon, the state legislature recently directed the
12 Oregon Public Utilities Commission to take an even more liberal view of
13 the treatment of new services. Under Senate Bill 622, which was passed
14 into law last year, new service introductions are not subject to
15 Commission approval, and notice is not required to be provided the
16 Commission of new service or package introductions until 30 days
17 following the effective date. It is in the public interest to provide new
18 services with the pricing flexibility inherent with Basket 3 classification as
19 described in the Settlement Agreement, as other states have already
20 recognized.
21

RESPONSE TO DR. BEN JOHNSON TESTIMONY

Q. WHAT IS YOUR REACTION TO DR. JOHNSON'S RECOMMENDATIONS FOR REVISING THE PRICE CAP PLAN INCLUDED IN THE SETTLEMENT AGREEMENT?

A. Dr. Johnson's recommendations will place onerous and burdensome requirements not only on Qwest but on the Commission and the Commission staff. For example, Dr. Johnson proposes five different classifications for services, based upon "differences in characteristics of services and subtle variations in the degree of competition." (Johnson, Page 22, Lines17-19) In addition, Dr. Johnson suggests that price caps should be instituted for individual rate elements of services. (This suggestion is nothing more than the status quo.) Beyond that, Dr. Johnson is recommending that individual rate element price caps vary according to how competitive the service is deemed to be. (Johnson, Page 28, Lines 4-22).

Dr. Johnson's proposal would be an administrative nightmare, not only initially, but subsequent to implementation, as price changes, elimination of rate elements, introduction of new rate elements, and movement of services from one category to another would require constant monitoring, reporting, and adjusting of the "appropriate" price cap. Due to the large

volume of rate elements, the intricacy involved with defining various degrees of competition, and the complexity of such an effort, Dr. Johnson's proposals are logistically and administratively infeasible. The Settlement Agreement is a reasonable approach to simplifying the current regulatory process.

Q. DR. JOHNSON RECOMMENDS THAT NEW PRODUCT OFFERINGS BE SUBJECT TO THE CRITERIA AND PROCEDURES OUTLINED IN COMMISSION RULE 14-2-1108, RATHER THAN AUTOMATICALLY PLACED IN BASKET 3. PLEASE COMMENT.

A. I've partially addressed this issue previously in my rebuttal to Dr. Selwyn. Dr. Johnson is of the opinion that Qwest will be afforded "extreme" pricing flexibility for Basket 3 services. (Johnson, Page 26, Lines 7) I've previously articulated the pricing constraints Qwest will be held to for services residing in Basket 3. In addition, the Settlement Agreement requires that Qwest submit any new services or packages for Commission review 30 days prior to the proposed effective date.[4]

Meanwhile, when Qwest's competitors introduce a new service to Arizona consumers it is automatically classified as "competitive." The Settlement Agreement also requires that any Basket 1 services included in new service packages remain available to consumers as stand-alone options.

[4] Settlement Agreement, Attachment A, Section 4 (e).

This ensures that consumers not interested in packages will continue to have the a la carte option. Furthermore, the process that Dr. Johnson supports, i.e., Qwest being required to introduce a new service as a Basket 1 service and then petitioning the Commission to reclassify the service subject to R14-2-1108 disincents Qwest from delivering innovative services and service packages to Arizona consumers. It is in the public interest to reject Dr. Johnson's proposal regarding the treatment of new services.

Q. AT PAGE 29 OF HIS DIRECT TESTIMONY, AS WELL AS IN HIS SUPPLEMENTAL TESTIMONY, DR. JOHNSON COMPLAINS THAT THE SETTLEMENT AGREEMENT AS CURRENTLY STRUCTURED WOULD ENABLE QWEST TO VIOLATE PROPERLY CALCULATED PRICE FLOORS. DO YOU AGREE?

A. No. Dr. Johnson's assertions are also echoed in the direct testimonies of Dr. Collins (at pages 12-13) and Dr. Selwyn (at page 34). First, a restatement of existing price floor, or "imputation" rules, may be useful. Rule 14-2-1310(c) states:

> 1. An incumbent local exchange carrier shall recover in the retail price of each telecommunications service offered by the company the TSLRIC of all non-essential, and the imputed prices of all ***essential*** services, facilities, components, functions or capabilities that are utilized to provision such telecommunications service, whether such service is offered pursuant to tariff or private contract. (emphasis added).

Further, Rule 14-2-1307 (C) defines "essential" services and facilities as 1) termination of local calls, 2) termination of long distance calls, 3) interconnection of E911 and 911 services, 4) access to numbering resources, 5) dedicated channel network access connections and 6) unbundled loops.

In the Settlement Agreement, Qwest agrees to continue to impute these essential elements, until the Commission determines that the services they have found to be "essential" are no longer essential to the provision of services by Qwest's competitors. By doing so, Qwest will ensure that the services it offers are priced above the appropriate price floor.

Q. IN HIS SUPPLEMENTAL TESTIMONY, DR. JOHNSON SUGGESTS THAT UNDER THE SETTLEMENT AGREEMENT, QWEST WOULD BE FREE TO PRICE PACKAGES OF COMPETITIVE AND BASIC LOCAL EXCHANGE SERVICE BELOW THE CORRESPONDING UNE RATES, THEREBY SUBJECTING COMPETITORS TO AN ANTI-COMPETITIVE PRICE SQUEEZE. IS THIS A CORRECT INTERPRETATION OF THE SETTLEMENT AGREEMENT?

A. No, it is not. The price floor for packages consisting of competitive and basic local exchange services will be established based on the TSLRIC and/or imputed price floor for all elements comprising the package. The

only exception to this will be a package consisting of a residential basic exchange line. In that instance, for purposes of establishing a price floor, the retail price of a residential basic exchange line will be considered its "cost." Therefore, if Qwest develops a package consisting of a residential access line, several features, and intraLATA toll, for example, the price floor for the package will be determined by adding the retail price of the residential access line, the TSLRIC of the features, and the imputed price floor for intraLATA toll. If a package consists of a business access line, several features, and intraLATA toll, the price floor of the package will be established by combining the unbundled loop rate, the TSLRIC of the features, and the imputed cost of intraLATA toll. Treatment of basic exchange services in this way is appropriate because the price of residential basic exchange service is currently well below the price of the unbundled loop in Arizona. The Staff and Qwest recognize that an adjustment of the residential basic exchange price to a level above the price of the unbundled loop would create significant rate shock to Arizona consumers, and have stipulated in the Settlement Agreement that the current price of the residential access line will be capped for the term of the Agreement. The price of the business basic exchange access line, on the other hand, is above the price of the unbundled loop. A price squeeze will not occur as long as the retail price floor is based upon the TSLRIC of

non-essential elements and imputed rates for essential elements, using the retail rate for the residential access line, as described above.

Q. DR. JOHNSON AND DR. COLLINS SUGGEST THAT CURRENT COMMISSION RULES ARE "SOMEWHAT AMBIGUOUS" AND MAY BE IN NEED OF CLARIFICATION AS THEY RELATE TO THE SETTLEMENT AGREEMENT. DO YOU AGREE?

A. No. If the parties feel that the Commission's existing rules are not adequate, the appropriate solution is for the parties to request a rule making proceeding to address their concerns, separate from this proceeding. Qwest is not aware of any party expressing disagreement with imputation rules that have existed since 1996. Further, Qwest is not aware of any complaint filed by parties that Qwest's existing prices violate any Commission rule. The Settlement Agreement utilizes the Commission rules as they exist today, and Qwest will abide by the rules as they are potentially modified in the future. However, the rules should be applicable to all telecommunications carriers and not be modified in a separate rule making to pertain specifically to Qwest, which would be the effect if such provisions were to be made in this proceeding.

Q. IN HIS SUPPLEMENTAL TESTIMONY, DR. JOHNSON STATES THAT "...ORIGINATING ACCESS ISN'T ESSENTIAL FOR SOME TOLL

CARRIERS...", BUT GOES ON TO COMPLAIN THAT QWEST DOES NOT VIEW ORIGINATING SWITCHED ACCESS TO BE "ESSENTIAL" IN CALCULATING IMPUTED PRICE FLOORS FOR ITS INTRALATA LONG DISTANCE SERVICES. IS HIS PERSPECTIVE CORRECT?

A. No. As I stated previously in this testimony, Rule R14-2-1310 requires the imputation of the "TSLRIC of all non-essential, and the imputed prices of all essential services, facilities, components, functions or capabilities" into Qwest's retail prices. Rule R14.2-1307 specifically classifies **"termination of long distance calls"** as "essential." It is Qwest's understanding that the Commission specifically excluded origination of long distance calls from the range of services considered "essential" due to the range of alternatives now available to Qwest's competitors to bypass originating switched access charges, including facilities bypass, Centrex resale, connection of unbundled loops to a competitor's switch, use of Special Access services and wireless bypass. In view of these alternative means of originating long distance traffic from a customer's location, Qwest agrees that originating switched access can no longer be considered "essential." However, as a non-essential component of the cost of providing intraLATA long distance service, the TSLRIC of originating switched access is included in the imputation price floor.

In any event, should Dr. Johnson continue to disagree with the application of the current Commission rule, he is free to seek clarification of the rule through a proper rule making proceeding. This complaint is outside the scope of this proceeding and should not be a reason for the Commission to reject the settlement proposal and associated Price Cap Plan.

RESPONSE TO DR. FRANCIS COLLINS TESTIMONY

Q. ACCORDING TO DR. COLLINS, QWEST HAS ONLY EXPERIENCED "DE MINIMUS" COMPETITION, EVEN IN THE PHOENIX AND TUCSON AREAS OF THE STATE. (PAGE 3, LINES 8-13) IS THIS AN ACCURATE REPRESENTATION OF COMPETITION IN ARIZONA?

A. No. Arizona consumers, especially those located in Phoenix and Tucson, are able to choose from a number of competitive alternatives for telephone service. Although Qwest makes wholesale services available on a state-wide basis, competitors are primarily targeting the major metro areas of the state. Competition is a reality in Arizona and Qwest should be afforded sufficient flexibility to allow it to compete on par with its competitors.

Q. DR. COLLINS RECOMMENDS THAT A BASKET FOR "EMERGING COMPETITIVE" SERVICE BE CREATED. (PAGE 10, 8 – 19) WHAT IS YOUR REACTION TO HIS PROPOSAL?

A. What Dr. Collins is proposing is not unprecedented, based on my experience with regulation in states outside of Arizona; however, there are some significant differences between what Dr. Collins is proposing and what has been found to be effective regulation in other states. Most states have moved towards streamlining the regulatory process, providing Qwest with greater flexibility for services experiencing some degree of competition, and full deregulation for services experiencing full competition. Services classified as fully regulated, i.e., those with minimal competition, are very limited in number and are generally restricted to residence and business basic exchange services.

Dr. Collins recommends that services experiencing a market share competitive penetration of 15% be placed in his proposed "emerging competitive" basket. As Qwest has no way of determining an accurate assessment of CLEC market share, Dr. Collins' recommendation would necessitate a reporting requirement be placed on CLECs so that such an assessment can be made. Similarly, Dr. Collins' suggestion would necessitate a monitoring function be performed by the Arizona

Commission, since it's been my experience that CLECs will not freely share this information with Qwest.

Dr. Collins' proposal also neglects to consider the manner in which competitors are targeting specific geographic areas. In sum, as Dr. Collins has not provided a compelling argument for establishing an "emerging competitive" basket, his proposal should be rejected. The Settlement Agreement as proposed is a reasonable approach to service classification and as such, should be left unchanged.

Q. AT PAGE 4, DR. COLLINS COMPLAINS THAT CROSS SUBSIDIZATION MAY BE FACILITATED BY THE PRICE CAP PLAN IF "UNASSIGNED SHARED FAMILY COSTS AND UNRECOVERED DIRECT COSTS" ARE NOT RECOVERED BY SPECIFIC SERVICES. DO YOU AGREE?

A. No. If the price of a particular service exceeds the TSLRIC price floor, that service is not being subsidized. Qwest has responded to Cox, with whom Dr. Collins is contracted, in a data request response to Cox Set 2, No. 1 on the issue of appropriate cost recovery as follows:

> TSLRIC sets the price floor, not the price. Historically, retail services have not been priced at TSLRIC. Qwest will recover costs from all revenues received by the Company.

This response continues to be correct. TSLRIC is recognized as the appropriate price floor for a service, and prices in general must be set such that overall Company revenues are sufficient to recover the Company's joint, shared, and common costs.

Q. DR. COLLINS TAKES ISSUE WITH SECTION 4 (G) OF ATTACHMENT A OF THE SETTLEMENT AGREEMENT. PLEASE COMMENT.

A. Section 4 (g) contained in Attachment A of the Settlement Agreement allows new services or packages contained in Basket 3 to be offered to select customer groups. Offerings may be targeted to customers based on purchasing patterns, geographic location, or some other designation, as long as the offers do not discriminate in violation of A.R.S. Section 40-334 or distinquish based on wealth or race. Dr. Collins maintains that this provision allows Qwest to accomplish its competitive zone proposal without being required to demonstrate that competition exists.

First, let me point out that this provision only applies to Basket 3 services. As I've described previously in this testimony, Basket 3 services are those already granted pricing flexibility by the Commission, as well as any new services or packages which can be considered non-essential to the basic provision of telephone service. In both instances, the flexibility provided by this provision of the Settlement Agreement is appropriate. With this

provision, Qwest will be allowed to offer innovative solutions consisting of discretionary, optional, non-essential services, i.e., those in Basket 3, designed to meet the needs of specific groups of customers. This provision will provide additional alternatives to consumers in response to market demands – be it competition, customer usage patterns, life changes, etc. Qwest's competitors enjoy this flexibility today; with this provision Qwest's customers will be afforded the same benefit.

Second, it is not accurate to state the Settlement Agreement affords Qwest with the flexibility proposed in its competitive zone proposal. Qwest's competitive zone proposal would have provided pricing flexibility for virtually all services, including switched access, provided in wire centers where consumers have access to competitive alternatives. With the Settlement Agreement, Qwest gains flexibility for the limited number of services designated to Basket 3, which have already been granted pricing flexibility, and any new services and service packages.[5] Under Qwest's competitive zone proposal, price changes, and changes in product terms and conditions could become effective upon concurrent notice to the Commission. Under the Settlement Agreement, Qwest must receive Commission approval for discontinuation or revision of services, terms, and conditions. New services proposed to be included in Basket 3 and

[5] Settlement Agreement, Attachment A, Section 4 (a).

any new service packages that involve Basket 1 services are subject to Commission review and must be filed thirty days prior to the effective date.[6] The flexibility anticipated by Qwest in its competitive zone proposal is a far cry from the flexibility afforded Qwest in the Settlement Agreement.

Q. DR. COLLINS MAINTAINS THAT QWEST SHOULD BE REQUIRED TO PROVIDE NOTICE OF ITS FILINGS TO CLECS AND OTHER INTERESTED PARTIES. PLEASE COMMENT.

A. Qwest currently provides notice of filings to CLECs in accordance with Commission approved interconnection and resale agreements. In addition, Qwest's tariffs are public documents available for review at the Commission. Products in all three baskets under the Settlement Agreement remain regulated by this Commission. If a competitor or other interested party has reason to believe that a Qwest filing is inappropriate in any way, a complaint may be filed with the Commission. Furthermore, it should be noted that Qwest's competitors, including Cox, do not provide notice to Qwest of changes made to their products. Hence, a more onerous requirement should not be placed on Qwest.

[6] Settlement Agreement, Attachment A, Section 4 (e), (h).

SUMMARY

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. The Settlement Agreement as proposed provides a reasonable approach to addressing the competition Qwest is experiencing in the marketplace, while retaining certain consumer protections. Qwest agrees to continue imputing the price of essential wholesale elements into the price floor of its retail services. Nothing in the Settlement Agreement relieves Qwest of its obligation to do so. To alleviate intervening parties' concerns relative to packages consisting of Basket 1 and Basket 3 services, I have clarified that the price floor will consist of the retail price of the residential access line and the TSLRIC and/or imputed price floors for the other services. While the Settlement Agreement does not provide Qwest with the same degree of flexibility that its competitors enjoy, it is a positive step towards advancing the benefits of competition more rapidly to Arizona consumers. Consequently, Qwest respectfully requests the Commission approve the proposed Settlement Agreement.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, AND TO APPPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN.	)	DOCKET NO. T-01051B-99-0105 AFFIDAVIT OF DAVID L. TEITZEL
STATE OF WASHINGTON	)	ss
COUNTY OF KING	)	

David L. Teitzel, of lawful age being first duly sworn, depose and states:

1. My name is David L. Teitzel. I am Director – Product and Market Issues for Qwest Corporation in Seattle, Washington. I have caused to be filed written testimony in support of settlement in Docket No. T-01051B-99-0105.

2. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Further affiant sayeth not.

David L. Teitzel

SUBSCRIBED AND SWORN to before me this 17th day of November, 2000.

Elizabeth M. Tobin
Notary Public

My Commission Expires: 09/15/02

EXHIBIT

Q-7

Admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN	)	DOCKET NO. _____

TESTIMONY OF

WAYNE G. ALLCOTT

U S WEST COMMUNICATIONS

JANUARY 8, 1999

TESTIMONY INDEX

Page

EXECUTIVE SUMMARY i

WITNESS IDENTIFICATION AND QUALIFICATIONS 1

PURPOSE 2

COMPETITION IN THE ARIZONA TELECOMMUNICATIONS MARKET 3

DEREGULATION 11

EARNINGS 12

RATE DESIGN PROPOSAL 14

Competition 16

Cost of Service 16

Likelihood of Revenue Recovery 17

SUMMARY 20

EXECUTIVE SUMMARY

The purpose of my testimony is to describe how competition has changed the marketplace for telecommunications services in Arizona and to request that the Commission recognize that U S WEST's authorized revenues must increase by $225.9 million in order to allow the Company an opportunity to produce the level of earnings required in a competitive marketplace. I also request that U S WEST be allowed to recover $70.9 million of the $225.9 million revenue deficiency in increased rates for a variety of services.

Because of the increased competition U S WEST is facing in virtually all of its markets, I am also requesting the Commission to adopt a progressive regulatory plan that would permit the Company to package, bundle, promote, and price its services on the same basis as its competitors in specific geographic areas where competition can be demonstrated. In areas where the presence of competition has not yet been demonstrated, U S WEST would continue to be regulated as it is today. This kind of marketing freedom is crucial in order for U S WEST to have an opportunity to recover all or part of the difference between its $70.9 million rate design proposal in this case and the $225.9 million dollar increase it is requesting in its authorized revenues.

I am also requesting the Commission to deregulate U S WEST's high capacity data services. These high end services were among the first of the Company's services to feel the effects of competition because they are typically provided to the large businesses clustered in the central business corridors around which the new entrants have built their fiber networks. Since there are numerous other providers, U S WEST lacks any power to dominate this market and these services should therefore be considered non-essential.

Further, I am requesting the Commission to adopt the Company's rate design proposal to recover an additional $70.9 million in annual revenue. This proposal includes increases to a variety of services, including basic residence service, Directory Assistance, Premium Listings, Private Line, and other miscellaneous services. U S WEST's proposal for basic residence service is to increase the rate for a customer's first line by $2.50. The Company is also proposing decreases for a number of services, such as Zone Connection Charges and the basic installation charge associated with residence service. We are also proposing a restructure of our switched access rates to align them with changes adopted at the federal level.

Finally, I would respectfully request that the Commission review this rate application in an expeditious fashion and approve the rate of return, revenue increase, rate design, and marketing flexibility requested by U S WEST.

1 **WITNESS IDENTIFICATION AND QUALIFICATIONS**

2

3 Q. **PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.**

4

5 A. My name is Wayne G. Allcott. I am the Arizona Vice President for U S WEST
6 Communications (USWC). My business address is 3033 N. 3rd Street, Phoenix, Arizona
7 85012.

8

9 Q. **BRIEFLY OUTLINE YOUR EDUCATION AND PROFESSIONAL BACKGROUND.**

10

11 A. I graduated from the University of Iowa with a Bachelor of Business Administration
12 Degree in Economics. I began my career with Northwestern Bell Telephone Company in
13 the Cedar Rapids Marketing department in 1965. Since then I have held a number of
14 varied assignments in the marketing, customer service, and public policy organizations
15 throughout the U S WEST territory. I assumed my current position as Arizona Vice
16 President on January 1, 1995.

17

18 Q. **WHAT ARE YOUR PRESENT RESPONSIBILITIES?**

19

20 A. As the Arizona Vice President, I am responsible for public policy in Arizona. I am also
21 responsible for the effective management of resources which are required to meet the
22 expanding telecommunications needs of our customers in Arizona.

23

24 In addition, I am responsible for ensuring that the Company has the financial resources to
25 support the investment required to meet those customer needs and to work with the

Commission, RUCO, the legislature, and other policy makers to ensure that the Company earns a reasonable rate of return for its shareholders.

PURPOSE

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. My testimony has several purposes. First, I will briefly discuss the dramatic changes which have taken place in the telecommunications industry with respect to competition, both within Arizona and throughout the country. These changes are of major concern to the Company because, unlike every one of its competitors, U S WEST is still operating under traditional rate of return regulation in Arizona. Now that competition in the local exchange market is a reality for most of U S WEST's Arizona customers, changes must be made in how the Company is regulated. U S WEST must be given the freedom to set prices according to market realities. The Company, through the testimony of Barbara Wilcox and Dave Teitzel, is presenting a plan that would move U S WEST closer to achieving parity with the way our competitors are regulated. I urge the Commission to adopt this plan. Through the testimony of Karen Stewart, the Company is also requesting the Commission to acknowledge the fundamental changes that have taken place in the market over the past several years relative to data services and to deregulate these services for U S WEST in Arizona.

Second, I discuss the importance of earnings in a competitive environment. The level of earnings received by shareholders should be commensurate with the risks they are taking when they choose to invest in a given company. Earnings should also be set at a level that will attract the capital necessary to meet the growing needs of customers in Arizona. Given the rapid acceleration of competition in all of U S WEST's markets, there is a need

to increase the return to the Company's investors above the current level, which was set at a time when U S WEST faced little competitive risk. I recommend that the Commission adopt a return on equity of 13.0% for U S WEST. Based on this required return, the Company is experiencing a revenue shortfall of $225.9 million. As discussed later in my testimony and in the testimony of George Redding, the $225.9 million additional revenue requirement is comprised of 2 components - $83.3 million in temporary increases, and $142.6 million in ongoing increases. I am requesting that the Commission enter a finding recognizing that $225.9 million for 3 years and $142.6 million thereafter is the amount of revenue increase needed to produce the appropriate rate of return.

Third, I discuss the importance of adopting the Company's proposed rate design and establishing maximum rates for services within a competitive zone. This will enable U S WEST to change some of its rates and price its services more in line with the realities of a competitive marketplace. U S WEST's proposed rate design will produce $70.9 million in additional earnings for the Company.

Each of these three requests is essential to create an environment that will permit U S WEST to compete with other providers of telecommunications service in Arizona. Establishing a healthy rate of return and approving the Company's request for additional revenues will allow U S WEST to continue to invest in the types of new services customers are seeking. Customers will also benefit through the pricing flexibility U S WEST is requesting in this filing because the Company will be better able to meet the prices being offered by its competitors.

COMPETITION IN THE ARIZONA TELECOMMUNICATIONS MARKET

Q. HAVE THERE BEEN ANY MAJOR REGULATORY OR POLICY CHANGES SINCE U S WEST'S LAST RATE CASE IN 1993 THAT HAVE IMPACTED THE COMPANY'S OPERATIONS IN ARIZONA?

A. There have been dramatic regulatory and policy changes that have affected the market for telecommunications service in Arizona during the last 5 years. These changes have occurred, in part, as a result of actions taken at both the state and federal level.

At the state level, the Commission adopted new rules allowing competition in June of 1995. As a direct result of those rules, other carriers were allowed into the intraLATA long distance market. There are now over 100 carriers who provide long distance service in competition with U S WEST in Arizona. The Commission also passed interconnection and unbundling rules in 1996 that paved the way for other carriers to compete with U S WEST for local exchange service in Arizona.

At the federal level, in February of 1996 Congress passed the Telecommunications Act of 1996 (Act), which has effectively ended U S WEST's monopoly on local service. Since that time the Commission has certified and approved interconnection agreements for 16 other carriers to provide local service in Arizona. In addition to these 16 companies, there are 49 companies who have applied for, but not yet been granted Certificates of Convenience and Necessity (CC&Ns) and 59 interconnection and resale agreements that have been approved or have been allowed to go into effect through the operation of law. Of the later 59 approved agreements, 15 are for wireless providers, who do not need CC&N approval from the Commission in order to offer service in Arizona.

Q. WHAT IS THE LEVEL OF COMPETITION IN ARIZONA TODAY?

A. U S WEST is experiencing varying degrees of competition in Arizona, depending on the particular market segment one is looking at. Toll service is more competitive than local service at this time. Obviously, there is currently more competition in the higher margin business segment than there is with residence service. However, even in the residential market, U S WEST is experiencing increasing competition - both in multi-unit developments as well as in the suburban single family neighborhoods - as evidenced by COX's recent announcement that it would be offering a comprehensive package of telephone and video services to customers in Chandler beginning in 1998 and to the rest of the valley in 1999. The widely quoted COX prices of $11.75 for a first line and $6.50 for a second line are only available to customers who also purchase cable service, but these prices are far enough below U S WEST's current prices to be attractive to COX's cable TV subscribers. Although AT&T and MCI have temporarily abandoned the residential market in order to pursue a strategy focused on businesses, Sprint has recently announced that it will enter the residential market by late 1999, which is approximately the same time frame that a decision would be due in this proceeding. (TR Daily, June 2, 1998).

The sheer size of the local exchange service market makes it an attractive target for a variety of competitors, whether they be facilities based carriers, resellers, competitive access providers, wireless carriers, or cable providers. Further, these companies enjoy distinct advantages that are not available to U S WEST in Arizona. They can not only pick and choose which segment of the market they want to target, but can even be selective as to which specific customers they want to serve. U S WEST, on the other hand, must provide service to any customer within its territory who requests it, regardless of the cost or profitability. Our competitors can also bundle and package services in any manner they choose and are not subjected to the lengthy regulatory approval process that U S WEST faces in order to bundle its services.

The size of the market also makes it possible for many companies to become niche players. Therefore, although there may not currently be a single company which is competing directly with U S WEST for all of the same market segments, there are a number of companies who see the opportunity to get a toe-hold by serving smaller geographic areas, or by targeting some other niche, such as large business customers. There are even competitive alternatives for residential customers with credit problems, as evidenced by televised advertisements for local service at rates as high as $49.95 per month.

It may take a while longer before a single company emerges that can duplicate the type of service U S WEST offers in every part of its territory. However, a competitive marketplace does not require the presence of one or more ubiquitous competitors. It is the overall level of competition across the entire spectrum of telecommunications service that is the important factor in deciding the issues that U S WEST is requesting the Commission to consider in this proceeding. As shown in my exhibit WGA-1, our 7 major competitors have placed over 10,000 miles of fiber in Arizona and have the capability to offer switched services, such as basic business and residence service, through state of the art digital switches. Together, these 7 companies are already providing significant competition to U S WEST and wouldn't be investing as they are if they didn't believe that Arizona was going to be a profitable market for them. In addition, there are numerous companies who are competing with U S WEST through resale.

Q. HASN'T U S WEST BEEN GIVEN THE OPPORTUNITY TO ENTER NEW MARKETS AS A "QUID PRO QUO" FOR LOSING ITS STATUS AS A MONOPOLY PROVIDER OF LOCAL EXCHANGE SERVICE?

A. There was no "quid pro quo" established when the Commission opened up the intraLATA and local exchange markets in Arizona at the state level. At the federal level, Section 271 of the Act established a process for allowing local exchange carriers, like U S WEST, to enter the market for interLATA services. However, what originally began as a simple 14 point check list approved by Congress has since evolved into literally hundreds of conditions that the FCC now says U S WEST and the other Regional Bell Operating Companies (RBOCs) must meet in order to enter the interLATA market. To date the FCC has turned down every request it has received for interLATA relief. Therefore, even though it is theoretically possible that U S WEST could eventually participate in new markets, the reality is that it will continue to see a serious erosion of its local service revenues long before it sees a dime of money as an interLATA toll carrier.

U S WEST supports free and open competition in the entire telecommunications marketplace, provided it is done under the proper conditions. If customers are to receive the maximum benefits of competition, and if U S WEST is going to have a chance to succeed, the Company must be allowed to earn a fair rate of return, have the ability to flexibly price its services, and compete on an equal regulatory footing with its competitors.

Q. ARE THERE OTHER CHANGES TAKING PLACE WITHIN THE INDUSTRY THAT WILL IMPACT THE NATURE OF COMPETITION IN U S WEST'S MARKETS, INCLUDING ARIZONA?

A. Yes. Strategic alliances are being formed among many key participants in the telecommunications and cable TV industries. AT&T recently completed a merger with TCG, one of the major competitive access providers in the country. AT&T has also agreed to a merger with TCI, the largest cable TV company in the country. MCI, MFS, and Brooks Fiber were recently acquired by WorldCom. Bell Atlantic and NYNEX have

merged and are now proposing to acquire GTE. PacTel and Southwestern Bell have also merged and have their sights set on a merger with Ameritech. Some may assume that U S WEST has a size advantage over its competitors because it is the incumbent carrier in its region. However, as the above examples demonstrate, U S WEST's competitors are not small mom and pop operations. They are among the largest companies in the United States and dwarf U S WEST in size. For example, AT&T has over $58 billion in assets and $51 billion in annual revenue, compared with $18 billion in assets and $10 billion in revenues for U S WEST.

While much of the trend has been towards the creation of large companies with diverse operations, U S WEST has settled on a more conservative strategy. In June of 1998 the Company spun off MediaOne, its cable and entertainment arm, in order to better concentrate on serving customers throughout its 14 state region. It did this in recognition of the fact that it will face fierce competition from the companies mentioned earlier.

Q. DO YOU HAVE ANY CONCERNS ABOUT U S WEST'S ABILITY TO SUCCESSFULLY COMPETE IN ARIZONA?

A. Yes. The current regulatory environment in Arizona places U S WEST at a disadvantage in several ways. First, because U S WEST is still a regulated company, it must seek Commission approval before it can bundle services and price the way its competitors do. Second, the process is subject to delay for a variety of reasons, including lack of Staff resources to evaluate filings in a timely manner, or intervention by competitors seeking to throw up roadblocks. Third, U S WEST is required to adhere to a "one size fits all approach", i.e., because it must average its prices across all customers in the state, it can't readily compete by charging customers differently depending on cost or other considerations. This must change or the Company will face disastrous consequences.

U S WEST is requesting that the Commission establish a process for allowing it to have complete pricing flexibility within discreet geographic areas known as "competitive zones". Dave Teitzel and Barbara Wilcox describe the specific details of U S WEST's proposal in their direct filed testimony.

Q. WOULD YOU BRIEFLY SUMMARIZE U S WEST'S COMPETITIVE ZONE PROPOSAL?

A. Certainly. Under U S WEST's plan, specific wire centers would be designated as competitive zones once it was established that customers within the zone had access to a competitive alternative. U S WEST would be required to demonstrate this by showing that a carrier was marketing its services within a wire center through facilities based service, resale, or by way of unbundled elements. Zones would be designated as competitive for either residence customers, business customers, or both.

Once an area was designated as a competitive zone, U S WEST would have complete freedom to bundle and price services upon simple notice to the Commission, without the need for formal approval of the package. As is the case with the Commission's current rules for competitive services, U S WEST would establish a maximum price for each service within the zone and, with the exception of basic residence service, would also be required to price above the Total Service Long Run Incremental Cost (TSLRIC) of each service.

U S WEST is also proposing that all new services be classified as competitive immediately upon introduction. U S WEST has no monopoly for a new service at the time the service is introduced. We start out with no customers, no revenues, and no market share. The argument that a new service is essential and should not be classified as

competitive until there are other companies willing to offer it simply does not make sense. One of the hallmarks of competition is that firms continually introduce new services or packages to retain and grow market share. To the extent that no other company offers a similar service, they may be incented to consider doing so if they want to compete with U S WEST. But U S WEST should not be restricted in its ability to bundle and price a new service just because no one else chooses to offer it. Further, as long as a service were covered by the Act, competitors would have the ability to resale the service and may also be able to provision it through the use of unbundled elements. Therefore, there is no need to delay the introduction of new services by subjecting the Company, the Commission and the Commission Staff to the administrative practices currently associated with the introduction of a new service. The existing process simply serves as a disincentive for U S WEST to do more packaging.

There are many other details to the competitive zone proposal that are described in the testimony of Mr. Teitzel and Ms. Wilcox. However, what it all boils down to is competition. When a customer has a choice of service providers, then it is no longer necessary for the Commission to require U S WEST to conform with outdated regulatory practices and intervals that hinder the Company's ability to compete.

Q. WHY DOESN'T U S WEST SIMPLY UTILIZE THE EXISTING RULES FOR DESIGNATING ITS SERVICES AS COMPETITIVE?

A. The existing rules are better suited for services, such as toll or directory assistance, which are usually competitive on a statewide basis. However, what we are seeing now is that competition is emerging in specific geographic areas within the state. It starts in one part of town and grows from there. The competition may be extremely fierce in specific neighborhoods, buildings, or shopping centers targeted by the CLECs, and non existent in

other areas of the state. Further, most customers generally prefer to deal with a single provider for all of their services. Therefore, where we do encounter competition, it is usually for a comprehensive package of services which includes basic service, optional features, long distance calling packages, internet access, wireless service, and, in some cases, even cable TV programming.

The existing process requiring U S WEST to file on a service by service basis is not compatible with the environment we face today. For one thing, the process takes too long. Even though U S WEST has filed a mere handful of competitive petitions, it has had to wait for up to a year and a half to have the Commission rule on them. Without a more efficient process, like that being proposed in this case, it is conceivable that we would need to file dozens, if not hundreds, of petitions in order to be able to compete in specific geographic areas without waiting until a service was competitive on a statewide basis. U S WEST's proposal would constitute a much more efficient process for the Commission to ensure that the Company is treated in the same manner as its competitors.

DEREGULATION

Q. WOULD YOU PLEASE EXPLAIN BRIEFLY WHY U S WEST IS ASKING THE COMMISSION TO DEREGULATE ITS DATA SERVICES?

A. Data services, such as High Capacity DS1 and DS3 facilities, ATM Service, Frame Relay, Transparent LAN, and MEGABIT, are highly competitive and represent an increasing share of the market for telecommunication services. Much of U S WEST's data service no longer traverses the traditional public switched network. Instead, an entirely new and separate network has evolved which is based on more efficient technology and protocols.

Data services are generally provisioned over fiber optic facilities that are readily available from a variety of competitors throughout the state. Deregulation of these services will recognize that U S WEST no longer exercises market power over its customers. Karen Stewart provides specific details concerning the competition U S WEST encounters in the market for data services in her direct testimony.

EARNINGS

Q. WHAT IMPACT DO THE CHANGES TAKING PLACE IN THE INDUSTRY HAVE ON THE EARNINGS REQUIRED ON THE COMPANY'S INVESTMENT?

A. Because the telecommunications industry is becoming increasingly more competitive, U S WEST's earnings are more at risk than they were in the monopolistic era of the past. This higher level of risk requires a higher level of earnings for the Company's investors so that U S WEST can attract the capital necessary to stay competitive. Despite the high levels of growth in Arizona and the Company's best efforts to manage its costs, the test year adjusted level of earnings is still well below the 9.75% composite return which was authorized by the Commission in Decision No. 58927. In his direct testimony, Pete Cummings further discusses the reasons why the Company's current authorized level of earnings is inadequate in today's marketplace.

Q. WITH ALL OF THE GROWTH THAT HAS OCCURRED IN ARIZONA SINCE THE LAST RATE CASE, WHY HASN'T U S WEST BEEN ABLE TO INCREASE ITS LEVEL OF EARNINGS IN THE STATE?

A. While it is true that our revenues are up, it is also true that our expenses and investment have increased. Revenue is just one side of the equation. The high levels of growth we have experienced mean that more copper and fiber needs to be buried. In addition we need more switches, more installers, and more technicians. Further, how customers use their phones has changed. Customers want more lines, more features, and more convenience. U S WEST has greatly increased its investment in Arizona in order to keep up with the growth and satisfy these needs.

Another factor which explains why earnings have not increased with growth is that basic residential service, which accounts for a significant portion of our access line growth over the last 5 years, is still priced below cost. When you are already selling a service below cost, you're not going to make up the difference simply by selling more of the product.

Finally, since the introduction of equal access in 1996, U S WEST has lost a significant share of its intraLATA toll revenues. As recently as 1996 U S WEST had virtually 100 percent of this market. U S WEST's share of this market has decreased significantly since that time, as the proprietary figures contained in Dave Teitzel's testimony demonstrate.

Q. HOW MUCH DOES U S WEST INVEST IN ARIZONA ON AN ANNUAL BASIS?

A. At the time U S WEST filed its last rate case in 1993, it was investing approximately $250 million annually on a total state basis in Arizona. U S WEST's owners have invested approximately $1.5 billion in Arizona since 1993. U S WEST is the only carrier making that kind of investment in Arizona today and is the only carrier obligated to serve all of the customers in its territory, profitable or unprofitable, rural or urban. No other company has that obligation, nor have any volunteered to provide service throughout the state. These

other companies can "pick and choose" which customers they will serve and which they will leave to U S WEST. Therefore, you can expect them to continue to target only the most profitable areas and to get even more selective by picking only the most profitable customers within an area. Since U S WEST is expected to continue to serve all customers in the state as the carrier of last resort, then it needs to continue to invest in this state and its earnings must improve in order to attract investors who are willing to supply the necessary capital.

Q. WHAT IS YOUR RECOMMENDATION TO THE COMMISSION WITH RESPECT TO U S WEST'S EARNINGS IN ARIZONA?

A. In his direct testimony, Pete Cummings addresses the relevant factors that should be considered in setting a fair and reasonable rate of return on the Company's ratebase and recommends that U S WEST be granted a 13.0% return on equity. I would ask the Commission to adopt Mr. Cumming's recommendation.

RATE DESIGN PROPOSAL

Q. HOW WOULD YOU SUMMARIZE THE COMPANY'S RATE DESIGN PROPOSAL?

A. As discussed in Mr. Redding's testimony, U S WEST has a total revenue deficiency of $225.9 million. However, due to competitive concerns the Company is only seeking to recover $70.9 million, or less than one third, of the $225.9 million at this time. My exhibit WGA-2 summarizes the various rate proposals which are presented by Dave Teitzel and Barbara Wilcox for recovery of this revenue requirement. As can be seen from my exhibit, residence basic service accounts for $32.7 million of the new revenues. Other major changes we are proposing include increases of $18.3 million for Directory

Assistance, $7.7 million for Listings and $3.3 million for Custom Calling Features. We are also proposing a decrease of $5 million for Switched Access service.

Q. HOW WOULD U S WEST RECOVER THE PROPOSED INCREASE TO BASIC RESIDENCE SERVICE?

A. I am recommending that the monthly rate for basic residence service be increased by $2.50 for a customer's first line - which will result in a rate of $15.68 after the current directory imputation surcharge expires, which is expected to occur later this year. U S WEST is not proposing a change for additional lines at this time. This is a very minimal increase when you look at it from the standpoint of either the Company's $225.9 million revenue requirement in this case, or from the standpoint of the cost we incur to provide basic residence service. Even though in a traditional rate case U S WEST would normally be requesting a much higher increase on residence service, we have chosen to limit our request in this case to $2.50 because of concern for our residential customers and also because of competitive factors. We hope to recover the remaining revenue requirement through the marketing flexibility we are requesting from the Commission.

Q. WHAT FACTORS DID THE COMPANY CONSIDER IN DEVELOPING ITS RATE DESIGN PROPOSAL?

A. There were basically three factors which we considered in setting these rates; 1.) competition, 2.) cost of service, and 3.) the likelihood of recovering the actual revenues anticipated from a given rate change. I will briefly discuss each of these factors.

Competition

Q. HOW ARE COMPETITIVE FACTORS REFLECTED IN THE COMPANY'S RATE DESIGN PROPOSAL?

A. Competition is the primary driver for the Company's competitive zone proposal. U S WEST is requesting complete pricing flexibility for all services within a competitive zone in order to be on a level playing field with its competitors. In order to accomplish this we are proposing that maximum rates be established for all of the Company's services for use in pricing services within a competitive zone. The initial rates contained in U S WEST's rate design proposal capture only $70.9 million of the total $225.9 million dollar revenue requirement being requested in this case. Whether or not U S WEST is ever able to recover the remaining $155 million will be dependent upon the Company's ability to successfully bring new products and services to the market and by competing successfully within its competitive zones. That's why it is so crucial for the Commission to grant the pricing and marketing flexibility we are requesting.

Cost of Service

Q. HOW ARE THE COMPANY'S COSTS REFLECTED IN THE PRICING PROPOSALS?

A. The Commission's rules require U S WEST to price its service above TSLRIC cost, with the exception of basic residence service. However, even without any rules, it is critical in a competitive market that the prices for all services cover their costs. If rates do not cover the costs to provide a service, then the company either loses money, or must recoup the cost in prices charged for its other products and services. In a competitive market, the company's ability to charge a rate higher than its cost is restricted because doing so

would result in the loss of market share as customers shifted to other providers of the service. That leaves the company with only two alternatives, either to raise the price of the below cost service, or to continue to sell the service below its cost. The later choice would not be a viable long term alternative.

U S WEST is proposing increases to a number of services that are currently priced below cost, such as basic residential service and analog private line, and decreases to some of its services that are priced well above cost, such as toll and access. Since U S WEST will have pricing flexibility for each of its services within a competitive zone, the initial rates which are established in this proceeding will change over time in accordance with market conditions. To the extent that the proposed prices are still set too far above costs, they may have to be adjusted downwards within a competitive zone. To the extent that they are priced too low, they may increase - but only if the market will allow it.

Likelihood of Revenue Recovery

Q. WHAT DO YOU MEAN WHEN YOU SAY THAT YOU NEED TO CONSIDER THE LIKELIHOOD OF REVENUE RECOVERY WHEN RATES ARE SET?

A. If U S WEST's earnings are to improve as a result of this rate case, it is important that the revenue requirement be recovered from items with solid demand that will produce the desired revenues. If the Commission were to authorize an increase for U S WEST in this case, and then allocate all of the increase to services that are either highly competitive or which exhibit high price elasticity of demand, then U S WEST would not actually collect the revenues to which it is entitled. U S WEST has recommended a rate design proposal which recognizes these factors.

Q. CAN YOU GIVE SOME EXAMPLES OF THIS APPROACH TO PRICING?

A. Yes. For instance, even though we are experiencing competition for virtually all of our services at the current time, some are more competitive than others. Toll is more competitive on a statewide basis than basic exchange service and we have therefore requested reductions for our toll calling plans. Allocating a portion of the revenue requirement to toll service would not result in an increase in revenues for U S WEST, because customers would simply purchase this service from its competitors.

Likewise, within the local exchange category, business service is more competitive than residence service. We are therefore not proposing increases on business basic exchange service, since doing so would further jeopardize the recovery of our revenue requirement.

In some instances, such as Directory Assistance (DA), U S WEST is proposing increases even though it is experiencing a significant amount of competition in this market. However, the increase being proposed by U S WEST for DA service will still result in a rate that is $.10 less per call than the predominant rate being charged by its competitors. The Company's proposed increase on DA service helps reduce some of the pressure to further increase basic residential service and better positions the Company where it would like to be relative to its competition.

Q. WHAT IMPACT WILL YOUR RATE DESIGN PROPOSAL HAVE ON A TYPICAL RESIDENTIAL CUSTOMER?

A. The current average monthly residential bill in Arizona is $24.21. Since the existing basic line charge of $13.43 is only a little over half of what our customers typically spend for telephone service, our rate proposal will impact customers differently, depending on the mix of services they use. For instance, most customers also subscribe to a variety of features and many make varying amounts of long distance calls. Depending on what features a customer has and how they use their phone, some may experience increases while others may see a slight decrease.

By focusing on the amount of increase being proposed for one component of a customer's service, such as the basic line charge, it is easy to lose sight of the outstanding value customers are receiving from their U S WEST phone service. The current monthly rate for basic residential service is $13.43, or $.89 less than the $14.32 that customers paid for comparable service ten years ago. While most of the other goods and services that we all buy on a regular basis have increased in price during that period, basic telephone service in Arizona has actually decreased in price. According to the U.S. Department of Labor, the CPI for all goods and services increased nearly 37% during the same period. The rate of increase for U S WEST's service in Arizona over the last 10 years would still be only a quarter of the overall CPI index even with the $2.50 increase we are proposing.

Further, the basic monthly rate buys a lot more now than it did in 1988. Ten years ago the Phoenix Metropolitan Area was divided into zones and callers were billed additional charges to make calls to another zone. Today customers can call from Apache Junction to Buckeye and from Queen Creek to Black Canyon City without incurring a toll charge. Likewise, the Greater Tucson area has seen significant increases in its local calling area during that time with the addition of several surrounding exchanges. The elimination of calling zones, together with the expansion of EAS calling areas and the growth in access

lines have combined to make it possible for customers in the Phoenix area to reach over 1.8 million lines today with a local call. Call clarity and connection speeds are vastly improved with the deployment of new digital switches. In addition, improved technology has given customers access to more features that simplify their lives.

Another major consideration in determining the value of phone service is to look at how customers use their phones. Usage patterns have increased dramatically as customers have found more uses for their telephone service, such as on-line banking and internet access. The kind of value that all these things represent is rivaled in few, if any, other industries.

SUMMARY

Q. WOULD YOU PLEASE SUMMARIZE YOUR TESTIMONY?

A. Yes. I respectfully ask the Commission to do the following:

1. Recognize that U S WEST is experiencing competition in the markets for all of its services and approve the Company's proposal to establish competitive zones. This will enable U S WEST to be a more viable competitor and will benefit customers because the Company will have greater flexibility to bundle and price services that will be attractive to them.
2. Approve U S WEST's request to have its data services deregulated. This will eliminate barriers that currently restrain the growth of new data services and which diminish U S WEST's incentive to expand these services into areas where they are not currently available.

3. Approve a return on equity of 13.0% for U S WEST in Arizona. U S WEST will require huge amounts of capital if it is going to keep up with the explosive growth in the state and continue to invest in the technologies and services that customers desire. This rate of return is necessary for U S WEST to attract the capital that will allow the Company to do these things as well as to fulfill its carrier of last resort obligations.

4. Approve a total revenue requirement increase for U S WEST of $225.9 million for three years and $142.6 million thereafter. Also, approve the Company's request to recover $70.9 million of that increase immediately through the changes we have proposed. Even though U S WEST is only requesting recovery of $70.9 million of its revenue deficiency in this case, recognition of the full $225.9 million deficiency is still appropriate because that is the amount supported by the testimony we are presenting in this proceeding.

5. Adopt U S WEST's rate design proposal. The Company's proposal was developed based on careful consideration of the realities of a competitive market. We have recommended increases for services that are either below cost, or where the market would allow it. Placing increases in other areas, such as Switched Access, Toll, or on Business rates would not only place the Company at a disadvantage in the competitive marketplace, but would result in U S WEST not receiving the additional revenues that are necessary in order to earn a fair rate of return in Arizona.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN	)	DOCKET NO. _____

EXHIBITS OF

WAYNE G. ALLCOTT

U S WEST COMMUNICATIONS

JANUARY 8, 1999

INDEX OF EXHIBITS

DESCRIPTION	EXHIBIT
ARIZONA CLEC FACILITIES	WGA-1
RATE DESIGN SUMMARY	WGA-2

ARIZONA CLEC FACILITIES

CLEC	Miles of Fiber	Switching Capability
AT&T/TCG	300	Yes
Brooks Fiber	NA	Yes
COX	8,900	Yes
ELI	400	Yes
e.spire	120	Yes
GST Net	300	Yes
MCI WorldCom	95+	Yes
Total	10,115	7

RATE DESIGN SUMMARY

Witness	Rate Category	Proposed Revenue ($ Millions)
Dave Teitzel	Residence Basic Service	$32.7
	Business Basic Service	($0.4)
	Long Distance Service	($0.5)
	Market Expansion Line	$0.5
	Directory Assistance	$18.3
	Listings	$7.7
	Custom Calling Services	$3.3
	Screening Services	$6.3
Barbara Wilcox	Private Line	$6.3
	Switched Access	($5.0)
	PAL	$1.7
Total		$70.9

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN	)	DOCKET NO. AFFIDAVIT OF WAYNE G. ALLCOTT
STATE OF ARIZONA	)	
COUNTY OF MARICOPA	)	
	) :)	SS

Wayne G. Allcott, of lawful age being first duly sworn, deposes and states:

1. My name is Wayne G. Allcott. I am the Arizona Vice President of U S WEST Communications in Phoenix, Arizona.

2. Attached hereto and made a part hereof for all purposes is my testimony.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Wayne G. Allcott

SUBSCRIBED AND SWORN to before me this 7th day of January, 1999.

Notary Public

My Commission Expires:

OFFICIAL SEAL
Josie Maldonado
Notary Public-Arizona
Maricopa County
My Commission Expires: 9-21-00

BEFORE THE ARIZONA CORPORATION COMMISSION

EXHIBIT
Q-8
Admitted

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN	))))))))))	DOCKET NO. _____

TESTIMONY OF

PETER C. CUMMINGS

U S WEST COMMUNICATIONS

JANUARY 8, 1999

TESTIMONY INDEX

I. TESTIMONY

	Page
EXECUTIVE SUMMARY	i
IDENTIFICATION OF WITNESS	1
PURPOSE OF TESTIMONY	2
CAPITAL MARKETS	
Cost of Capital Defined	2
Fair Return Concepts	4
Market Focus	6
RISK	
Investment Risk	7
Competition and Industry Risks	9
Risk and Competition in Arizona	13
The Telecommunications Act of 1996	16
Regulatory Risk	17
CREDIT RATINGS	18
CAPITAL STRUCTURE	
Analysis of Capital Structure	19
Capital Structure Recommendation	23
COST OF DEBT	24

COST OF EQUITY

The Market Required Return 24

Estimating the Market Required Return 25

Discounted Cash Flow (DCF) 29

Capital Asset Pricing Model (CAPM) 35

Comparable Companies 43

Market Required Return Estimate for USWC 46

REASONABLENESS TESTS

Expected Return on the Market 48

Equity Risk Premium 51

COST OF EQUITY AND RECOMMENDED RETURN

Stock Issuance (Flotation) Costs 53

Recommended Range for Cost of Equity 58

OVERALL RATE OF RETURN RECOMMENDATION . . . 58

II. APPENDICES

I. Previous Testimony of Peter Cummings 60

II. Discounted Cash Flow (DCF) Model 61

III. EXHIBITS

	Exhibit
Rate of Return Recommendation	PCC-1
Debt Ratios - Telephone Operating Companies	PCC-2
Capital Structure and Embedded Cost of Debt	PCC-3
DCF Analysis - U S WEST Communications	PCC-4
DCF Analysis - Telephone Companies	PCC-5
DCF Analysis - Comparable Companies	PCC-6
CAPM Analysis - U S WEST Communications	PCC-7
CAPM Analysis - Telephone Companies	PCC-8
CAPM Analysis - Comparable Companies	PCC-9
Summary of Stock Issues and Expenses	PCC-10
DCF Analysis of S&P 500 Companies	PCC-11
CAPM Analysis of S&P 500 Companies	PCC-12
Equity Risk Premium	PCC-13

EXECUTIVE SUMMARY

1. Current Responsibilities:

My name is Peter C. Cummings and my business address is 1600 Bell Plaza, Room 3005, Seattle, Washington 98191. I am employed by U S WEST Communications, Inc. (USWC) as Director - Finance and Economic Analysis.

My job responsibilities include financial analysis of capital costs and capital structure of U S WEST Communications. I develop cost of capital estimates for company cost studies, capital budgeting, and economic analysis. I also testify in state rate cases on rate of return, capital structure, and other financial issues.

2. Purpose of Testimony:

I am appearing before the Corporation Commission to present an analysis of the cost of capital and capital structure for U S WEST Communications, Inc. (USWC). The purpose of my testimony is to make a recommendation to the Commission for a fair rate of return on equity and total capital for USWC.

3. Summary of Testimony:

Risks Faced by USWC and the Telecommunications Industry

One can pick up practically any recent *Wall Street Journal* and somewhere in there will be at least one article discussing a merger, consolidation, new entrant or some other significant change in the telecommunications industry. The very nature of telecommunications, its changing technology and the ability to transmit ideas around the globe instantly means that change is both rapid and national, if not international in scope. Rapid change leads to uncertainty about future outcomes. In financial terms, this is risk. Arizona is one of the focal points for change in the local telecommunications industry.

Risk and Competition in Arizona

The local phone service market in Arizona is becoming very competitive. Sixty five companies either have or are seeking certification to provide local service. Cox Digital Telephone offers free installation and has priced a popular bundle of services at 28% below U S WEST's prices. As competitors target U S WEST's business and residence customers, the company's business risk increases significantly due to its capital intensity and high operating leverage.

Given the combination of high growth and competition in Arizona, I conclude that capital costs would be higher for Arizona by itself than for U S WEST combined. Given a range of capital cost estimates with the midpoint as the best estimate for U S WEST, I would estimate capital costs for Arizona near the top of the range.

Fair Return on Equity Capital

It is the actions of investors buying and selling securities in the market that determines the cost of capital. Thus, estimating the cost of equity capital requires data from the financial markets.

The cost of capital represents the return investors are expecting given the level of risk they are willing to accept.

I have analyzed market data for U S WEST along with two proxy groups of companies utilizing discounted cash flow (DCF) and capital asset pricing model (CAPM) methods to estimate the cost of equity capital for USWC. These estimates form the basis for my judgment that the cost of equity capital for USWC is in the range of 12.1% to 13.3%. A fair equity return for U S WEST on it's Arizona investment is equal to the cost of equity capital.

Capital Structure

USWC's Arizona capital structure relates the sources of investor financing to the assets used to provide telephone service in Arizona and should be utilized in determining the company's revenue requirement. The current capital structure is 41.2% debt and 58.8% equity. The embedded cost of debt financing for Arizona is 7.52%.

Conclusion

The conclusion of my testimony is that a fair return on the equity capital invested in Arizona is in the range of 12.1% to 13.3%, and my specific recommendation is that the Commission authorize a fair return on equity capital of 13.0%.

When combined with the Company's capital structure and debt costs, my overall return requirement recommendation is 10.74%.

1 **IDENTIFICATION OF WITNESS**

2

3

4 Q. **PLEASE STATE YOUR NAME, BUSINESS ADDRESS, AND CURRENT POSITION.**

5

6 A. My name is Peter C. Cummings and my business address is 1600 Bell Plaza, Room 3005,
7 Seattle, Washington 98191. I am employed by U S WEST Communications, Inc. (USWC) as
8 Director - Finance and Economic Analysis.

9

10 Q. **WHAT ARE YOUR JOB RESPONSIBILITIES?**

11

12 A. My responsibilities include financial analysis of capital costs and capital structure of
13 U S WEST Communications. I develop cost of capital estimates for company cost studies,
14 capital budgeting, and economic analysis. I also testify in state rate cases on rate of return,
15 capital structure, and other financial issues.

16

17 Q. **PLEASE DESCRIBE YOUR WORK EXPERIENCE.**

18

19 A. I began my career at Northwestern Bell in 1969 and have held positions in Operator Services,
20 Marketing, and Finance departments. For the last fourteen years, my job responsibilities have
21 been focused on cost of capital and rate of return.

22

23 Q. **PLEASE DESCRIBE YOUR EDUCATIONAL BACKGROUND AND OTHER**
24 **QUALIFICATIONS.**

25

A. I received my B.A. degree from Bemidji State College in Minnesota. I have a Master of Public Administration Degree from the University of Oklahoma and a Master of Business Administration Degree from Creighton University in Omaha, Nebraska. I am a Chartered Financial Analyst (CFA) and a member of the Association for Investment Management and Research (AIMR), the Financial Management Association (FMA), and the Seattle Society of Financial Analysts.

Q. IN WHAT REGULATORY PROCEEDINGS HAVE YOU TESTIFIED?

A. I have filed testimony in a number of jurisdictions and dockets as shown in Appendix I.

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to present U S WEST Communications' cost of capital and regulatory capital structure and recommend a fair rate of return on equity and capital for USWC's Arizona jurisdiction.

CAPITAL MARKETS

Cost of Capital Defined

Q. WHAT IS THE COST OF CAPITAL?

A. The **cost of capital** is the expected rate of return that the capital markets require in order to attract funds to a particular investment. In economic terms, the cost of capital is an *opportunity cost* – that is, the cost of foregoing the next best alternative investment. The cost of capital is always an *expected return.* There are several key points embedded in this definition:

1. The cost of capital is a rate of return **expected by investors.** For debt capital, which has precise terms and conditions, the expected return can be directly observed in the yield provided by the bond or debt security. For equity capital, the expected return cannot be directly observed and must be estimated indirectly. The risk of ownership, which comes with equity investment, is sometimes called the "residual risk" which means that only after all other creditors have been paid do equity owners receive a return. That is why the return expected by equity investors is significantly greater than the return expected by debt investors.

2. The cost of capital is determined in **capital markets** (e.g., the New York Stock Exchange) and data from capital markets is essential for estimating the cost of capital.

3. The cost of capital depends upon the return offered by **alternative investments of equivalent risk.** Consideration of these investment alternatives and risks are part of the evidence that needs to be examined.

The cost of capital is an opportunity cost, which is determined in the capital markets, and depends upon the risk of the investment.

1

2 Sometimes, the terms **market required return** and **cost of capital** are used interchangeably.
3 This is not technically correct because the cost of financing is greater to the company than it
4 is to the investor because of costs the company pays to issue stock or bonds. Because of
5 issuance costs, the company receives less money than the investor provides. This is equally
6 true for both debt and equity securities. In my testimony on the cost of equity, market required
7 return refers to the return required or expected by equity investors and cost of equity refers to
8 the cost for the company to provide that return.
9
10 **Q. WHY IS THE COST OF CAPITAL IMPORTANT?**
11
12 A. The cost of capital has a crucial role in guiding the investment decisions of all companies. To
13 conduct business, companies have real assets, such as machinery, equipment, distribution
14 networks, computers, vehicles and buildings. All of these operating assets need to be
15 financed. Companies sell financial assets or securities such as stocks, bonds, leases, bank
16 loans, etc. to fund operational assets. The risk associated with a company's business is
17 reflected in the return it must provide to holders of its financial assets.
18
19 **Fair Return Concepts**
20
21 **Q. PLEASE EXPLAIN THE CONCEPT OF A FAIR RATE OF RETURN.**
22
23 A. For a company with operations subject to regulation, the actions of regulatory authorities
24 responsible for setting prices to be charged for services provided by the company are
25 intended to substitute for the actions and effects of a fully competitive market. In order to set

the prices to be charged, the regulators must take into account the concept of a "fair return" to investors supplying capital to the regulated company:

> The concern with a "fair" return to investors must balance two needs: customers should not be overcharged for the capital investors supply, and investors must be paid enough to assure that the requisite capital will be available to meet customers' needs in the future.
>
> (A. Lawrence Kolbe, James A. Read, Jr. and George R. Hall, The Cost of Capital Boston: Charles River Associates, 1984, p. 2.)

Q. HOW DOES THE CONCEPT OF A FAIR RATE OF RETURN INVOLVE A BALANCE BETWEEN NEEDS OF INVESTORS AND CUSTOMERS?

A. Investors provide capital with the expectation of receiving a return on their investment, commensurate with risks involved. Investors make and continue holding only those investments which are expected to provide returns that meet or exceed their required returns. In order to attract capital, companies must provide investors with returns equal to or exceeding their required return. The return that must be provided to investors supplying capital is an important cost of doing business. At the same time, customers want services that meet their needs at prices they are willing to pay. Companies must raise capital to finance the plant and equipment used to provide services to customers. Regulated companies are dependent on regulators to set an allowed rate of return which is reflected in the prices they may charge for services provided to customers. The allowed rate of return is not a guaranteed return, it is simply an opportunity to earn that amount. A regulated company may actually earn more or less than the allowed return depending upon the demand for its services and the efficiency of its operations. In addition, regulatory imputations and disallowances can affect a company's ability to achieve the investors' expected return.

Q. WHAT IS THE LEGAL BASIS FOR A FAIR RETURN?

A. The foundation for determining a fair return for regulated companies was clearly established by the U. S. Supreme Court in Federal Power Commission v. Hope Natural Gas Company 320 U.S. 591 (1944) and Bluefield Water Works & Improvement Co. v. Public Service Commission of the State of West Virginia, 262 U.S. 679 (1923).

These court decisions provide two standards for a fair and reasonable return:

1. The ability or opportunity to earn returns commensurate with those of other firms having **corresponding risks**.

2. The allowed return should be sufficient to assure confidence in the financial integrity of the company in order to **maintain and support creditworthiness** and the ability to **attract capital** on reasonable terms.

Q. WHAT IS THE RELATIONSHIP BETWEEN A FAIR RETURN AND THE COST OF CAPITAL?

A. A fair return allowed by the regulatory body will allow the regulated company the opportunity to earn a return on its assets equal to its weighted cost of equity and debt capital.

Market Focus

Q. HOW CAN A FAIR RETURN BE ESTABLISHED?

A. The concepts of a fair return and legal interpretations of what constitutes a fair and reasonable return for regulated companies point to the capital markets as the focus for determining a fair return. A fair return depends upon the risk of the firm, comparable investments in other firms, and creditworthiness and economic conditions. Financial and economic theory tells us that a fair return for a company is equal to the market required return for the company's securities plus the costs of issuing those securities. Where all of these factors come together is in the capital markets.

The focus of any cost of capital analysis must be on the marketplace and the actions of investors. Publicly held companies, both regulated and unregulated, compete for investors' capital. Today's capital markets provide a myriad of investment alternatives to the investor, including government securities, stocks, bonds, real estate, precious metals, mutual funds, derivative securities, and others. The markets are dynamic and the returns required for security investments change according to financial and economic conditions.

RISK

Investment Risk

Q. WHAT IS RISK?

A. Risk is uncertainty about a future outcome or event. In the investment context, risk is uncertainty about the expected rate of return. Risk and expected returns are related. The higher the risk, the higher the expected return:

> Risk is thought of as uncertainty regarding the expected rate of return from an investment.

> While there is a difference in the specific definitions of risk and uncertainty, for our purposes and in most financial literature the two terms are used interchangeably. In fact, one way to define risk is as the uncertainty of future outcomes. An alternative definition might be as the probability of an adverse outcome.
>
> (Frank K. Reilly, Investment Analysis and Portfolio Management, 3rd Ed; New York: Dryden Press, 1989, pp. 6-7 and p. 256.)

Investors typically segment the total risk into business risk and financial risk. Business risk is uncertainty in operating sales, cash flow, and earnings and is related to the industry, the overall economy, and to the company itself:

> Business risk (BR) is the uncertainty due to a firm's sales volatility, which is generally related to the characteristics of the firm's industry. In addition, the variability of the firm's operating earnings is affected by the firm's production function (i.e., the mix of fixed and variable costs), which is indicated by its operating leverage.
>
> (Frank K. Reilly, Investment Analysis and Portfolio Management, 2nd Ed; New York: Dryden Press, 1985, p. 287.)

Financial risk is additional risk or uncertainty to the investor caused by debt financing of the company or the investment. Financial risk increases as the amount of fixed debt financing or leverage increases. The more debt in a company's capital structure, the greater the financial risk.

Q. WHAT ARE THE BUSINESS RISKS FACING USWC?

A. As part of the telecommunications industry, USWC faces the risks of facilities based and resale competition by other local exchange and interexchange carriers, loss of market share to new technologies such as wireless (both mobile and fixed), Internet, and cable TV telephony, technological obsolescence of its operating plant, economic risks such as inflation and recession, and regulatory risk. Regulatory risks for local exchange carriers are very

significant due to the complexity and magnitude of public policy issues which must be solved, especially with the added complexity of implementing the Telecommunications Act of 1996.

Competition and Industry Risks

Q. IS COMPETITION A SIGNIFICANT BUSINESS RISK FOR USWC?

A. Yes. The local exchange business is exposed to significant competition. Investment analysts are highlighting this risk in their reports to investors. For example:

> So far, 1998 has continued to be a pivotal and tumultuous time for the telecom industry as companies address the changing regulatory, technological, and operational landscape. We continue to see telecom players set their offensive and defensive positions, bracing for new opportunities and risks in an atmosphere characterized by increasing competition, deregulation, and technological advancements. The most recent precedent setting deal was the announced merger of SBC and Ameritech, which we believe will create a telecommunications powerhouse and is likely to heighten the industry's sense of urgency to gain scale and a national market presence. We expect the consolidation trend to continue throughout 1998 as companies attempt to protect market share while expanding into new markets. Consolidation strategies allow them to address full-service provisioning, improve scale economies, and prepare for increased competition. In addition, we believe a plethora of key regulatory decisions and reconsiderations would dramatically change the face of the telecommunications industry.
>
> (UBS Global Research, Telecommunications Services, Summer 1998, page 20)
>
> While current RBOC trends remain strong, business focused CLECs will join with residentially driven cable companies (led by AT&T) to slow the RBOCs growth materially by 2000. ...
>
> Risks abound. Downside risk to the telcos through worse competitive pressures – e.g., 10 points or more customer share losses in 1999; or simply more severe pricing – could shave 5-7% from Ameritech, 10% from U S WEST and 6-8% from Sprint.
>
> (Bernstein Research, "AT&T - TCI in Perspective", June 30,1998.)

Q. CAN YOU PROVIDE SPECIFIC EXAMPLES OF HOW LOCAL EXCHANGE COMPETITION IS BEING IMPLEMENTED?

A. Yes. Cox Communications has told investors that Cox is positioned to capitalize on strong consumer demand for communications services and to fulfill the promise of competition envisioned in the Telecommunications Act of 1996:

> Cox's residential telephone service was launched in Orange County on September 10 and in Omaha on December 1. In Orange County it was launched initially to an area with 1500 homes and now is available to 19,200 homes. Of those, Cox has marketed the service to 16,900 homes. The penetration of the service is about 5% of total homes to which the service is available and 6% of marketed homes. In the first area where Cox Digital Telephone was debuted penetration is 17%.
>
> Cox is providing second lines at 50% less than Pacific Bell's Orange County price, according to executives. Cox has received regulatory approval to deliver phone service in nine markets nationwide, and has installed telephone switching equipment in seven of those. The service is expected to be launched in three more markets: San Diego, Hartford, and Phoenix in 1998.
>
> ("Cox says early foray's bearing fruit", America's Network, June 1, 1998.)

Cox is now offering local telephone service in Chandler and has approval to serve Phoenix:

> On Wednesday, the Phoenix City Council approved issuing a license to Cox to offer residents in that city local telephone service, ending U S WEST's monopoly.
>
> Cox plans to begin offering phone service plus digital TV and Internet access to Phoenix residents around the middle of next year.
>
> Cox has been offering telephone service to residents in southwest Chandler since Oct 1. By the end of the year about 40,000 households should have the service available in Chandler.
>
> (The Tribune Newspaper, Mesa Arizona, November 20, 1998, pp. B1 & B2.)

AT&T, the nation's largest long-distance company, is merging with TCI, the biggest cable company, to provide voice telephony, data services, internet access and television all over one wire on the same bill:

> TV and telephone over the same wire. Digital video, high speed internet access and electronic commerce. All under one brand name, all on one bill.
>
> *In deciding to merge their companies,* AT&T and Tele Communications Inc. foresee a future rich with opportunity – and with competition like a Wild West shootout.
>
> If I were a telco (telephone company), I'd be pretty scared about this," said Mark Siegel, AT&T's chief spokesman for consumer matters. "This will offer people a true alternative" to the local phone company.
>
> ("TCI, AT&T deal may spur phone company shootout", Seattle Post Intelligencer, July 2, 1998.)

Q. IS THE RISK FROM COMPETITION LIKELY TO BE LIMITED TO OPERATIONS IN LARGE URBAN AREAS OR ARE THE RURAL AREAS ALSO AT RISK?

A. Local exchange competition is affecting the cities first because the concentration of customers makes the cities an attractive market. As wireless technology develops and as cable television operators upgrade their systems to provide telephony, local exchange competition will affect the rural areas as well as the big cities.

Q. HOW WILL THIS COMPETITION AFFECT REVENUES AND PROFITABILITY?

A. U S WEST's profitability is at substantial risk. A recent Business Week report discusses the impact of customer losses for U S WEST:

> U S WEST could lose 20% to 40% of its core local phone business in the next five years as competition from new rivals grows, executives admit. Its entry into long distance could be delayed for a year or more because of regulatory challenges from AT&T and others. And if its bold new ventures fall flat, its best customers may leave for cable companies and others that plan to bundle phone service. "If we lose the 25% of our customers that give us 75% of our profits, we have a survival issue," admits Richard D. McCormick, who is CEO of the combined U S WEST and will become chairman of the new phone company.
>
> ("U S WEST Scouts a New Frontier", Business Week, May 18, 1998.)

Q. HOW DOES THE INCREASED BUSINESS RISK FROM COMPETITION AFFECT THE EQUITY VALUATION OF COMPANIES LIKE USWC?

A. The increasing business risk and uncertainty associated with local exchange competition is transforming the investment characteristics of USWC and other local exchange companies from a lower risk, utility like investment to a higher risk, growth stock or industrial company like investment. This trend has been apparent to investment analysts for some time:

> Around the world, the demand for capital is growing as companies invest heavily in telecommunications infrastructure. In the United States, the competition arising from deregulation is spurring rapid growth in telecommunications services and a proliferation of public offerings. Furthermore, stocks that once traded like utilities are exhibiting the characteristics of growth stocks.
>
> (Industry Analysis: The Telecommunications Industry, Charlottesville VA: Association for Investment Management and Research, 1994.)

> The conceptual rationale for assigning close-to-market multiples on traditional, regulated businesses -- which historically have sold at greater discounts to the market -- is the longer term potential of the companies to move away from rate-of-return regulation and expand the breadth of services delivered through the telephone network. There is major concern among investors about the outlook for telephone earnings because of increased competition.

(Charles W. Schelke, CFA and Carl H. Blake, CFA, "Telecommunications Service Companies - Outlook", Smith Barney Shearson, May 9, 1994.)

Risk and Competition in Arizona

Q. HOW COMPETITIVE IS THE LOCAL PHONE SERVICE MARKET IN ARIZONA?

A. Looking at the numbers of competing companies involved, the Arizona market is very competitive. Reflecting the population growth boom in Arizona, AT&T, Cox, ELI, GST, ACSI and others are investing in facilities and 45 CLECs have interconnection and resale agreements with U S WEST to provide local telephone service.

The Arizona Corporation Commission has certified 18 ILECs and 16 CLECs. In addition, 49 telecommunications companies are awaiting approval – that's 65 companies with or seeking certification to provide local service. For long distance, there are about 100 companies currently providing long distance services in Arizona. My point is that the level of competition involved with 100 companies providing (what are undeniably competitive) long distance services is very similar to 65 companies providing local exchange services.

Q. MOST OF THE COMPETITION SEEMS TO BE OCCURRING IN AND AROUND PHOENIX AND TUCSON. WHAT ARE THE IMPLICATIONS OF THIS CONCENTRATION FOR THE STATE OF ARIZONA?

A. Competition in Phoenix and Tucson means competition for Arizona. 85% of USWC's access lines in Arizona are in Maricopa County or Pima county. These are also the counties where population growth and growth in demand for telephone services is occurring.

Q. IS THERE MEANINGFUL COMPETITION FOR RESIDENTIAL SUBSCRIBERS IN ARIZONA?

A. Yes. A good example is Cox Communications. Buoyed by its successes in California, where Cox Digital Telephone was debuted and achieved penetration of 17%, Cox is expanding to Phoenix and other markets. Cox plans to have 8 master telecommunications centers in the metropolitan area and is aggressively marketing residential services.

Q. HOW COMPETITIVE IS COX?

A. Very competitive. Cox offers free installation and has priced its most popular bundle of services at 28% below U S WEST prices. For example, the first line costs $11.75 from Cox; $13.43 from U S WEST. Second lines from Cox are less than half the cost from U S WEST -- $6.50 vs. $13.43. Voice mail is $2.00 less from Cox and Call Waiting and Caller I.D. are $1.00 less.

Q. WHAT IS THE IMPACT OF COMPETITION ON USWC'S COST OF CAPITAL?

A. USWC's local exchange operations are capital intensive and have high operating leverage. What this means is that the company has a high level of fixed costs and even small losses in revenues are magnified into larger impacts on bottom line profitability. Competitive entrants are targeting high revenue/high profit margin customer accounts. As these customers leave U S WEST's network and low or negative profit margin customers are retained, profit margins shrink dramatically and business risk increases significantly. Likewise, sales volatility leads to

a larger corresponding volatility in profit margins. The impacts of competition thus magnify business risks for USWC and increase the company's cost of capital.

Q. GIVEN THE COMBINATION OF GROWTH DEMAND AND COMPETITION IN ARIZONA, IS IT REASONABLE TO CONCLUDE THAT CAPITAL COSTS WOULD BE HIGHER FOR ARIZONA BY ITSELF THAN FOR U S WEST COMBINED?

A. Yes, I believe that's a reasonable conclusion. U S WEST raises capital on a consolidated basis for investment to provide services in all of the 14 states served by the company. The diversification of investment, operations, and regulation among 14 states provides a lower risk exposure to investors and thus a lower cost of capital. The high growth and competition level in Arizona makes the state riskier than other U S WEST states. Other factors pointing to the conclusion of higher capital costs for USWC-Arizona are low bond ratings for the state's electric utilities and investor perception of higher relative regulatory risk associated with ownership of securities in the jurisdiction's electric, gas, and telephone utilities.

Q. CAN YOU QUANTIFY THE DIFFERENCE IN CAPITAL COSTS BETWEEN U S WEST AS A WHOLE AND THE ARIZONA JURISDICTION?

A. Given the factors discussed above, it's my judgement that capital costs for Arizona are moderately higher than for U S WEST as a whole, but not out of the range of estimates for U S WEST. Given a range of capital cost estimates and selecting the midpoint as the best estimate for U S WEST, I would estimate the capital costs for Arizona at or near the top of the range.

The Telecommunications Act of 1996

Q. BRIEFLY, WHAT IS THE TELECOMMUNICATIONS ACT OF 1996 AND HOW IS IT BEING IMPLEMENTED?

A. The Telecommunications Act, signed February 8, 1996, replaced the Consent Decree which guided the 1984 Bell System Divestiture. It provides a broad framework for opening the local phone market for increased competition and allowing local phone companies to provide interLATA long distance. The FCC was given the responsibility of developing implementation rules. Its principal tasks are to determine fair interconnection rates for long distance carriers to purchase access to local markets through local exchange companies' networks, to devise and implement conditions for local exchange carrier entry into long distance markets, and to provide for universal service funding.

Q. HAS THE TELECOM ACT AFFECTED THE RISKS FOR LOCAL EXCHANGE CARRIERS?

A. Yes. Risks are greater now, both because of the increased competition and because of the uncertainty surrounding regulatory actions to implement the Telecom Act. The following quotes are representative of investment analyst reactions to the 1996 Telecom Act:

> As the Bell holding companies begin to take advantage of the liberties that the [Telecom] law provides, we believe that the risks associated with this legislation may have a greater impact on ratings than the opportunities to compete in new lines of business, or to share in new sources of revenue. The principal threat that may develop will be to the financial performance of their largest subsidiaries, the telephone operating companies, with the opening of the local loop to alternative carriers.
>
> (Moody's Investors Service, U.S. Telephone Industry – An Update, December 1996.)

> The chief driver of local company risk lies in the notion that competitors will be offered access to the local networks to serve local customers at extremely favorable prices.

> This phenomenon, which has no parallel in the telecom world anywhere outside the U.S., is an outgrowth of the 1996 Telecom Act's call for "network unbundling", which allows for the piece-part usage of the local network. Seemingly innocuous, unbundling has, with two important additions, taken on the face of a LEC-slayer. The initial blow was the FCC's introduction of Total Element Long-Run Incremental Cost (TELRIC), in essence a way of pricing the unbundled elements at best-technology, forward-looking, incremental cost. The other blow was landed by the long distance companies, who realized that they could piece together the entire local network on an unbundled basis, swapping the puny 20% average "resale" discount with far higher discounts for an identical service, but under the unbundled TELRIC tariff. Compared with the resale discount of about 20%, the "rebundled" version of the network is expected to produce for average customers, about a 30% discount to the retail price for consumer offerings, and about a 50% discount on business customers. To make matters worse, the higher the customer's value (i.e. more long distance, more toll, more vertical services), the higher the discount, with 70% in no way unattainable.
>
> By 2001 we expect the LECs to lose retail control of about 15% of residential lines and perhaps 30% of business lines.
>
> (Bernstein Research, Telecom Returns Get Going (...Going...Gone), June 13, 1997)

Regulatory Risk

Q. WHAT IS REGULATORY RISK?

A. For regulated companies, regulatory risk is a major component of business risk. This is because regulators can have a significant impact on regulated companies' operations and financial results.

Regulatory risk generally refers to the quality and consistency of regulation, and the effect of regulation on a regulated company's ability to generate revenues, manage expenses, and earn a return on capital investment.

Q. DOES COMPETITION CREATE MORE OPPORTUNITIES FOR REGULATORY RISK TO OCCUR?

A. Definitely. Here are some ways additional risk can occur when the incumbent company is regulated and the competitor is not:

- Requiring the regulated company to sell products or services to its competition below actual cost. This would cause the regulated company to incur a loss on each sale and thereby accelerate a loss of market share by setting competitors' costs artificially low.

- Allowing less than economic rates for depreciation, when compared to competitors. In Arizona, the same depreciation lives have been in effect since 1991.

- Requiring the regulated company to sell products or services to its retail customers at artificially high levels, thus creating artificial market opportunities for competitors through uneconomic pricing.

CREDIT RATINGS

Q. WHAT IS USWC'S CURRENT CREDIT RATING?

A. USWC is currently rated A+ by Standard & Poor's, A2 by Moody's, and AA- by Duff & Phelps.

Q. HOW DO THESE RATINGS COMPARE TO USWC'S PEER GROUP OF OTHER LOCAL EXCHANGE CARRIER TELEPHONE COMPANIES?

A. Compared to other RHC's telephone operations, USWC's ratings are on average, slightly lower.

CAPITAL STRUCTURE

Analysis of Capital Structure

Q. WHY IS CAPITAL STRUCTURE AN IMPORTANT ISSUE?

A. Capital structure is important because it is a key determinant of the total risk inherent in the firm.

Investors in a firm are exposed to both business risk and financial risk. Business risk comes from the risks of the overall economy and the industry in which the firm operates, the firm's position within the industry, competition, government regulation, etc. Financial risk is introduced by financial leverage as reflected in the mix of equity and debt financing and the cost to service debt.

Capital structure is comprised of equity (owners' capital), and debt (borrowed capital). Debt capital in the form of bonds and notes is obtained with a contract stating that interest will be paid in fixed amounts on fixed dates and that the principal will be paid back to the investor at a stated maturity date in the future. The payments to debt investors are constant. In good times and bad, the bondholders must be paid first. The return to equity investors varies with the firm's profitability and comes only after bondholders have been paid.

As debt obligations increase, more of the company's revenues are committed to repay fixed interest costs. This reduces the safety margin, or interest coverage, and increases the risk exposure to both debt and equity investors. As risks faced by investors increase, both require

a higher return on their investment -- bondholders require a higher coupon rate and stockholders require a greater expected return. As the debt ratio increases, the interest rate required by bondholders increases and the equity investors bid down the price of the stock to increase the market required rate of return.

Q. WHAT CAPITAL STRUCTURE SHOULD BE USED IN SETTING RATES?

A. The financially and economically correct method for estimating a company's overall cost of capital uses market value weights for debt and equity, but book value capital structure weights have been traditionally used in ratemaking for practical and procedural reasons. Book value capital structure data specified by FCC prescribed accounting procedures and reported in annual "Form M" reports and company "Monthly Reports" (MR) is the best book value data available for purposes of computing capital structure weights for rate base, rate of return regulation.

The Company's actual book value capital structure, specifically that which reflects the equity and debt financing used to provide telephone service in Arizona should be used in setting rates. The proposed structure is the capital allocated to Arizona which consists of the embedded Mountain Bell capital in existence before the USWC telephone companies merger on 1/1/91 and post-merger financing allocated to Arizona.

Q. DO THE ACCOUNTING CHANGES FOR RETIREE MEDICAL BENEFITS (SFAS 106) AND DISCONTINUANCE OF SFAS 71 AFFECT THE REPORTED CAPITAL STRUCTURE OF USWC AND OTHER TELEPHONE COMPANIES?

A. Yes, and because telephone companies vary in their adoption of these accounting changes for financial reporting purposes, it is important that any capital structure comparisons between companies be made on the FCC regulated accounting basis.

As Duff & Phelps explains, accounting changes can distort capital structure ratios:

> Accounting conventions can be arbitrary and often cause balance sheet data to diverge from economic reality. The distortion usually results from an accounting charge that significantly reduces the book value of equity. The lower balance sheet equity values, in turn, distort book value leverage ratios and create interpretation problems.
>
> (Duff & Phelps, "Special Report: Measuring Debt With Cash Flow", July 1994, p 1.)

The accounting change from, "pay as you go" treatment of post employment benefits to accrual accounting required by SFAS 106 results in a large charge against current net income and a resulting large decrease in retained earnings. For financial reporting, companies have the option of taking this charge in the current year or spreading the charge over up to 20 years. Duff & Phelps explains how this accounting change impacts financial statements:

> The mandatory adoption of SFAS No. 106 specifies new requirements for recognizing the expense for post-retirement employee benefits other than pensions. Prior to SFAS No. 106, most corporations recognized the costs for post retirement benefits only when paid (the pay-as-you-go method). The new accounting standard requires firms to recognize the costs of these benefits during the periods in which they are earned by the employee. Companies have an option of recognizing the transition obligation, or catching up for prior periods, in one of two ways. They can recognize it as a one-time charge to current earnings and equity. Alternatively, they can defer the adverse impact on current earnings by recognizing it as a liability on the balance sheet to be amortized over as much as 20 years. At this time, there is no tax incentive to fund this obligation. Companies will continue to make cash outlays for these benefits on a "pay-as-you-go" basis. Therefore, a firm's cash flows are unaffected by the adoption of SFAS 106. Nonetheless, the financial statements are severely impacted, and the application of the accounting standard is inconsistent across companies.

> (Duff & Phelps, "Special Report: Measuring Debt With Cash Flow", July 1994, p 1.)

For telephone accounting, the FCC has directed the companies to amortize the charge over a period of up to 20 years.

U S WEST's decision to discontinue accounting for operations of U S WEST Communications in accordance with Statement of Financial Accounting Standards (SFAS) No. 71 resulted in a large, extraordinary, non-cash charge against equity [retained earnings] for financial reporting, but did not affect the FCC mandated accounting for telephone companies. All of the other RHC and large local exchange carrier companies have also discontinued accounting under SFAS 71. In a rating commentary explaining why SFAS 71 writedowns won't harm credit quality, Duff & Phelps discusses the legitimacy of separate financial statements for regulatory and financial purposes:

> Most regulatory bodies recognize the legitimacy of separate financial statements for regulatory purposes versus financial reporting purposes. For example, when several telephone companies took substantial write-offs related to the adoption of FAS 106 (accounting for post retirement benefit obligations), state regulators allowed them to maintain a different set of accounts for regulatory purposes.
>
> (Duff & Phelps, "Bell Writedowns Won't Harm Credit Quality", Credit Decisions, September 5, 1994.)

The source for data shown in Exhibit PCC-2 is the Form M reports (and associated data bases) filed with the FCC, and thus the capital structure comparisons are consistent for all the telephone operating companies. Form M capital structure data is consistent with FCC mandated accounting, is the best book value alternative to the financially correct method of

using market value capital structure weights, and is consistent with the regulatory treatment advocated for post-employment benefits and the SFAS 71 discontinuance.

Q. HOW DOES USWC'S CAPITAL STRUCTURE COMPARE WITH THE CAPITAL STRUCTURES OF OTHER OPERATING TELEPHONE COMPANIES?

A. I have prepared Exhibit PCC-2, which shows telephone operating companies' debt ratios as reported to the FCC. As of year end 1997, the total capitalization of all the operating companies has a debt ratio of 43.6%; for 1996, the companies had a debt ratio of 42.5%.

The Arizona actual capital structure, which I recommend in this case, has a 41.2% debt ratio.

Capital Structure Recommendation

Q. PLEASE EXPLAIN HOW YOU COMPUTED THE ACTUAL CAPITAL STRUCTURE WHICH YOU ARE RECOMMENDING IN THIS CASE.

A. The capital structure I am recommending (see Exhibit PCC-3) is the capital structure for Arizona which is a combination of pre-merger and post-merger financing for the state's assets.

Q. WHY IS THERE AN ARIZONA SPECIFIC CAPITAL STRUCTURE?

A. The allocation of pre- and post -merger debt fairly and accurately represents the financing of the rate base serving Arizona customers. The reason for an allocated capital structure is to

eliminate any revenue requirement shifts among state jurisdictions as a result of the 1991 merger of USWC's telephone operating companies.

The appropriate capital structure for setting revenue requirements in Arizona is the U S WEST Communications capital structure for Arizona.

COST OF DEBT

Q. HOW IS THE EMBEDDED COST OF DEBT DETERMINED?

A. The embedded cost of debt is the weighted average of all of the interest rates related to debt outstanding divided by the book balance of debt outstanding. The cost of debt also includes amortization of discounts, premiums, and issuance expenses. Just as depreciation expense recovers the cost of an asset over its life, this amortization expense recovers the costs associated with a bond over the term of the bond.

Q. WHAT IS THE EMBEDDED COST OF DEBT FOR ARIZONA?

A. The embedded cost of debt includes long term debt and short term borrowings. The blended Arizona embedded cost of debt based on pre-merger and post-merger financing is 7.52%.

COST OF EQUITY

The Market Required Return on Equity

Q. WHAT IS THE MARKET REQUIRED RATE OF RETURN ON EQUITY?

A. The market required return is the return demanded by equity investors. These investors set the price for equity capital through their actions in the marketplace. Investors set return requirements according to their perception of risk inherent in the enterprise, recognizing opportunity costs of foregone investments in other enterprises, and returns available from other investments of comparable risk.

The huge numbers of both investors and investment opportunities coupled with the ability to transmit and receive information almost instantaneously worldwide creates very liquid and very efficient capital markets. The actions of investors buying and selling securities in the capital markets determines the market required return on equity capital.

Q. CAN THE MARKET REQUIRED RETURN ON EQUITY BE DETERMINED PRECISELY?

A. No. In contrast to debt capital which carries precise terms and conditions and thus has precise measurements of the market required return, equity capital bears the corporation's residual risk and lacks those precise terms and conditions. The market required return for equity capital must be estimated from financial market information and the application of financial models.

Estimating the Market Required Return

Q. PLEASE EXPLAIN YOUR APPROACH TO ESTIMATING USWC'S MARKET REQUIRED RETURN ON EQUITY CAPITAL.

A. My estimation of market required return on equity utilizes Discounted Cash Flow (DCF) and Capital Asset Pricing Model (CAPM) methodologies applied to U S WEST and two proxy groups of companies.

The company groups chosen as proxies for USWC are publicly traded companies with operations in the local exchange telephone services industry, and a group of companies with risks comparable to USWC.

I believe that relying upon data for a single company or a single method to estimate the market required return weakens the reliability of the estimate. All estimation processes involve error, and the objective of making the best possible estimate is to minimize the error -- that is, to have the greatest confidence that the estimate is both valid and reliable. Using the industry peer group and a group of comparable risk companies in the analysis minimizes the potential for estimation error. Professors Brealey and Myers recommend this approach in their corporate finance text:

> Any estimate of *r* [cost of equity] for a single common stock is noisy and subject to error. Good practice does not put too much weight on single-company cost-of-equity estimates. It collects samples of similar companies, estimates *r* for each, and takes an average. The average gives a more reliable benchmark for decision making. ... We have stressed the difficulty of estimating *r* by analysis of one stock only. Try to use a large sample of equivalent risk securities. Even that may not work, but at least it gives the analyst a fighting chance, because the inevitable errors in estimating *r* for a single security tend to balance out across a broad sample.
>
> (Richard A. Brealey and Stewart C. Myers, Principles of Corporate Finance, 5th Ed., New York: McGraw Hill, 1996, pp. 64-66.)

Ross, Westerfield, and Jaffe in another widely used text suggest an industry focus to estimate the cost of equity:

> [S]ome financial economists generally argue that the estimation error for *r* [the cost of equity] for a single security is too large to be practical. Therefore, they suggest calculating the average *r* for an entire industry. This *r* would then be used to discount the dividends of a particular stock in the same industry.
>
> (Stephen A. Ross, Randolph W. Westerfield, and Jeffrey F. Jaffe, Corporate Finance, 2nd Ed., Homewood, IL: Richard D. Irwin, Inc., 1990, p. 123.)

Estimating the market required return requires expert and informed judgment and that judgment is best based upon broader market evidence because of the potential for error or bias in limiting the analysis to just one company.

Q. WHY DO YOU USE MORE THAN ONE APPROACH FOR ESTIMATING THE MARKET REQUIRED RATE OF RETURN?

A. Each of the methods employed provides useful information on the market required rate of return. For example, the DCF methodology uses the current market price and expected dividends. The CAPM method incorporates current interest rates and provides a measure of risk. Analysis of comparable companies provides direct evidence on market required returns for comparable risk firms -- firms that USWC must compete with to obtain investor financing. Using multiple methods also provides a cross check on the market required return estimate. Results obtained from each method should define a useful range of return estimates to which judgment is applied.

Q. COULDN'T AN ANALYST SIMPLY USE THE DCF MODEL AND APPLY IT TO U S WEST TO OBTAIN USWC'S MARKET REQUIRED RETURN?

There is no single model that conclusively estimates the market required return for an individual firm.

> Use more than one model when you can. Because estimating the opportunity cost of capital is difficult, only a fool throws away useful information. That means you should not use any one model or measure mechanically and exclusively. Beta is helpful as one tool in a kit, to be used in parallel with DCF models or other techniques for interpreting capital market data.
>
> (Stewart C. Myers, "On the Use of Modern Portfolio Theory in Public Utility Rate Cases": Comment, Financial Management, Autumn 1978, p. 67.)

Other financial experts share similar conclusions:

> In practical work, it is often best to use all three methods - CAPM, bond yield plus risk premium, and DCF - and then apply judgment when the methods produce different results. People experienced in estimating capital costs recognize that both careful analysis and some very fine judgments are required. It would be nice to pretend that these judgments are unnecessary and to specify an easy, precise way of determining the exact cost of equity capital. Unfortunately, this is not possible.
>
> (Eugene F. Brigham and Louis C. Gapenski, Financial Management Theory and Practice, 4th Ed., Chicago: The Dryden Press, 1985, p. 256.)

> We have focused on using the capital asset pricing model to estimate the expected return on common stock. But it would be useful to get a check on this figure. We have already mentioned one possibility, the constant-growth DCF formula. You could also use DCF models with varying future growth rates, or perhaps arbitrage pricing theory (APT)
>
> (Richard A. Brealey and Stewart C. Myers, Principles of Corporate Finance, 5th Ed., New York: McGraw-Hill, 1996, p. 218.)

I use multiple methods and capital market data for USWC and groups of companies to estimate a range of market required rates of return which forms the basis for my recommendation. This recommendation is subjected to quantitative tests as described later in the testimony.

Q. WHAT IS THE RELATIONSHIP BETWEEN THE MARKET REQUIRED RATE OF RETURN AND THE COST OF EQUITY?

A. The investors' required rate of return is often defined as that rate of return which equates the present value of expected cash flows to the current price of the security. The cost of equity funds raised by the company is that rate of return which equates the present value of the cash outflows to investors with the cash received initially.

If there were no expenses associated with issuance of common stock, the investors' return requirements would equal the company's cost of equity capital. Because the company has incurred costs associated with equity financing and therefore has received less cash than the value of equity securities issued, the cost of equity capital is greater than the investors' market required rate of return. The cost of equity is equal to the investors' market required rate of return plus a cost of capital adjustment for stock issuance costs.

Stock issuance costs and the cost of equity to USWC are discussed later in this testimony.

Discounted Cash Flow (DCF)

Q. PLEASE EXPLAIN THE CONCEPT OF THE DISCOUNTED CASH FLOW (DCF) METHODOLOGY UTILIZED IN YOUR TESTIMONY.

A. Discounted cash flow analysis proceeds from the financial theory that the price or value of any asset is equal to the present value of future cash flows that the asset is expected to produce.

The return required by common stock investors is a series of future cash flows consisting of dividend payments and proceeds from eventual sale of the stock.

> Discounted Cash Flow models are based on the concept that the value of a share of stock is equal to the present value of the cash flow that the stockholder expects to receive from it.[3] We will argue that this is equivalent to the present value of all future dividends.
>
> [3]There is a long history of discussion in the academic literature about what should be discounted. Some authors argued earnings, some dividends, and others earnings plus non-cash expenses such as depreciation. It turns out that, properly defined, these approaches are equivalent. See Miller and Modigliani [71] [Miller, M. and Modigliani, F. "Dividend Policy, Growth, and the Valuation of Shares" Journal of Business, 34 (Oct 61), pp. 411-433].
>
> (Edwin J. Elton and Martin J. Gruber, Modern Portfolio Theory and Investment Analysis, 4th Ed., New York: John Wiley & Sons, 1991, p. 449.)

By making the assumption of constant growth for dividends and by assuming that equity markets are relatively efficient, financial analysts have derived a DCF model which Brealey and Myers describe as "a simple way to estimate the capitalization rate":

> Suppose, for example, that we forecast a constant growth for a company's dividends. This does not preclude year-to-year deviations from the trend: It means only that expected dividends grow at a constant rate.
>
> To find its present value we must divide the annual cash payment by the difference between the discount rate and the growth rate:

$$P_0 = \frac{DIV_1}{r - g}$$

> Our growing perpetuity formula explains P_0 in terms of next year's expected dividend DIV_1, the projected growth rate g, and the expected rate of return on other securities of comparable risk r. Alternatively, the formula can be used to obtain an estimate of r from DIV_1, P_0, and g:

$$r = \frac{DIV_1}{P_0} + g$$

> The market capitalization rate equals the dividend yield (DIV_1/P_0) plus the expected rate of growth in dividends (g).
>
> (Richard A. Brealey and Stewart C. Myers, Principles of Corporate Finance, 4th Ed., New York: McGraw-Hill, 1991, pp. 52-53.)

Appendix II provides more information on the DCF methodology.

Q. HOW IS THE DISCOUNTED CASH FLOW (DCF) METHODOLOGY USED TO ESTIMATE THE MARKET REQUIRED RETURN ON EQUITY?

A. The market required return (r or k) is the discount rate that equates all future cash flows (dividends) to the current price of the stock. Over the long term, it can be shown that the market required rate of return is equal to the compounded value of the next four expected quarterly dividends divided by the current market price plus the expected dividend growth rate.

Three variables are required for the DCF model:

1. Quarterly dividend payments for the next year.
2. Estimated growth in future dividends.
3. The current stock price.

Q. WHY IS IT NECESSARY TO ACCOUNT FOR QUARTERLY DIVIDENDS?

A. The timing of dividends is reflected in the current stock price. A stock paying four quarterly dividends is worth more than one paying a single annual dividend. This is similar in concept to the adjustment made in bond yield calculations to reflect that interest is paid twice a year. The timing and reinvestment of dividend payments must be considered in determining the

return on a stock as illustrated in the following section from a current text on corporate finance:

> We have ignored the question of when during the year you receive the dividend. Does it make a difference? To explore this question, suppose first that the dividend is paid at the very beginning of the year, and you receive it the moment after you have purchased the stock. Suppose, too, that interest rates are 10 percent, and that immediately after receiving the dividend you loan it out. What will be your total return, including loan proceeds, at the end of the year?
>
> Alternatively, instead of loaning out the dividend you could have reinvested it and purchased more of the stock. If that is what you do with the dividend, what will your total return be? ...
>
> Finally, suppose the dividend is paid at year end. What answer would you get for the total return?
>
> As you can see, by ignoring the question of when the dividend is paid when we calculate the return, we are implicitly assuming that it is received at the end of the year and cannot be reinvested during the year. **The right way to figure out the return on a stock is to determine exactly when the dividend is received and to include the return that comes from reinvesting the dividend in the stock.** This gives a pure stock return without confounding the issue by requiring knowledge of the interest rate during the year.
>
> (Stephen A. Ross, Randolph W. Westerfield, and Jeffrey F. Jaffe, Corporate Finance, 2nd Ed., Homewood, IL: Richard D. Irwin Inc., 1990, p. 230.) [emphasis added]

During the course of a year, the stock investor has the value of the 1st quarter dividend for 3/4th's of the year; the 2nd quarter dividend for 1/2 of the year; the 3rd quarter dividend for 1/4th of the year, and the 4th quarter dividend that is received at the end of the year. Stocks are priced in the market consistent with the pure stock return described above. If companies suddenly shifted from paying quarterly dividends to paying a single annual dividend, investors would lose the reinvestment return, stock prices would fall, and the investors' market required return would rise.

Q. HOW DID YOU ESTIMATE THE EXPECTED GROWTH IN DIVIDENDS?

A. To estimate investors' expected growth in dividends, I relied upon growth estimates developed by professional analysts employed by large investment brokerage institutions. In gathering data on current analysts' forecasts, I utilized the monthly Institutional Brokers Estimate Service (I/B/E/S) which summarizes the research conclusions of individual investment analysts.

Q. ARE ANALYSTS' FORECASTS A GOOD PROXY FOR INVESTOR GROWTH EXPECTATIONS?

A. Yes. From the perspective of market practitioners, the investment markets are dominated by institutional investors. Over 40% of U S WEST stock is held by institutions and the majority of daily trading activity is done by those institutions. The analysts are advisors to the institutional traders who pay for their analysis and growth estimates. If investment analysts did not add value to the investment decision process, there would be no demand for their services.

The investment analysts consider broad economic and industry trends and expectations along with analysis of the historical antecedents of current corporate performance in making their estimates. The estimation techniques used by analysts include review of historical growth trends, internal growth generation, and estimates of external growth potential.

There are a number of academic studies which conclude that analysts' growth forecasts are superior to other methods of growth estimation such as historical data extrapolation and time series analysis.

The capital markets are dynamic and complex because of the interaction of investors buying and selling stocks. If it were possible to "stop the action" and query each market participant as to what their growth expectations are, that would be the very best estimate of investor growth expectations. The next best estimate is the consensus growth rate forecast of major investment analysts.

Q. WHAT IS YOUR SOURCE FOR THE CURRENT STOCK PRICE?

A. For the current price variable in the DCF model, I used an average of the daily closing stock prices for the ten trading days 8/18/98 to 8/31/98. I used a ten day average of stock prices to guard against the possibility that the selected stock price might be distorted by market reaction to a news story, heavy buying or selling by a particular institution, or some other distortion.

Q. WHAT ARE THE RESULTS OF YOUR DISCOUNTED CASH FLOW (DCF) ANALYSES?

A. Exhibit PCC-4 shows the DCF analysis for U S WEST Communications and Exhibit PCC-5 contains DCF analyses for other telephone companies. Exhibit PCC-6 shows the DCF analysis for comparable companies. The results of my DCF analyses are summarized as follows:

U S WEST	10.3%
Telephone Companies	12.3%
Comparable Companies	12.7%

Capital Asset Pricing Model (CAPM)

Q. WHAT IS THE CAPITAL ASSET PRICING MODEL?

A. The Capital Asset Pricing Model (CAPM) has been employed in finance for more than 25 years. It is among the most thoroughly researched concepts in modern finance, and the CAPM originators have been internationally recognized. Harry Markowitz and William Sharpe were 1990 Nobel Prize winners for their work in the area. Sharpe's Capital Asset Pricing Model is based upon Markowitz's formal analysis of portfolio choices involving both risk and return and is almost universally applied in portfolio and investment management.

CAPM theory develops a required return for systematic risk -- that risk intrinsic to market itself, which cannot be reduced by diversification -- and modifies that return for Beta -- the relative riskiness of a portfolio of stocks or an individual stock.

> The capital asset pricing model (CAPM) is a very intriguing adaptation of this basic relative risk premium approach. The model suggests that there is a relationship between risk and return; in fact, the higher the risk, the higher the expected return. This risk/return concept seems quite realistic: investors do expect greater rewards for taking greater risks, and the expected return for the common stock of any company is relative to its risk.
>
> (Diana R. Harrington, Corporate Financial Analysis, 4th Ed., Homewood, IL: Richard D. Irwin Inc., 1993, p. 203.)

The CAPM model defines the return on stock in terms of three variables:

The **risk free rate** of interest.

The **risk premium** paid for the market basket of stocks.

The **relative riskiness** of the individual stock in relation to the average of the market. In CAPM terminology, this is **Beta** (β).

The required return on the stock is equal to the risk free rate of interest plus Beta times the market risk premium.

The CAPM is often expressed in mathematical terms:

$$R_i = R_f + \beta_i(R_p)$$

Where: R_i = The expected return for a particular stock
R_f = The risk free return
β_i = Beta or the relative risk of the particular stock
R_p = Market risk premium

The CAPM provides an estimate of the market required return demanded by investors, and it is the investors' view that is important. In my use of the CAPM in this proceeding, I have quantified the variables from sources widely available to investors.

Q. IS THE CAPM WIDELY USED IN PRACTICE?

A. The CAPM is widely used by investors and finance professionals in real world, everyday situations:

> "CAPM follows logically from its assumptions, and it comes to a conclusion that is intuitively appealing. It makes sense that investors will price securities according to the contribution each makes to the risk of their overall portfolios. Thirty years ago we believed the risk of an individual security could be measured on the basis of the properties of its simple or marginal probability distribution, without regard to its relationships with other securities. The insight provided

> by the CAPM was a major step forward in our understanding of the way securities are priced in the market place.
>
> It is also true that the CAPM is an accepted model in the securities industry. It is used by firms to make capital budgeting and other decisions. It is used by some regulatory authorities to regulate utility rates. It is used by rating agencies to measure the performance of investment managers. It would not be so widely used if it were not regarded as an extremely useful benchmark."
>
> (Robert A. Haugen, Modern Investment Theory, 3rd Ed., Englewood Cliffs, NJ: Prentice-Hall, 1993, p. 255.)

Q. WHAT IS THE RISK FREE RATE?

A. The risk free rate is generally accepted as that rate of interest paid by the United States Government on its Treasury notes and bonds. For estimating required returns for equity investors (stockholders), a long term risk free rate is commonly employed.

> "R_f is the risk free rate of return. In theory this return should entail no risk, including any risk of purchasing power loss from the impact of inflation on prices. In practice, most analysts choose a proxy that includes inflation. For investors in U.S. securities, the proxy probably would be a U.S. Treasury instrument. The analyst would choose a Treasury bond that will be outstanding for a period similar to the asset being evaluated. Because equity securities have long lives, a longer-term U.S. treasury is a good choice."
>
> (Diana R. Harrington, Corporate Financial Analysis, 4th Ed., Homewood, IL: Richard D. Irwin, 1993, pp. 204-205.)

In addition to matching the long life of equity securities, an intermediate to long term risk free rate is also appropriate to USWC's situation for these reasons:

1. Short term interest rates are volatile and setting USWC's rates based upon Treasury Bill yields could lead to frequent rate proceedings and volatile telephone rates.

2. Short term rates are heavily affected by external factors such as the Federal Reserve's monetary policy.

3. Empirical studies have shown that the true risk free rate is consistently higher than short term Treasury rates.

4. A long term focus is consistent with the asset lives and long term maturity debt structure of a company like USWC.

5. A long term focus is consistent with the time horizon involved in the DCF method (essentially infinite) which is also used in estimating the return required by equity investors.

My CAPM analysis utilizes both intermediate term (3-5-10 year) and long term (30 year) Treasury bond yields as risk free rates. (Average of yields as reported in the Federal Reserve H15 Report for 8/18/98 to 8/31/98)

Intermediate Term	5.18%
Long Term	5.45%

Q. HOW IS THE MARKET RISK PREMIUM DETERMINED?

A. Financial analysts generally estimate the expected risk premium of common stock over debt financing to be the difference in average realized returns for stocks and bonds over a long period of time. Although expectations are forward looking and realized returns are historical, over a very long period of time we would expect them to converge.

While returns on stocks and bonds vary from year to year, over time there is a substantial difference in the two investments. Research by Ibbotson Associates published in Stocks, Bonds, Bills and Inflation 1998 Yearbook: Market results for 1926-1997 indicates the following risk premium for common stocks over intermediate and long term government bonds for the 1926 through 1997 period:

	Return	Risk Premium
Common Stocks	13.0%	--
Intermediate Term Bonds	4.8%	8.2%
Long Term Bonds	5.2%	7.8%

These are the arithmetic mean returns, or the simple average of year to year returns over the 72 year period. For bonds, the income (or yield) return is used because when the bond is purchased, the yield to maturity reflects the market's expectation and thus the income return is an unbiased measure of expectancy. For stocks, which have no counterpart to the yield to maturity on bonds, the best measure of expected return is realized total returns.

I have used the arithmetic mean returns because they are most representative of the forward looking risk premium.

Q. IT IS SOMETIMES SUGGESTED THAT A SHORTER PERIOD OF HISTORICAL DATA SHOULD BE USED TO ESTIMATE THE MARKET RISK PREMIUM. HAVE YOU CONSIDERED USING A SHORTER PERIOD?

A. I have considered the issue of time period selection and have researched the financial literature and conclude that utilizing the full range of data available is the best approach. The

market risk premium varies over time around some average or mean. The best estimate of that average or mean, and thus the best measure of the expected risk premium is the average risk premium over the longest period for which high quality data is available. That period of time is 72 years -- 1926 to 1997. This is explained in the well known and widely adopted works by Ibbotson Associates:

> A proper estimate of the expected risk premium requires a long data series, long enough to give a reliable average without being unduly influenced by very good and very poor short term returns. When calculated using a long data series, the historical risk premium is relatively stable. Furthermore, because an average of the realized equity risk premia is quite volatile when calculated using a short series, a long series makes it less likely that the analyst can justify any number he or she wants.
>
> Some analysts calculate the expected risk premium over a shorter, more recent time period on the basis that more recent events are more likely to be repeated in the near future; furthermore, the 1920s, 1930s, and 1940s contain too many unusual events. This view is suspect because all periods contain unusual events. Some of the most "unusual" events of this century took place quite recently. These events include the inflation of the late 1970s and early 1980s, the October 1987 stock market crash, the collapse of the high yield bond market, the major contraction and consolidation of the thrift industry, and the collapse of the Soviet Union -- all of which happened in the past 20 years. Without an appreciation of the 1920s and 1930s no one would believe that such events could happen. More generally, the 72 year period starting with 1926 is representative of what can happen: it includes high and low returns, volatile and quiet markets, war and peace, inflation and deflation, and prosperity and depression. Restricting attention to a shorter historical period underestimates the amount of change that could occur in a long future period. Finally, because historical event-types (not specific events) tend to repeat themselves, long-run capital market return studies can reveal a great deal about the future. Investors probably expect "unusual" events to occur from time to time and their return expectations reflect this.
>
> (Ibbotson Associates, Stocks Bonds Bills and Inflation 1998 Yearbook: Market Results for 1926-1997, Chicago: Ibbotson Associates, 1998, pp. 156-157.)

Q. IS THERE ANY ALTERNATIVE TO SELECTING A PAST TIME PERIOD AS REPRESENTATIVE OF THE EXPECTED MARKET RISK PREMIUM?

A. Yes, there is. As an alternative procedure, we can make a direct estimate of the current market risk premium. The DCF model can also be used to develop an expected (ex ante) market risk premium:

> The most fruitful approach to ex ante premiums uses the discounted cash flow (DCF) model to determine the expected market rate of return. In other words, use DCF to develop a current estimate of k_M; then find $RP_M = k_M - R_f$; and use this estimate of RP_M in the CAPM model.
>
> (Eugene F. Brigham and Louis C. Gapenski, Financial Management Theory and Practice 4th Ed., Chicago: The Dryden Press, 1985, p. 282.)

Professor Harrington also suggests this approach as an alternative to the long term historical return:

> R_m is the expected return on an average risk asset. Analysts have used two ways to determine the average expected return. One is a risk premium approach: the long term historical return on the risk-free asset is subtracted from the historical return on a proxy for all assets. ... Analysts also use an estimate of the expected market premium. This estimate may come from information derived from security analysts working in money management companies whose job it is to make forecasts for individual stocks. Putting all the forecasts together produces a consensus estimate of the expected U.S. stock market return.
>
> (Diana R. Harrington, Corporate Financial Analysis, 4th Ed., Homewood, IL: Richard D. Irwin, 1993, p. 208.)

Q. WHAT ARE THE CURRENT MARKET RISK PREMIUM ESTIMATES USING THE DCF EX ANTE METHOD ABOVE?

A. Using my DCF estimate for the expected return on the S&P 500 Index of 14.8% and the intermediate and long term risk free rates of 5.18% and 5.45%, the ex ante expected market risk premium estimates are 9.6% and 9.4%:

14.8% - 5.18% = 9.6%

14.8% - 5.45% = 9.4%

Q. WHAT MARKET RISK PREMIUM WILL BE USED IN YOUR CAPM ANALYSIS?

A. My CAPM analysis will use an average of the ex post risk premiums from the Ibbotson Associates data (see page 56) and the ex ante risk premiums described above. The intermediate term market risk premium is 8.9% and the long term market risk premium is 8.6%.

Q. HOW DID YOU DETERMINE BETA?

A. Beta is typically estimated as the volatility of the individual stock in relation to the volatility of a market index such as the S&P 500. There are brokerage companies and investment advisors which calculate and provide Betas to investors.

> In recent years, β risk has become an important factor in security analysis, so much so that many stock brokerage companies and investment advisors regularly publish the β's for virtually all publicly traded common stocks.
>
> (Robert C. Higgins, Analysis for Financial Management, 3rd Ed., Homewood, IL: Richard D. Irwin, 1992, p. 290.)

My Beta estimates for telephone companies and comparable risk companies are the average of the current Beta information provided by Merrill Lynch and Value Line. USWC does not

have the five years of stock trading history required for Merrill Lynch and Value Line Beta estimates and a different procedure was used to estimate USWC's Beta. I estimated the Beta for USWC by using daily market return information for USWC and the S&P 500 stock index for the period from 11/1/95 (when USWC stock began trading) to 8/31/98. The raw (or unadjusted) Beta for USWC is .61. When adjusted to a comparable basis for Merrill Lynch and Value Line Betas, the adjusted Beta for USWC is .76. Betas and CAPM estimates are detailed in Exhibits PCC-7, PCC-8 and PCC-9.

Q. WHAT ARE THE RESULTS OF YOUR CAPM ANALYSIS?

A. The results of my CAPM analysis are summarized as follows:

	Intermediate Term	Long Term	Average
USWC	12.0%	12.0%	12.0%
Telephone Companies	13.1%	13.1%	13.1%
Comparable Companies	12.8%	12.9%	12.9%

Comparable Companies

Q. WHY DO YOU ANALYZE COMPARABLE RISK COMPANIES TO ESTIMATE THE COST OF EQUITY CAPITAL FOR USWC?

A. As discussed in the testimony section, **Fair Return Concepts**, the standards applicable in determination of a fair return for a regulated utility are derived from Supreme Court cases. These cases recognize the basic point that there is an opportunity cost associated with funds supplied to utilities by outside investors. That cost is the expected return foregone by not investing in a competing investment of corresponding risks.

The investors' choices are not limited to telecommunications companies or other regulated company investments. Rather, the investment decision is a balance between risk and expected return offered by competing investment choices. Since all publicly traded companies offer a significant investment alternative, it is proper to analyze market data associated with comparable risk companies to estimate the cost of equity capital for USWC.

Q. HOW DID YOU SELECT COMPANIES COMPARABLE TO USWC?

A. I screened the Standard and Poor's Compustat data base which contains public financial information on more than 9,000 firms to identify companies with risk characteristics similar to USWC.

Q. HOW DID YOU DEVELOP THE SCREENING CRITERIA?

A. I utilized two indicators that quantify the overall risk of company operations similar to USWC. In efficient markets, investors require similar returns for similar risks. By identifying publicly traded companies with risks similar to USWC, we can estimate the investors' return requirement for USWC. The risk indicators and screening criteria are:

Risk Indicator	Screening Criteria
S&P Bond Rating	A+ or greater
Cash Flow Variability	Publicly traded companies with cash flow variability similar to USWC.

Q. HOW DO THESE PARAMETERS CAPTURE THE RISK OF USWC?

A. Bond ratings are a good overall assessment of risk. The ratings are established and updated by professional analysts with economy wide and industry specific criteria to facilitate comparison of company risks across the full spectrum of publicly traded companies. The rating agencies consider business and financial risks, cash flow, leverage, interest coverage, operating efficiency, economics, industry outlook and many other quantitative and qualitative factors. The bond rating process culminates in the letter grade ratings which provide to investors a convenient, reliable stratification of the risks among companies.

USWC is rated "A+" by S&P and the screening criteria of "A+ or higher" is conservative in that companies with equal or lower risk are being selected for comparison. Some of the selected companies will have lower risk than USWC.

Cash flow is the basic earning power of firms. Cash flow is the basis for earnings, dividends, and reinvestment. Variability in cash flow is a fundamental risk factor. Given a choice of two investments, an investor will expect a higher return for the alternative with greater cash flow variability. By quantifying the variability of cash flows it is possible to identify companies with risk and return expectations similar to USWC. Companies with stable cash flows are less risky than companies with wide variation in cash flow. Cash flow variability is measured as

the standard deviation of year over year change in cash flow from operations for the period 1989 through 1997.

Q. WHAT KINDS OF COMPANIES ARE IN THE COMPARABLE GROUP?

A. Basically, they are large, well known companies. A review of Exhibit PCC-6 and Exhibit PCC-9 shows companies like Johnson & Johnson, McDonalds, and 3M. The companies are well known to individual and institutional investors alike and are risk comparable investments that USWC must compete with for its financing.

Q. HOW CAN THESE COMPANIES BE COMPARABLE TO USWC WHEN THEY ARE NOT IN THE SAME INDUSTRY?

A. Actually, a number of telephone companies were in the screened group, but were removed because they are already included in the cost of equity estimate analysis as part of the telephone company group. The fact that telephone companies were included in the comparable group screen validates the criteria to screen for comparable risk companies. The remaining group of companies is comparable to USWC in the risk exposure offered to investors. This risk exposure governs the investors' expected return and establishes the cost of equity capital. Investment in these companies as a group or a portfolio, not as individual company investments is comparable to investment in USWC. In addition, the investor is expecting a both a return **on** and a return **of** his/her investment. An individual company's industry or products are only one factor. The primary question the investor attempts to address is what is the total risk/return reward surrounding my expected future cash flows?

Market Required Return Estimate For USWC

Q. PLEASE SUMMARIZE YOUR ESTIMATES OF THE MARKET REQUIRED RATE OF RETURN FOR USWC.

A. I have conducted an analysis using DCF and CAPM methods to estimate the market required return on equity for USWC. The results of these methods are summarized as follows:

			Market Required Return
DCF	-	U S WEST	10.3%
CAPM	-	U S WEST Communications	12.0%
DCF	-	Telephone Companies	12.3%
DCF	-	Comparable Companies	12.7%
CAPM	-	Comparable Companies	12.9%
CAPM	-	Telephone Companies	13.1%

Q. HOW SHOULD THESE RESULTS BE INTERPRETED?

A. The DCF estimate for U S WEST is clearly out of range compared to the other estimates. In statistical terms, that estimate is an "outlier". For the six estimates shown above, the mean is 12.2% and the standard deviation is 1.0%. The 10.3% DCF estimate for U S WEST is nearly two standard deviations below the mean of 12.2% while all the other estimates are within one standard deviation.

Leaving out the 10.3% estimate, the remaining five estimates have a mean of 12.6% and a standard deviation of .45%. Three of the five estimates fall within one standard deviation of

the mean and the other two are only slightly greater than one standard deviation from the mean. The 10.3% estimate would be more than five standard deviations from the mean of 12.6%.

Excluding the U S WEST DCF estimate, the results cluster in a fairly narrow range from 12.0% to 13.1%. I believe the best estimate of the market required equity return for U S WEST Communications is this range of 12.0% to 13.1%.

REASONABLENESS TESTS

Q. HOW CAN A MARKET REQUIRED RETURN ESTIMATE BE TESTED FOR REASONABLENESS?

A. It is important to test market required return estimates against some benchmark or external standard to ensure that the estimate is reasonable and not biased either too high or too low. I recommend two reasonableness tests for the Commission to use in evaluating the range of estimates presented in this docket. The first test is the expected return on the market of stocks and the second test is the risk premium of equity securities over debt securities. Reasonableness tests aren't intended to substitute for required return estimates more rigorously developed using DCF and CAPM models. They are a check to insure that the estimate is consistent with other observed risk/return relationships.

Expected Return on the Market

Q. WHAT IS THE EXPECTED RETURN ON THE MARKET OF STOCKS?

A. The expected return on the market of stocks (or expected return on the "market") is the investor expected return on a broad based measure of the stock market as a whole. Stated another way, the expected return on the market is the market required return for the average stock of average risk.

Q. HOW DO YOU DEFINE THE MARKET?

A. I have defined the market in terms of a well known and widely used measure of the stock market; the Standard & Poor's 500 Index (S&P 500). The S&P 500 makes up more than 80% of the total value of the New York Stock Exchange and is a market measure used in the calculation of individual stock Betas.

Q. HOW DO YOU FIND THE EXPECTED RETURN ON THE MARKET?

A. The expected return on the market is determined in the same fashion that the expected return (or market required return) is estimated for an individual company -- that is using the DCF and CAPM methods. The DCF estimate of the expected return on the S&P 500 (from Exhibit PCC-11) is 14.8%. The CAPM estimate (from Exhibit PCC-12) is 14.1%. Averaging these two model estimates indicates that investors are currently expecting a return of 14.5% on the market.

The expected return on the S&P 500 stocks provides a benchmark for evaluation of the reasonableness of market required return estimates for USWC. The S&P 500 is commonly used as a benchmark for evaluating investment managers' performance and is popular as a diversified equity portfolio mutual fund or "Index Fund" investment.

Q. HOW SHOULD THE EXPECTED RETURN ON THE MARKET BE USED AS A BENCHMARK TO EVALUATE THE REASONABLENESS OF THE ESTIMATE OF USWC'S COST OF EQUITY CAPITAL?

A. The expected return on the market can be viewed as the market expected return of the average stock and can be used as the benchmark for evaluating the expected return estimate for the individual firm. The appropriate question would be, "Is the firm, in this case USWC, more risky, less risky, or about the same risk as the average stock?" The evidence I have presented indicates that USWC is of slightly below average risk. This evidence is in the form of Beta estimates for publicly traded companies of comparable risk to USWC. Beta measures the total risk of the individual company or group of companies relative to the risk of the market as a whole. A Beta of 1.0 indicates risk equal to the market average. A Beta greater than 1.0 indicates risk greater than the market average and a Beta less than 1.0 indicates risk less than the market average.

My testimony shows a Beta estimate for USWC of .76 , an average Beta of .89 for the Telephone Companies group and an average of .85 for the group of comparable companies. As discussed earlier, taken by itself, Arizona has a higher risk profile than USWC as a whole. It is my opinion that if USWC – Arizona were a separately financed company, it would have higher risk than USWC as a whole, and thus would have beta risk closer to the market average of 1.0.

Given these Beta estimates, the expected return estimate for USWC should be slightly lower than the expected return on the market.

Q. HOW DO THE ESTIMATES OF USWC'S COST OF CAPITAL COMPARE TO THE MARKET EXPECTED RETURN BENCHMARK?

A. Recall that the expected return on the market was estimated at 14.5% and the Beta estimates for USWC indicate slightly lower risk (and thus return) relative to the market. My estimated market required return range of 12.0% to 13.1% for USWC is confirmed as reasonable by the market expected return benchmark.

Equity Risk Premium

Q. WHAT IS THE EQUITY RISK PREMIUM TEST OF REASONABLENESS?

A. The equity risk premium test is based on the risk and return differential between common stocks and corporate bonds. Stocks are a riskier investment than bonds and must offer a higher expected return to investors. This risk/return differential is consistent with financial theory and is empirically validated in the financial markets. On an individual company level, it is obvious that any return to common stockholders (dividends and capital gain) comes only after interest payments to the bondholders. The common stockholders have the most junior claim on the cash flow of the corporation and bear the most risk. The return expected by common stockholders for assuming this risk is substantially higher than the return expected by bondholders in the same firm.

Q. WHAT IS THE MAGNITUDE OF THE EQUITY RISK PREMIUM?

A. Like the market risk premium discussed in the section on CAPM, the equity risk premium can be estimated **ex post**, using a historical period as a proxy for the current and expected

premium, or **ex ante**, using a DCF estimate of the expected return on the market minus current bond yields.

The Ibbotson Associates 1926-1997 study compares market returns among asset classes and provides data for the longest period of time for which quality data is available. The average of 72 years of data shows that the average return on the average stock is 6.9% higher than the average return on the average corporate bond. (See Exhibit PCC-13). This is the ex post equity risk premium.

Ex ante risk premium estimates require an estimate of the cost of equity for a particular company, group of companies, or the market as a whole, along with current expected yield information for corporate bonds.

The expected bond yield of 7.1% is yield to investors on new and recently issued A rated long term bonds. (See Exhibit PCC-13).

Taking my DCF estimate for the expected return on the S&P 500 Index of 14.8% and subtracting the expected bond yield of 7.1% gives an expected equity risk premium of 7.7%.

Q. DOES THE EQUITY RISK PREMIUM NEED TO BE RISK ADJUSTED?

A. Both the ex post and ex ante risk premiums developed above are based on the additional return required for equity investment in a stock of average risk. Recall from the discussion on the expected return on the market benchmark that we found the risk of USWC close to, but slightly lower than the risk of the market. In terms of Beta, I estimate the Beta of USWC-Arizona to be between .76 and .89. Adjusting the equity risk premium for this Beta range, the

following risk premium estimates are an appropriate benchmark to evaluate cost of equity estimates for USWC:

	Range
Ex Post Risk Premium	5.2% - 6.1%
Ex Ante Risk Premium	5.9% - 6.9%

Q. HOW IS THE RISK PREMIUM REASONABLENESS TEST IMPLEMENTED?

A. Combining the above range of equity risk premiums with the 7.1% cost of debt provides a risk premium reasonableness test range of 12.3% to 14.0%. My market required return estimate for USWC is at the low end of the range.

COST OF EQUITY AND RECOMMENDED RETURN

Stock Issuance (Flotation) Costs

Q. WHY MUST A RECOGNITION BE MADE FOR STOCK ISSUANCE (FLOTATION COSTS)?

A. Because there is a difference in the amount of equity investment by the stockholder and the net proceeds received by the company, the cost of equity capital to the company has to be greater than the return required by investors.

Here is an example to illustrate the situation:

A company sells 1 million shares of stock at $25 ($25,000,000) to investors who are expecting a 12% annual return. ($3 per share or $3,000,000 total).

In issuing the new stock, the company incurred expenses for underwriting commissions, legal fees, stock certificate printing, etc. of $750,000, or 3% of the stock issue.

The proceeds of the stock sale to the company are $24,250,000 ($25,000,000 - $750,000 expenses) and this $24,250,000 goes on the company's books as stockholders equity.

In setting the corporate goals and budget, the Chief Financial Officer knows that net income of $3,000,000 or $3 per share is needed to meet the shareholders' expectation -- the market required rate of return of 12%. This net income can be paid out entirely as dividends, retained entirely for reinvestment in the business, or paid out and retained in some combination according to the desires of the shareholders.

That same $3,000,000 net income is a return on book equity or cost of equity capital to the firm of 12.37% ($3,000,000/$24,250,000 = 12.37%).

The point of this example is that the cost of equity capital (or return on the equity capital that the company receives from shareholder investment) is always greater than the market required rate of return because of the expense of issuing stock.

Q. DON'T WE HAVE THE SAME SITUATION WITH BONDS AND THEIR ISSUING COSTS?

A. Yes. Bonds have issuing expenses and the interest rate cost to the company is always greater than the yield to the investors, so the principle is exactly the same. The cost of debt includes the amortization of bond issuance expenses over the life of the debt.

Q. HAVE COMMON EQUITY HOLDERS ALREADY ACCOUNTED FOR STOCK ISSUANCE COSTS IN ESTABLISHING THE CURRENT PRICE OF THE STOCK?

A. No. Stock Issuance costs are the underwriters' commissions and other costs of issuing stock to the public. They are paid by the company, not by the stockholders. Consider the following example: A company's stock is selling for $35 per share in the market and it wishes to sell additional shares. The company's investment banker advises the company that it will cost $1 per share (about 3%) to sell the new stock. The company cannot sell the new shares for more than the market price (i.e. $36; $35 plus the $1 issuing cost) because there is no difference between the new shares and the old shares. Investors (stockholders) will only pay the market price, $35, for the new shares. Thus, the investor pays $35 for the new share, but the company only receives $34 ($35 minus the $1 issuing cost). The investor expects a competitive return on the $35 paid for the share, but the company has only $34 with which to purchase assets to provide that competitive return. This is the reason why the cost of equity capital to any company is slightly greater than the return required by the equity investor on his or her common stock investment in that company.

Q. WHEN A COMPANY CAN ISSUE NEW STOCK AT A PRICE ABOVE BOOK VALUE, IS THERE STILL A NEED FOR A STOCK ISSUANCE COST ADJUSTMENT?

A. Yes. Stock issuance costs are incurred whenever new stock is issued to the public without regard to whether the market price of the new stock is above book value, equal to book value,

or below book value. The cost of issuing new stock is not related to the book value of the company.

Q. IS THERE A DIFFERENCE BETWEEN REGULATED AND UNREGULATED COMPANIES ON THE STOCK ISSUANCE COST ISSUE?

A. There is no difference. Because of stock issuance costs, the need to achieve a return on book equity greater than the market required return is the same for both unregulated and regulated companies.

Q. WHAT ARE THE STOCK ISSUANCE COSTS FOR USWC?

A. As shown in Exhibit PCC-10, U S WEST, Inc., the equity market interface for USWC prior to issuance of targeted stock and the split off of MediaOne, has stock issuance costs associated with public stock issues in 1990, 1993, and 1994, with the dividend reinvestment plan, and with the company's initial capitalization. The weighted cost for all stock issued (public issues and non-public financing without issuance expenses) is 2.0% of the gross proceeds. In other words, for every $100 of stockholder investment, the company has $98.00 of paid in capital.

Q. HAS USWC HAD A PUBLIC STOCK ISSUE SINCE THE TARGETED STOCK RECAPITALIZATION?

A. No. USWC has not incurred any additional stock issuance costs since the November 1, 1995 targeted stock Recapitalization.

Q. HOW DO YOU ACCOUNT FOR THE STOCK ISSUANCE COSTS ASSOCIATED WITH THE EQUITY CAPITAL ON USWC'S BOOKS?

USWC has $7,852.6 million in shareholders equity on its books. $4,512.8 million is paid in capital, and $3,339.8 million, retained earnings. The paid in capital came from U S WEST stock financing and has associated issuance costs that need to be recognized in the return on equity authorized for USWC by the Arizona Corporation Commission.

The $4,512.8 million paid in capital on USWC's books is the net amount after direct stock issuance expenses (Underwriting discounts, commissions, legal fees, etc.) of 2.0%. Equity capital supplied by the stockholders is:

$$\frac{\$4{,}512.8\text{m}}{(1 - .02)} = \$4{,}604.9\text{m}$$

USWC's stock issuance costs in dollars are:

$$\$4{,}604.9\text{m} - \$4{,}512.8\text{m} = \$92.1\text{m}$$

As a percent of total equity (including retained earnings), issuance costs are:

$$\frac{\$92.1\text{m}}{\$7{,}852.6\text{m}} = 1.17\%$$

Q. DID TARGETED STOCK OR THE COMPANY SPLIT AFFECT THESE EXPENSES?

A. No. Neither the targeted stock split nor the company split changed the equity capitalization of USWC and thus have not affected these issuance expenses.

Q. HOW SHOULD THE COMMISSION DEAL WITH STOCK ISSUANCE EXPENSES?

A. These issuance cost expenses need to be recognized in setting rates for Arizona customers. The market required return of 12.0% to 13.1% needs to be adjusted upward to reflect the cost of equity capital which includes recovery of stock issuance costs. The adjustment is as follows:

Market Req Return	x	Adj Factor	=	Cost of Equity
12.0% to 13.1%		1.0117		12.1% to 13.3%

Recommended Range For Cost Of Equity

Q. WHAT IS YOUR RECOMMENDATION FOR A FAIR RETURN ON EQUITY?

A. A fair return on equity is equal to the cost of equity capital, which is in the range of 12.1% to 13.3%. My point recommendation is 13.0%. Reflecting the higher risk of USWC Arizona, this recommendation is higher than the range midpoint of 12.7%.

OVERALL RATE OF RETURN RECOMMENDATION

Q. WHAT IS YOUR RECOMMENDATION FOR A FAIR OVERALL RETURN ON RATE BASE FOR USWC?

A. Using the fair return on book equity and USWC's actual capital structure and embedded debt cost, I recommend the following as a fair return on rate base:

	Percent	Cost	Weighted Cost
Debt	41.2%	7.52%	3.10%
Equity	58.8%	13.0%	7.64%
Overall Return			10.74%

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

APPENDIX I

PREVIOUS TESTIMONY OF PETER C. CUMMINGS

Jurisdiction	Docket	Jurisdiction	Docket
Minnesota	GR-83-600	Arizona	U-3021-96-448
South Dakota	F-3520	New Mexico	96-4121-TC
FCC	84-800	Utah	94-999-01
Oregon	UT-43	Nebraska	C-1473
Oregon	UT-65	Iowa	RPU-96-9
Oregon	UT-85	Colorado	96S-331T
Oregon	UM-280	Minnesota	P-421-CI-96-1540
Washington	U-89-3524-AT	Wyoming	70000-TR-96-223
Utah	90-049-06	Utah	97-049-08
Arizona	E-1051-91-004	Colorado	97K-237T
Montana	90.12.86	Wyoming	70000-TS-96-319
Iowa	RPU-91-4	Wyoming	72000-TS-96-95
Utah	92-049-05	New Mexico	96-310-TC
New Mexico	92-227-TC	New Mexico	97-334-TC
Arizona	E-1051-93-183	Minnesota	P-999/M-97-909
Iowa	RPU-93-9	Wyoming	General Order 81
Washington	UT-950200	North Dakota	PU-314-97-12
Utah	95-049-05	Oregon	UM 731
Oregon	UT-125	Montana	D97.9.167
Idaho	USW-S-96-5	Wyoming	70000-TT-97-378
Minnesota	P-442,421/M-96-855	Nebraska	C-1415
Minnesota	P-466,421/M-96-1097		
Nebraska	C-1385		
Utah	96-087-03		

APPENDIX II

DISCOUNTED CASH FLOW MODEL

The present value of any series of future cash flows is the summation of those cash flows after discounting them by a discount rate. Mathematically the concept is expressed as:

$$PV = \frac{CF_1}{(1+k)^1} + \frac{CF_2}{(1+k)^2} + \frac{CF_3}{(1+k)^3} + \ldots \frac{CF_n}{(1+k)^n}$$

Where:

PV	=	Present value of cash flows
CF_n	=	Cash flow in period n
k	=	Discount rate

In the case of common stock investment, the present value of future cash flows (PV) equals the market price of the stock (P_0), which is set by investors. The cash flows consist of quarterly dividend payments and proceeds from sale of the stock.

The discount rate is the percentage return on equity investment to the stockholder.

$$P_0 = \frac{D_1}{(1+k)^1} + \frac{D_2}{(1+k)^2} + \frac{D_3}{(1+k)^3} + \ldots \frac{D_n+P_n}{(1+k)^n}$$

Where:

P_0	=	Current stock price
P_n	=	Stock price in future period n
D_n	=	Dividend payment in period n
k	=	Discount rate or rate of return

The principal appeal of the DCF approach lies in its simplicity and correspondence with the intuitive notion of dividends plus capital appreciation as the measure of investors' total expected return.

Building on the concept of valuation in terms of dividends and terminal price of the stock (capital appreciation), Elton and Gruber show that the value of a stock can be expressed in terms of dividends only:

we find that

$$P_t = \frac{D_{t+1}}{(1+k)} + \frac{D_{t+2}}{(1+k)^2} + \frac{D_{t+3}}{(1+k)^3} + \ldots \frac{D_{t+n+1}}{(1+k)^{n+1}} + \ldots$$

or that the value of share of stock is equal to the present value of all future dividends.[1]

From the basic valuation equation, Elton and Gruber add the assumption of constant growth in dividends[2] to derive the Constant Growth Model

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[1] Edwin J. Elton and Martin J. Gruber, Modern Portfolio Theory and Investment Analysis, 4th Ed., New York: John Wiley & Sons, 1991, p. 451.

Elton and Gruber go on to point out that this equation can be used to estimate price (*p*) from estimates of future dividends and the discount rate (*k*). Alternatively the present market price can be substituted for price (*p*) and combined with estimates of future dividends to estimate the discount rate (*k*) or the rate of return the stockholder will earn on the stock.

[2] There are additional assumptions implicit as well. Weston and Copeland explain:

> "A number of assumptions underlying the dividend valuation model should be noted to understand how it may be used to estimate the required return on equity for a firm. The growth rate (*g*) refers to growth in dividends. Since *g* is the product of the retention rate times the internal profitability rate, this indicates that the model is an all internal equity financing model. Retained earnings is the only source of financing investment in this

One of the best known and certainly the simplest DCF model assumes that dividends will grow at the same rate (g) into the indefinite future. Under this assumption the value of a share of stock is

$$P = \frac{D}{(1+k)} + \frac{D(1+g)}{(1+k)^2} + \frac{D(1+g)^2}{(1+k)^3} + \ldots + \frac{D(1+g)^{N-1}}{(1+k)^N} + \ldots$$

Using the formula for the sum of a geometric progression[3],

$$P = \frac{D}{k-g}$$

This model states that the price of a share of stock should be equal to next year's expected dividend divided by the difference between the appropriate discount rate for the stock and its expected long-term growth rate. Alternatively, this model can be stated in terms of the rate of return on a stock as[4]

$$k = D/P + g$$

---

model. Furthermore, constant growth is required. There is no period of supernormal or subnormal growth and the constant growth continues through infinity.

The logic of the model indicates that the *g* refers to the growth rate in dividends, but under the assumptions of the model everything else also grows at the same rate. If dividends grow at 12 percent, and the payout ratio and retention rate are constant, earnings must be growing at the same 12 percent. And over time, the value of the firm or the price of its common stock will be growing at a 12 percent rate as well. Clearly there is a relationship between *p*, the price of the common stock, and the growth rate in earnings, dividends, and the total assets of the firm. Thus, the model does not provide an unambiguous basis for estimating k_s."

J. Fred Weston and Thomas E. Copeland, Managerial Finance, 9th Ed., Fort Worth, TX: The Dryden Press, 1992, pp. 611-612.

[3] The formula for the sum of a geometric progression is illustrated in a footnote on page 453 of Elton and Gruber Op. cit. and can also be found in Frank K. Reilly, Investment Analysis and Portfolio Management, 3rd Ed., The Dryden Press, 1989, pp. 339-340.

[4] Op. cit., pp. 453-454.

This is the basic DCF model for stock valuation derived from the initial assumptions of a single cash flow per period and annual periods of time. Further examination of these initial cash flow assumptions indicates they are not well aligned with the cash flows of common stock investment. Most companies pay dividends quarterly and increase dividend levels annually. Brigham and Gapenski explain why the basic DCF model needs to be modified for quarterly dividend cash flows:

A Quarterly Stock Valuation Model

"Throughout Chapter 5 we discussed stock valuation and rates of return on the assumption that dividends are received once a year. In fact, most companies pay dividends on a quarterly basis, and increase them annually. ... If annual payments occur, and growth is constant, then equations 5C-1 and 5C-2 are appropriate:

$$P_0 = \frac{D_1}{k-g} \qquad (5C\text{-}1)$$

$$k = \frac{D_1}{P_0} + g \qquad (5C\text{-}2)$$

However, if dividends are paid quarterly, and they grow once a year, then equations 5C-3 and 5C-4 are appropriate:

$$P_0 = \frac{D_{q1}(1+k)^{0.75} + D_{q2}(1+k)^{0.50} + D_{q3}(1+k)^{0.25} + D_{q4}(1+k)^{0}}{k - g} \qquad (5C\text{-}3)$$

$$k = \frac{D_{q1}(1+k)^{0.75} + D_{q2}(1+k)^{0.50} + D_{q3}(1+k)^{0.25} + D_{q4}(1+k)^{0}}{P_0} + g \qquad (5C\text{-}4)$$

Here D_{qt} is the quarterly dividend in Quarter t, k is the expected and required rate of return, and g is the annual dividend growth rate. ...

The logic here is similar to that involved in the analysis of a semiannual payment bond: A bond is more valuable if its payments occur every six months, and its effective annual rate of

> return is higher. Similarly, a stock that pays dividends quarterly is more valuable than an annual payment stock, other things held constant, and its effective annual return is higher."[5]

The quarterly stock valuation model appears to add complexity to an estimation process that also relies, in part, upon the judgment of the analyst[6], but the quarterly DCF model offers significant benefits and the calculation can easily be performed on a financial calculator or personal computer.

> "The use of a quarterly DCF model has at least two important implications. First, when quarterly dividend payments are taken into account, required rates of return on stocks are significantly higher than those estimated by an otherwise equivalent annual dividend payment model. Second, whenever returns on stocks, bonds, T-bills, or any other securities are being compared, it is important to convert all returns to a common basis -- the effective annual rate or APR."[7]

The DCF model employed in this testimony is the quarterly DCF model derived as described above and restated as follows:

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[5] Eugene F. Brigham and Louis C. Gapenski, Financial Management: Theory and Practice, 4th Ed., Chicago: The Dryden Press, 1985, pp. 176-177.

[6] "One could argue that, given the uncertainty inherent in the basic data required for a DCF analysis of common stock, the refinements entailed in the quarterly model are not worth the effort. We have three responses. First, the quarterly model is correct and the annual model is simply incorrect for most firms; and to the extent that it is better to use correct rather than incorrect models, one should use the quarterly DCF model. Second, the differences in calculated rates of return are not trivial, and the annual model always understates the APR return on a stock which pays dividends quarterly; therefore, to avoid biases (which vary across firms and industries, depending on payout policy), one should make the quarterly adjustment. And third, with a relatively inexpensive personal computer, the analysis is really quite easy."

Eugene F. Brigham and T. Craig Tapley, "A Quarterly DCF Model", Journal of Corporate Finance, Winter 1987, p. 32.

[7] Eugene F. Brigham and T. Craig Tapley, "A Quarterly DCF Model", Journal of Corporate Finance, Winter 1987, pp. 26-27.

$$k = \frac{D_1(1+k)^{0.75} + D_2(1+k)^{0.50} + D_3(1+k)^{0.25} + D_4(1+k)^0}{P_0} + g$$

Where:

k	=	Required rate of return
D_1, D_2, D_3, D_4	=	The next four quarterly dividends to be received by investors
g	=	Expected dividend growth
P_0	=	Current market price

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN	))))))))))	DOCKET NO. _____

EXHIBITS OF

PETER C. CUMMINGS

U S WEST COMMUNICATIONS

JANUARY 8, 1999

INDEX OF EXHIBITS

DESCRIPTION	EXHIBIT
Rate of Return Recommendation	PCC-1
Debt Ratios - Telephone Operating Companies	PCC-2
Capital Structure and Embedded Cost of Debt	PCC-3
DCF Analysis - U S WEST Communications	PCC-4
DCF Analysis - Telephone Companies	PCC-5
DCF Analysis - Comparable Companies	PCC-6
CAPM Analysis - U S WEST Communications	PCC-7
CAPM Analysis - Telephone Companies	PCC-8
CAPM Analysis - Comparable Companies	PCC-9
Summary of Stock Issues and Expenses	PCC-10
DCF Analysis of S&P 500 Companies	PCC-11
CAPM Analysis of S&P 500 Companies	PCC-12
Equity Risk Premium	PCC-13

RATE OF RETURN RECOMMENDATIONS

Return on Equity Range	12.1%	to	13.3%
Point Recommendation		13.0%	
Overall Return Range	10.21%	to	10.92%
Point Recommendation		10.74%	

Telephone Operating Company Debt Ratios

(Dollar Amounts Shown in Thousands)

	Debt		Equity		Total Capital		Debt Ratio	
Local Exch. Carrier	1996	1997	1996	1997	1996	1997	1996	1997
Aliant Comm Co	43,907	43,935	168,270	175,955	212,177	219,890	20.7%	20.0%
ALLTEL Georgia	194,651	198,901	318,638	321,118	513,289	520,019	37.9%	38.2%
ALLTEL Pennsylvania	77,639	68,083	122,864	139,319	200,503	207,402	38.7%	32.8%
Bell Atlantic-DE	133,908	150,856	202,000	206,794	335,908	357,650	39.9%	42.2%
Bell Atlantic-MD	1,030,800	1,095,705	1,440,941	1,290,088	2,471,741	2,385,793	41.7%	45.9%
Bell Atlantic-NE Tel	2,167,259	2,174,183	3,208,128	3,171,236	5,375,387	5,345,419	40.3%	40.7%
Bell Atlantic-NJ	1,524,578	1,688,532	2,332,170	2,122,778	3,856,748	3,811,310	39.5%	44.3%
Bell Atlantic-NY Tel	3,897,352	3,795,009	4,736,261	4,504,160	8,633,613	8,299,169	45.1%	45.7%
Bell Atlantic-PA	1,621,919	1,685,744	2,265,440	1,987,374	3,887,359	3,673,118	41.7%	45.9%
Bell Atlantic-VA	996,367	1,054,643	1,234,493	1,074,207	2,230,860	2,128,850	44.7%	49.5%
Bell Atlantic-Wash DC	289,736	251,807	412,058	464,616	701,794	716,423	41.3%	35.1%
Bell Atlantic-WVA	263,512	263,636	371,526	374,364	635,038	638,000	41.5%	41.3%
BellSouth Telecomm	8,064,527	7,951,669	10,956,042	10,872,273	19,020,569	18,823,942	42.4%	42.2%
Carolina Tele & Tel	335,616	349,633	527,551	534,464	863,167	884,097	38.9%	39.5%
Central Tel Co Illinois	51,689	0	87,673	67,799	139,362	67,799	37.1%	0.0%
Central Tel Co Virginia	106,684	118,469	140,755	154,139	247,439	272,608	43.1%	43.5%
Central Telephone	314,267	399,307	1,283,403	1,304,890	1,597,670	1,704,197	19.7%	23.4%
Cincinnati Bell Tel	277,670	283,836	450,558	439,587	728,228	723,423	38.1%	39.2%
Contel of the South	82,210	74,587	116,071	99,539	198,281	174,126	41.5%	42.8%
GTE California	1,471,114	1,709,094	2,485,238	2,304,213	3,956,352	4,013,307	37.2%	42.6%
GTE Florida	893,217	975,588	1,128,464	1,059,805	2,021,681	2,035,393	44.2%	47.9%
GTE Hawaiian Tel	663,895	558,178	598,623	614,901	1,262,518	1,173,079	52.6%	47.6%
GTE Midwest	357,523	372,200	536,869	516,706	894,392	888,906	40.0%	41.9%
GTE North	1,765,181	1,760,855	2,404,499	2,427,789	4,169,680	4,188,644	42.3%	42.0%
GTE Northwest	735,743	774,115	992,283	1,039,233	1,728,026	1,813,348	42.6%	42.7%
GTE South	712,851	745,463	1,161,034	1,084,541	1,873,885	1,830,004	38.0%	40.7%
GTE Southwest	864,918	1,024,938	1,339,218	1,285,588	2,204,136	2,310,526	39.2%	44.4%
Illinois Bell	1,781,375	2,073,289	1,321,224	1,403,581	3,102,599	3,476,870	57.4%	59.6%
Indiana Bell	287,918	274,348	658,358	686,836	946,276	961,184	30.4%	28.5%
Michigan Bell	1,235,415	1,146,581	1,393,137	1,467,013	2,628,552	2,613,594	47.0%	43.9%
Nevada Bell	94,364	102,147	131,051	119,860	225,415	222,007	41.9%	46.0%
Ohio Bell	910,633	1,025,549	911,975	947,771	1,822,608	1,973,320	50.0%	52.0%
Pacific Bell	5,625,800	5,808,362	7,256,863	6,219,442	12,882,663	12,027,804	43.7%	48.3%
Southern NE Tel	742,097	663,296	1,276,103	1,256,780	2,018,200	1,920,076	36.8%	34.5%
Sprint Florida	575,805	479,076	925,798	926,133	1,501,603	1,405,209	38.3%	34.1%
Sprint Missouri	116,115	139,109	155,637	157,426	271,752	296,535	42.7%	46.9%
SW Bell Telephone	5,185,458	5,469,104	6,859,107	6,767,301	12,044,565	12,236,405	43.1%	44.7%
U S WEST Comm	6,049,931	5,367,346	7,849,900	7,852,592	13,899,831	13,219,938	43.5%	40.6%
United Tel Co Indiana	62,214	61,016	101,172	92,997	163,386	154,013	38.1%	39.6%
United Tel Co NJ	53,109	60,774	97,421	96,403	150,530	157,177	35.3%	38.7%
United Tel Co NW	58,806	61,891	79,532	89,608	138,338	151,499	42.5%	40.9%
United Tel Co Ohio	179,562	199,359	281,591	287,349	461,153	486,708	38.9%	41.0%
United Tel Co PA	116,170	116,311	186,731	189,122	302,901	305,433	38.4%	38.1%
United Tel Co SE	117,700	122,306	155,430	163,884	273,130	286,190	43.1%	42.7%
United Tel Co Texas	57,161	69,188	91,964	90,707	149,125	159,895	38.3%	43.3%
Western Reserve Tel	63,521	65,471	97,781	98,544	161,302	164,015	39.4%	39.9%
Wisconsin Bell	449,133	497,295	538,426	556,092	987,559	1,053,387	45.5%	47.2%
Totals	**52,701,020**	**53,370,784**	**71,390,271**	**69,106,917**	**124,091,291**	**122,477,701**	**42.5%**	**43.6%**

Data from 1996 and 1997 Statistics of Communications Common Carriers, FCC

U S WEST COMMUNICATIONS - Arizona
Capital Structure - August 1998

	$(000)	Cost	Percent of Capital
SHORT TERM DEBT			
Notes Payable	$56,021	5.68%	3.18%
Current Maturities	$44,368	6.64%	2.51%
Total Short Term Debt	$100,389	6.10%	5.69%
LONG TERM DEBT			
Funded and Other LT Debt	$615,321	7.76%	34.88%
Capital Leases	$11,901	7.30%	0.67%
Total Long Term Debt	$627,222	7.75%	35.55%
TOTAL DEBT	$727,611	7.52%	41.24%
COMMON EQUITY	$1,036,684		58.76%
TOTAL CAPITAL	$1,764,295		100.00%

DCF Model
U S WEST Communications

	Price	Expected Dividends Qtr 1	Qtr 2	Qtr 3	Qtr 4	Yield	Growth Rate	Equity Cost
	A	B	C	D	E	F	G	H = F+G
U S WEST	51.625	0.535	0.535	0.535	0.535	4.3%	6.0%	10.3%

Notes:

Expected dividends (current and future payments) are based upon historical increase patterns for each company

Dividend Yield is taken from the quarterly DCF calculation

$$\frac{D(1+K)^{.75} + D(1+K)^{.50} + D(1+K)^{.25} + D(1+K)^{0}}{\text{Price}}$$

10 day average closing price from Microsoft Investor Web Site (for the period 8/18/98 through 8/31/98)

Growth rate from Institutional Brokers Estimate System (IBES)

DCF Model
Telephone Companies

Company	Price	Expected Dividends Qtr 1	Qtr 2	Qtr 3	Qtr 4	Yield	Growth Rate	Equity Cost
	A	B	C	D	E	F	G	H = F+G
Ameritech	47.763	0.300	0.300	0.327	0.327	2.7%	9.0%	11.7%
Bell Atlantic	43.575	0.416	0.416	0.416	0.416	4.0%	8.0%	12.0%
BellSouth	67.375	0.360	0.360	0.360	0.360	2.2%	9.0%	11.2%
SBC Communications	39.738	0.235	0.260	0.260	0.260	2.7%	10.5%	13.2%
GTE Corp	50.594	0.470	0.470	0.470	0.470	3.9%	9.5%	13.4%

Mean **12.3%**

Truncated Mean (Eliminate the High and Low Estimates) ***12.3%***

Notes:

Expected dividends (current and future payments) are based upon historical increase patterns for each company

Dividend Yield is taken from the quarterly DCF calculation

$$\frac{D(1+K)^{.75} + D(1+K)^{.50} + D(1+K)^{.25} + D(1+K)^{0}}{\text{Price}}$$

10-day average closing prices from Microsoft Investor Web Site (for the period 8/18/98 thru 8/31/98)

Growth rate from Institutional Brokers Estimate System (IBES)

DCF Model
Comparable Risk Companies

Company	Price	Expected Dividends Qtr 1	Qtr 2	Qtr 3	Qtr 4	Yield	Growth Rate	Equity Cost
	A	B	C	D	E	F	G	H = F+G
Abbott Laboratories	42.488	0.150	0.150	0.168	0.168	1.6%	12.0%	13.6%
Albertsons	51.263	0.170	0.170	0.192	0.192	1.5%	12.8%	14.3%
Automated Data Proc.	68.969	0.133	0.152	0.152	0.152	0.9%	15.0%	15.9%
Brown-Foreman Cl B	63.894	0.280	0.308	0.308	0.308	2.0%	10.0%	12.0%
Consol. Edison NY	46.194	0.530	0.530	0.541	0.541	4.8%	2.0%	6.8%
Dow Jones & Co	53.156	0.240	0.240	0.240	0.240	1.9%	8.0%	9.9%
DPL Inc	17.600	0.235	0.235	0.244	0.244	5.6%	4.0%	9.6%
Emerson Electric	61.719	0.295	0.330	0.330	0.330	2.2%	12.0%	14.2%
FPL Group	63.994	0.500	0.500	0.528	0.528	3.3%	5.6%	8.9%
Gillette Co	46.050	0.128	0.128	0.128	0.149	1.2%	17.0%	18.2%
Illinois Tool Works	55.313	0.150	0.150	0.150	0.171	1.2%	13.8%	15.0%
IPALCO Enterprises	44.338	0.275	0.275	0.292	0.292	2.6%	6.0%	8.6%
Johnson & Johnson	75.032	0.250	0.250	0.250	0.284	1.5%	13.5%	15.0%
Leggett & Platt Inc	23.363	0.080	-	0.165	0.085	1.5%	15.0%	16.5%
McDonalds Corp	64.119	0.090	0.090	0.090	0.102	0.6%	13.0%	13.6%
Minnesota Mining & Mf	74.606	0.550	0.550	0.611	0.611	3.3%	11.0%	14.3%
Mobil Corp	71.844	0.570	0.570	0.616	0.616	3.4%	8.0%	11.4%
Nalco Chemical	31.232	0.250	0.250	0.250	0.250	3.4%	10.0%	13.4%
St. Paul Cos	33.481	0.250	0.250	0.275	0.275	3.3%	10.0%	13.3%
Washington Post Cl B	524.038	1.250	1.350	1.350	1.350	1.0%	8.0%	9.0%

Mean		12.7%
Truncated Mean	(Eliminate the High and Low Estimates)	12.7%

Notes: Expected dividends (current and future payments) are based upon historical increase patterns for each company

Dividend Yield is taken from the quarterly DCF calculation

$$\frac{D(1+K)^{.75} + D(1+K)^{.50} + D(1+K)^{.25} + D(1+K)^{0}}{\text{Price}}$$

10 day average closing price from Microsoft Investor Web Site (for the period 8/18/98 through 8/31/98)

Growth rate from Institutional Brokers Estimate System (IBES)

CAPM - Intermediate & Long Term Bonds
U S WEST Communications

	Risk Free Rate A	Average Beta B	Market Risk Premium C	Beta x MRP D = BxC	Equity Cost E = A+D	
U S WEST	5.18%	0.76	8.9%	6.8%	12.0%	Intermediate Term
	5.45%	0.76	8.6%	6.5%	12.0%	Long Term

Notes: The CAPM cost of equity estimate formula is:
K = Risk Free Rate + (Beta x Market Risk Premium)
Risk Free rate is the average of the 3-yr, 5-yr, and 10-yr
U.S. Treasury bond yields from the Federal Reserve
Statistical Release -- the H15 Report
(For the period 8/18/98 through 8/31/98)
Beta is average of Merrill Lynch and Value Line.

Market Risk Premium is an average of Ex-Post/Ex-Ante risk premiums.
EX-POST is the arithmetic mean risk premium for
Market Results 1926-1997 from Ibbotson Associates
(Stocks, Bonds, Bills & Inflation 1998 Yearbook)
EX-ANTE risk premium is the current S&P DCF equity
estimate minus the intermed. term Treasury bond yields

CAPM - Intermediate Term Bonds
Telephone Companies

Company	Risk Free Rate A	Average Beta B	Market Risk Premium C	Beta x MRP D = BxC	Equity Cost E = A+D
Ameritech	5.18%	0.93	8.9%	8.3%	13.5%
Bell Atlantic	5.18%	0.89	8.9%	7.9%	13.1%
BellSouth	5.18%	0.90	8.9%	8.0%	13.2%
SBC Communications	5.18%	0.85	8.9%	7.6%	12.8%
GTE Corp	5.18%	0.86	8.9%	7.7%	12.9%
	Mean	0.89			13.1%
	Truncated Mean (Eliminate the High and Low Estimates)				13.1%

Notes: The CAPM cost of equity estimate formula is:
K = Risk Free Rate + (Beta x Market Risk Premium)
Risk Free rate is the average of the 3-yr, 5-yr, and 10-yr U.S. Treasury bond yields from the Federal Reserve Statistical Release -- the H15 Report (For the period 8/18 through 8/31/98)
Beta is average of Merrill Lynch and Value Line.
Market Risk Premium is an average of Ex-Post/Ex-Ante risk premiums.
EX-POST is the arithmetic mean risk premium for Market Results 1926-1997 from Ibbotson Associates (Stocks, Bonds, Bills & Inflation 1998 Yearbook)
EX-ANTE risk premium is the current S&P DCF equity estimate minus the intermed. term Treasury bond yields

CAPM - Long Term Bonds
Telephone Companies

Company	Risk Free Rate A	Average Beta B	Market Risk Premium C	Beta x MRP D = BxC	Equity Cost E = A+D
Ameritech	5.45%	0.93	8.6%	8.0%	13.5%
Bell Atlantic	5.45%	0.89	8.6%	7.7%	13.2%
BellSouth	5.45%	0.90	8.6%	7.7%	13.2%
SBC Communications	5.45%	0.85	8.6%	7.3%	12.8%
GTE Corp	5.45%	0.86	8.6%	7.4%	12.9%

Mean	13.1%
Truncated Mean (Eliminate the High and Low Estimates)	13.1%

Notes: The CAPM cost of equity estimate formula is:

K = Risk Free Rate + (Beta x Market Risk Premium)

Risk Free rate is the 30 year U.S. Treasury bond yield from the Federal Reserve Statistical Release -- the H15 Report (For the period 8/18 through 8/31/98)

Beta is average of Merrill Lynch and Value Line.

Market Risk Premium is an average of Ex-Post/Ex-Ante risk premiums.

EX-POST is the arithmetic mean risk premium for Market Results 1926-1997 from Ibbotson Associates (Stocks, Bonds, Bills & Inflation 1998 Yearbook)

EX-ANTE risk premium is the current S&P DCF equity estimate minus the long term Treasury bond yield.

CAPM - Intermediate Term Bonds
Comparable Risk Companies

Company	Risk Free Rate A	Average Beta B	Market Risk Premium C	Beta x MRP D = BxC	Equity Cost E = A+D
Abbott Laboratories	5.18%	0.96	8.9%	8.5%	13.7%
Albertsons	5.18%	0.73	8.9%	6.5%	11.7%
Automated Data Proc.	5.18%	0.84	8.9%	7.5%	12.7%
Brown-Foreman Cl B	5.18%	0.76	8.9%	6.8%	12.0%
Consol. Edison NY	5.18%	0.75	8.9%	6.7%	11.9%
Dow Jones & Co	5.18%	0.88	8.9%	7.8%	13.0%
DPL Inc	5.18%	0.66	8.9%	5.9%	11.1%
Emerson Electric	5.18%	1.09	8.9%	9.7%	14.9%
FPL Group	5.18%	0.66	8.9%	5.9%	11.1%
Gillette Co	5.18%	1.00	8.9%	8.9%	14.1%
Illinois Tool Works	5.18%	1.10	8.9%	9.8%	15.0%
IPALCO Enterprises	5.18%	0.60	8.9%	5.3%	10.5%
Johnson & Johnson	5.18%	1.10	8.9%	9.8%	15.0%
Leggett & Platt Inc	5.18%	0.97	8.9%	8.6%	13.8%
McDonalds Corp	5.18%	0.93	8.9%	8.3%	13.5%
Minnesota Mining & M	5.18%	0.85	8.9%	7.6%	12.8%
Mobil Corp	5.18%	0.75	8.9%	6.7%	11.9%
Nalco Chemical	5.18%	0.80	8.9%	7.1%	12.3%
St. Paul Cos	5.18%	0.87	8.9%	7.7%	12.9%
Washington Post Cl B	5.18%	0.79	8.9%	7.0%	12.2%
	Mean				12.8%
	Truncated Mean				12.8%
	(Eliminate the High and Low Estimates)				

Notes: The CAPM cost of equity estimate formula is:
K = Risk Free Rate + (Beta x Market Risk Premium)
Risk Free rate is the average of the 3-yr, 5-yr, and 10-yr
U.S. Treasury bond yields from the Federal Reserve
Statistical Release -- the H15 Report
(For the period 8/18 through 8/31/98)
Beta is average of Merrill Lynch and Value Line.
Market Risk Premium is an average of Ex-Post/Ex-Ante risk premiums.
EX-POST is the arithmetic mean risk premium for
Market Results 1926-1997 from Ibbotson Associates
(Stocks, Bonds, Bills & Inflation 1998 Yearbook)
EX-ANTE risk premium is the current S&P DCF equity
estimate minus the intermed. term Treasury bond yields

CAPM - Long Term Bonds
Comparable Risk Companies

Company	Risk Free Rate A	Average Beta B	Market Risk Premium C	Beta x MRP D = BxC	Equity Cost E = A+D
Abbott Laboratories	5.45%	0.96	8.6%	8.3%	13.8%
Albertsons	5.45%	0.73	8.6%	6.3%	11.8%
Automated Data Proc.	5.45%	0.84	8.6%	7.2%	12.7%
Brown-Foreman Cl B	5.45%	0.76	8.6%	6.5%	12.0%
Consol. Edison NY	5.45%	0.75	8.6%	6.5%	12.0%
Dow Jones & Co	5.45%	0.88	8.6%	7.6%	13.1%
DPL Inc	5.45%	0.66	8.6%	5.7%	11.2%
Emerson Electric	5.45%	1.09	8.6%	9.4%	14.9%
FPL Group	5.45%	0.66	8.6%	5.7%	11.2%
Gillette Co	5.45%	1.00	8.6%	8.6%	14.1%
Illinois Tool Works	5.45%	1.10	8.6%	9.5%	15.0%
IPALCO Enterprises	5.45%	0.60	8.6%	5.2%	10.7%
Johnson & Johnson	5.45%	1.10	8.6%	9.5%	15.0%
Leggett & Platt Inc	5.45%	0.97	8.6%	8.3%	13.8%
McDonalds Corp	5.45%	0.93	8.6%	8.0%	13.5%
Minnesota Mining & M	5.45%	0.85	8.6%	7.3%	12.8%
Mobil Corp	5.45%	0.75	8.6%	6.5%	12.0%
Nalco Chemical	5.45%	0.80	8.6%	6.9%	12.4%
St. Paul Cos	5.45%	0.87	8.6%	7.5%	13.0%
Washington Post Cl B	5.45%	0.79	8.6%	6.8%	12.3%

Mean	12.9%
Truncated Mean	12.9%
(Eliminate the High and Low Estimates)	

Notes: The CAPM cost of equity estimate formula is:

K = Risk Free Rate + (Beta x Market Risk Premium)

Risk Free rate is the 30 year U.S. Treasury bond yield from the Federal Reserve Statistical Release -- the H15 Report (For the period 8/18 through 8/31/98)

Beta is average of Merrill Lynch and Value Line.

Market Risk Premium is an average of Ex-Post/Ex-Ante risk premiums.

EX-POST is the arithmetic mean risk premium for Market Results 1926-1997 from Ibbotson Associates (Stocks, Bonds, Bills & Inflation 1998 Yearbook)

EX-ANTE risk premium is the current S&P DCF equity estimate minus the long term Treasury bond yield.

Stock Issues & Expenses
U S WEST Equity Financing 1984 - 1995
(Dollars in Millions)

	(A) Stock Issued to Public*	(B) Stock Issuance Expenses	(C) Net Proceeds (A) - (B)	(D) Non-Public Financing#	(E) Total Financing (A) + (D)	(F) Paid in Capital (C) + (D)	(G) % Stock Issuance Expenses (B) / (E)	
1/1/84 Balance	***2,786.7***	***112.7***	***2,674.0***	***1,842.4***	***4,629.1***	***4,516.4***	***2.4%***	
1984	100.6	5.0	95.6	(110.2)	(9.6)	(14.6)		
1985				(89.6)	(89.6)	(89.6)		
1986				(17.7)	(17.7)	(17.7)		
1987				(223.3)	(223.3)	(223.3)		
1988				(156.2)	(156.2)	(156.2)		
1989				302.4	302.4	302.4		
1990	591.7	18.0	573.7	122.2	713.9	695.9		
1991				593.2	593.2	593.2		
1992				163.7	163.7	163.7		
1993	1,045.0	25.0	1,020.0	206.4	1,251.4	1,226.4		
1994	676.9	7.5	669.4	390.0	1,066.9	1,059.4		
1995				113.0	113.0	113.0		U S WEST, Inc.
				52.0	52.0	52.0		USW Comm Group
				7.0	7.0	7.0		USW Media Group
12/31/95 Balance	***5,200.9***	***168.2***	***5,032.7***	***3,195.3***	***8,396.2***	***8,228.0***	***2.0%***	
	5,155.4	*166.7*	*4,988.7*	*3,167.3*	*8,322.7*	*8,156.0*		USW Comm Group
	45.5	*1.5*	*44.0*	*28.0*	*73.5*	*72.0*		USW Media Group
	61.9%			38.1%	100.0%	98.0%		

*As shown on Exhibit 10, Page 2, of the paid in capital transferred to USW on 1/1/84, 60.2% and 39.8% of the total financing was originally derived from Public and Non-Public sources, respectively.

Non-public financing includes stock issued without issuance expenses, (e.g. New Vector purchase authorized July 11, 1991, U S WEST issued $399 million of common stock) and U S WEST treasury stock issued and purchased.

Source: U S WEST Annual Reports, Prospectuses, SEC Form 10-K's, Proxy Statement and USW Treasury.

Stock Issues & Expenses
Bell System Equity Financing 1975 - 1983
(Dollars in Millions)

Year	(A) Stock Issued to Public	(B) Stock Issuance Expenses	(C) Net Proceeds (A) - (B)	(D) Non-Public Financing	(E) Total Financing (A) + (D)	(F) Paid in Capital (C) + (D)	(G) % Stock Issuance Expenses (B) / (E)
1975	931,211	40,112	891,099	1,369	932,580	892,468	4.3%
1976	1,061,470	41,957	1,019,513	408,104	1,469,574	1,427,617	2.9%
1977	1,240,893	45,605	1,195,288	1,264,084	2,504,977	2,459,372	1.8%
1978	669,547	33,477	636,070	664,929	1,334,476	1,300,999	2.5%
1979	863,946	43,197	820,749	978,039	1,841,985	1,798,788	2.3%
1980	824,894	41,245	783,649	1,207,225	2,032,119	1,990,874	2.0%
1981	2,274,225	91,522	2,182,703	1,830,671	4,104,896	4,013,374	2.2%
1982	3,080,943	110,272	2,970,671	1,508,581	4,589,524	4,479,252	2.4%
1983	3,062,165	118,904	2,943,261	1,392,866	4,455,031	4,336,127	2.7%
Total	14,009,294	566,291	13,443,003	9,255,868	23,265,162	22,698,871	
	60.2%			39.8%	100.0%	97.6%	***2.4%***

Note: On 1/1/84, $4,516.4 million of paid in capital was transferred from the Bell System to U S WEST. As shown in the above study, this amount represented 97.6% of the total equity raised before deducting expenses. The total amount of equity financing before deducting expenses can be calculated by dividing $4,516.4 million by 97.6%.

$$\frac{\$4{,}516.4}{97.6\%} = \$4{,}629.1$$

The stock issue expenses can be calculated by subtracting the paid in capital (net equity) from the total equity financing.

$$\$4{,}629.1 - \$4{,}516.4 = \$112.7$$

Source: Bell System and U S WEST Annual Reports, Prospectuses, U S WEST Treasury and Compustat Data Base.

Discounted Cash Flow Analysis
Standard & Poor's 500 Companies

S&P Compustat Data Base
August 31, 1998

S&P Company Name	Current Dividend A	Current Price B	Expected Dividend Yield C= (calc)	Expected IBES LT Growth D	Market Required Return (Div Yld+Growth) E = C + D
ABBOTT LABORATORIES	0.525	38.500	1.4%	12.0%	13.4%
ADOBE SYSTEMS INC	0.200	26.250	0.8%	15.0%	15.8%
AEROQUIP-VICKERS INC	0.800	40.313	2.1%	10.0%	12.1%
AETNA INC	0.800	60.188	1.4%	15.0%	16.4%
AHMANSON (H F) & CO	0.880	53.313	1.7%	12.0%	13.7%
AIR PRODUCTS & CHEMICALS INC	0.563	30.563	2.0%	12.0%	14.0%
ALBERTO-CULVER CO -CL B	0.195	20.000	1.0%	11.0%	12.0%
ALBERTSONS INC	0.630	50.563	1.3%	12.8%	14.1%
ALCAN ALUMINIUM LTD	0.600	19.000	3.3%	7.0%	10.3%
ALLEGHENY TELEDYNE INC	0.640	15.063	4.5%	11.0%	15.5%
ALLERGAN INC	0.520	47.250	1.2%	13.0%	14.2%
ALLIEDSIGNAL INC	0.520	34.313	1.6%	15.0%	16.6%
ALLSTATE CORP	0.360	37.500	1.0%	11.8%	12.8%
ALLTEL CORP	1.100	44.875	2.6%	11.0%	13.6%
ALUMINUM CO OF AMERICA	0.975	59.875	1.7%	8.5%	10.2%
AMERADA HESS CORP	0.600	49.125	1.3%	14.5%	15.8%
AMEREN CORP	2.540	39.563	6.5%	3.0%	9.5%
AMERICAN ELECTRIC POWER	2.400	45.250	5.4%	3.4%	8.8%
AMERICAN EXPRESS	0.900	78.000	1.2%	14.0%	15.2%
AMERICAN GENERAL CORP	1.400	64.250	2.3%	12.0%	14.3%
AMERICAN GREETINGS -CL A	0.700	36.625	2.0%	10.0%	12.0%
AMERICAN HOME PRODUCTS CORF	0.830	50.125	1.8%	13.0%	14.8%
AMERICAN INTERNATIONAL GROUF	0.189	77.313	0.3%	13.8%	14.1%
AMERICAN STORES CO	0.620	29.000	2.3%	11.0%	13.3%
AMERITECH CORP	1.130	47.125	2.5%	9.0%	11.5%
AMOCO CORP	1.400	45.313	3.2%	8.0%	11.2%
AMP INC	1.040	35.688	3.1%	11.6%	14.7%
ANADARKO PETROLEUM CORP	0.150	28.750	0.6%	20.5%	21.1%
ANHEUSER-BUSCH COS INC	1.000	46.750	2.2%	9.1%	11.3%
AON CORP	1.020	62.500	1.7%	12.0%	13.7%
APACHE CORP	0.280	22.875	1.3%	10.0%	11.3%
ARCHER-DANIELS-MIDLAND CO	0.180	15.000	1.3%	10.5%	11.8%
ARMSTRONG WORLD INDS INC	1.720	48.000	3.8%	10.0%	13.8%
ASARCO INC	0.800	15.938	5.2%	6.3%	11.5%
ASHLAND INC	1.100	45.563	2.5%	8.0%	10.5%
ASSOC FST CAPITAL CP -CL A	0.400	59.125	0.7%	17.3%	18.0%
AT&T CORP	1.320	50.125	2.8%	10.0%	12.8%
ATLANTIC RICHFIELD CO	2.825	58.000	5.0%	7.0%	12.0%
AUTODESK INC	0.240	23.375	1.1%	20.0%	21.1%
AUTOMATIC DATA PROCESSING	0.430	63.750	0.7%	15.0%	15.7%
AVERY DENNISON CORP	0.720	53.688	1.4%	14.0%	15.4%
AVON PRODUCTS	1.260	62.875	2.2%	15.5%	17.7%
BAKER-HUGHES INC	0.460	18.250	2.8%	19.0%	21.8%
BALL CORP	0.600	37.438	1.7%	9.0%	10.7%
BALTIMORE GAS & ELECTRIC	1.620	30.813	5.4%	4.0%	9.4%
BANC ONE CORP	1.345	38.063	3.8%	14.0%	17.8%

Discounted Cash Flow Analysis
Standard & Poor's 500 Companies

S&P Compustat Data Base
August 31, 1998

S&P Company Name	Current Dividend A	Current Price B	Expected Dividend Yield C= (calc)	Expected IBES LT Growth D	Market Required Return (Div Yld+Growth) E = C + D
BANK OF NEW YORK CO INC	0.490	24.500	2.1%	12.0%	14.1%
BANKAMERICA CORP	1.220	64.500	2.0%	13.0%	15.0%
BANKBOSTON CORP	0.985	35.688	2.9%	12.0%	14.9%
BANKERS TRUST CORP	4.000	74.313	5.7%	11.0%	16.7%
BARD (C.R.) INC	0.700	32.750	2.3%	12.0%	14.3%
BARRICK GOLD CORPORATION	0.160	13.000	1.3%	15.0%	16.3%
BATTLE MTN GOLD CO	0.050	3.062	1.7%	7.0%	8.7%
BAUSCH & LOMB INC	1.040	42.313	2.6%	13.0%	15.6%
BAXTER INTERNATIONAL INC	1.130	53.125	2.3%	13.0%	15.3%
BB&T CORP	0.580	28.000	2.2%	12.0%	14.2%
BEAR STEARNS COMPANIES INC	0.579	36.500	1.7%	12.0%	13.7%
BECTON DICKINSON & CO	0.260	33.313	0.8%	14.0%	14.8%
BELL ATLANTIC CORP	1.485	44.125	3.5%	8.0%	11.5%
BELLSOUTH CORP	1.440	68.563	2.2%	9.0%	11.2%
BEMIS CO	0.800	35.875	2.4%	13.8%	16.2%
BESTFOODS	0.840	50.000	1.8%	11.7%	13.5%
BIOMET INC	0.110	26.875	0.4%	15.0%	15.4%
BLACK & DECKER CORP	0.480	42.000	1.2%	15.0%	16.2%
BLOCK H & R INC	0.800	39.125	2.2%	15.0%	17.2%
BOEING CO	0.560	30.938	2.0%	15.5%	17.5%
BOISE CASCADE CORP	0.600	24.438	2.5%	7.5%	10.0%
BRIGGS & STRATTON	1.090	36.813	3.1%	9.0%	12.1%
BRISTOL MYERS SQUIBB	1.520	97.875	1.7%	13.0%	14.7%
BRLNGTN NTHRN SANTA FE	1.200	93.063	1.4%	12.0%	13.4%
BROWN-FORMAN -CL B	1.100	60.000	1.9%	10.0%	11.9%
BROWNING-FERRIS INDS	0.680	32.500	2.2%	12.0%	14.2%
BRUNSWICK CORP	0.500	14.938	3.5%	12.0%	15.5%
BURLINGTON RESOURCES INC	0.550	29.563	2.0%	11.5%	13.5%
CAMPBELL SOUP CO	0.557	50.375	1.2%	13.0%	14.2%
CAPITAL ONE FINL CORP	0.320	87.500	0.4%	19.5%	19.9%
CARDINAL HEALTH INC	0.090	87.500	0.1%	20.0%	20.1%
CAROLINA POWER & LIGHT	1.880	43.063	4.5%	5.0%	9.5%
CASE CORP	0.200	27.000	0.8%	10.0%	10.8%
CATERPILLAR INC	0.900	42.000	2.3%	10.0%	12.3%
CBS CORP	0.200	25.750	0.9%	22.5%	23.4%
CENTEX CORP	0.120	35.375	0.4%	13.5%	13.9%
CENTRAL & SOUTH WEST CORP	1.740	26.125	6.8%	3.0%	9.8%
CHAMPION INTERNATIONAL CORP	0.200	33.000	0.6%	7.0%	7.6%
CHASE MANHATTAN CORP	1.210	52.500	2.4%	12.0%	14.4%
CHEVRON CORP	2.280	74.063	3.2%	8.0%	11.2%
CHRYSLER CORP	1.600	45.250	3.6%	5.8%	9.4%
CHUBB CORP	1.140	62.500	1.9%	12.0%	13.9%
CIGNA CORP	1.097	58.188	2.0%	10.0%	12.0%
CINCINNATI FINANCIAL CORP	0.533	33.625	1.7%	9.0%	10.7%
CINCINNATI MILACRON INC	0.420	19.375	2.3%	12.0%	14.3%
CINERGY CORP	1.800	34.750	5.3%	5.0%	10.3%

Discounted Cash Flow Analysis
Standard & Poor's 500 Companies

S&P Compustat Data Base
August 31, 1998

S&P Company Name	Current Dividend A	Current Price B	Expected Dividend Yield C= (calc)	Expected IBES LT Growth D	Market Required Return (Div Yld+Growth) E = C + D
CIRCUIT CITY STR CRCT CTY GP	0.140	30.875	0.5%	17.0%	17.5%
CITICORP	2.100	108.312	2.1%	13.0%	15.1%
CLOROX CO/DE	1.160	96.438	1.3%	13.0%	14.3%
COASTAL CORP	0.200	26.188	0.8%	15.0%	15.8%
COCA-COLA CO	0.560	65.125	0.9%	17.0%	17.9%
COLGATE-PALMOLIVE CO	1.060	72.125	1.6%	14.0%	15.6%
COLUMBIA ENERGY GROUP	0.600	49.750	1.3%	10.0%	11.3%
COLUMBIA/HCA HLTHCR -VTG	0.080	22.563	0.4%	13.0%	13.4%
COMCAST CORP -CL A SPL	0.093	37.375	0.3%	12.0%	12.3%
COMERICA INC	1.120	52.250	2.3%	12.0%	14.3%
COMPUTER ASSOCIATES INTL INC	0.073	27.000	0.3%	17.0%	17.3%
CONAGRA INC	0.510	24.750	2.2%	13.0%	15.2%
CONSECO INC	0.219	27.625	0.9%	16.0%	16.9%
CONSOLIDATED EDISON INC	2.100	47.313	4.5%	2.0%	6.5%
CONSOLIDATED NATURAL GAS CO	1.940	43.813	4.6%	9.0%	13.6%
COOPER INDUSTRIES INC	1.320	42.563	3.3%	12.0%	15.3%
COOPER TIRE & RUBBER	0.350	16.000	2.3%	10.0%	12.3%
COORS (ADOLPH) -CL B	0.550	41.250	1.4%	9.5%	10.9%
CORNING INC	0.720	24.625	3.2%	18.0%	21.2%
COUNTRYWIDE CREDIT IND INC	0.320	37.438	0.9%	14.5%	15.4%
CRANE CO	0.500	40.250	1.3%	12.0%	13.3%
CROWN CORK & SEAL CO INC	1.000	32.750	3.3%	14.5%	17.8%
CSX CORP	1.080	37.500	3.0%	11.6%	14.6%
CUMMINS ENGINE	1.075	40.688	2.8%	10.0%	12.8%
CVS CORP	0.220	36.375	0.7%	18.0%	18.7%
CYPRUS AMAX MINERALS CO	0.800	9.188	9.2%	10.3%	19.5%
DANA CORP	1.040	39.188	2.8%	10.0%	12.8%
DARDEN RESTAURANTS INC	0.080	15.500	0.5%	11.0%	11.5%
DAYTON HUDSON CORP	0.330	36.750	1.0%	15.0%	16.0%
DEERE & CO	0.800	33.000	2.5%	10.2%	12.7%
DELTA AIR LINES INC	0.200	101.875	0.2%	9.0%	9.2%
DELUXE CORP	1.480	29.000	5.4%	10.0%	15.4%
DILLARDS INC -CL A	0.160	28.875	0.6%	11.0%	11.6%
DISNEY (WALT) COMPANY	0.162	27.438	0.6%	18.0%	18.6%
DOLLAR GENERAL	0.128	26.875	0.5%	24.5%	25.0%
DOMINION RESOURCES INC	2.580	41.688	6.3%	3.0%	9.3%
DONNELLEY (R R) & SONS CO	0.780	36.250	2.3%	12.0%	14.3%
DOVER CORP	0.360	27.250	1.4%	13.0%	14.4%
DOW CHEMICAL	3.240	78.000	4.3%	8.0%	12.3%
DOW JONES & CO INC	0.960	49.813	2.0%	8.0%	10.0%
DRESSER INDUSTRIES INC	0.700	25.563	2.9%	15.0%	17.9%
DTE ENERGY CO	2.060	42.125	5.0%	3.0%	8.0%
DU PONT (E I) DE NEMOURS	1.230	57.875	2.2%	10.0%	12.2%
DUKE ENERGY CORP	2.160	62.375	3.6%	7.1%	10.7%
DUN & BRADSTREET CORP	0.880	23.000	4.0%	8.8%	12.8%
EASTERN ENTERPRISES	1.600	39.563	4.1%	5.0%	9.1%

Discounted Cash Flow Analysis
Standard & Poor's 500 Companies

S&P Compustat Data Base
August 31, 1998

S&P Company Name	Current Dividend A	Current Price B	Expected Dividend Yield C= (calc)	Expected IBES LT Growth D	Market Required Return (Div Yld+Growth) E = C + D
EASTMAN CHEMICAL CO	1.760	51.563	3.6%	8.7%	12.3%
EASTMAN KODAK CO	1.720	78.125	2.3%	10.5%	12.8%
EATON CORP	1.720	58.563	3.1%	10.0%	13.1%
ECOLAB INC	0.320	27.813	1.2%	15.0%	16.2%
EDISON INTERNATIONAL	1.000	28.438	3.6%	7.0%	10.6%
EG&G INC	0.560	23.438	2.5%	9.0%	11.5%
ELECTRONIC DATA SYSTEMS CORF	0.600	33.313	1.9%	13.0%	14.9%
EMERSON ELECTRIC CO	1.080	57.000	2.0%	12.0%	14.0%
ENGELHARD CORP	0.380	18.375	2.2%	13.0%	15.2%
ENRON CORP	0.912	42.313	2.3%	15.0%	17.3%
ENTERGY CORP	1.800	28.813	6.3%	3.0%	9.3%
EQUIFAX INC	0.345	35.625	1.1%	17.1%	18.2%
EXXON CORP	1.625	65.438	2.6%	7.0%	9.6%
FANNIE MAE	0.840	56.625	1.6%	13.0%	14.6%
FIFTH THIRD BANCORP	0.551	53.188	1.1%	15.0%	16.1%
FIRST CHICAGO NBD CORP	1.600	63.375	2.7%	10.1%	12.8%
FIRST DATA CORP	0.080	20.688	0.4%	15.0%	15.4%
FIRST UNION CORP (N C)	1.220	48.125	2.7%	12.0%	14.7%
FIRSTENERGY CORP	1.500	28.875	5.3%	3.0%	8.3%
FLEET FINANCIAL GROUP INC	1.800	65.563	2.9%	11.5%	14.4%
FLEETWOOD ENTERPRISES	0.670	33.438	2.1%	14.0%	16.1%
FLUOR CORP	0.760	39.563	2.0%	12.0%	14.0%
FORD MOTOR CO	1.645	44.625	3.8%	7.0%	10.8%
FORT JAMES CORP	0.600	29.125	2.2%	12.0%	14.2%
FORTUNE BRANDS INC	1.410	27.563	5.4%	12.0%	17.4%
FOSTER WHEELER CORP	0.835	12.313	7.2%	12.3%	19.5%
FPL GROUP INC	1.920	66.563	3.0%	5.6%	8.6%
FRANKLIN RESOURCES INC	0.162	32.250	0.5%	17.0%	17.5%
FREEPRT MCMOR COP&GLD -CL B	0.900	11.625	8.5%	20.0%	28.5%
FRONTIER CORP	0.870	30.375	3.1%	14.0%	17.1%
GANNETT CO	0.730	59.000	1.3%	12.0%	13.3%
GAP INC	0.225	51.063	0.5%	18.0%	18.5%
GENERAL DYNAMICS CORP	0.820	47.563	1.8%	8.0%	9.8%
GENERAL ELECTRIC CO	1.040	80.000	1.4%	13.0%	14.4%
GENERAL MILLS INC	2.120	65.438	3.4%	10.0%	13.4%
GENERAL MOTORS CORP	2.000	58.125	3.6%	8.4%	12.0%
GENERAL RE CORP	2.200	207.500	1.1%	12.0%	13.1%
GENERAL SIGNAL CORP	1.020	36.750	2.9%	10.5%	13.4%
GENUINE PARTS CO	0.943	31.313	3.2%	9.7%	12.9%
GEORGIA-PACIFIC GROUP	2.000	42.875	4.9%	8.5%	13.4%
GILLETTE CO	0.412	41.125	1.1%	17.0%	18.1%
GOLDEN WEST FINANCIAL CORP	0.455	76.125	0.6%	11.5%	12.1%
GOODRICH (B F) CO	1.100	27.063	4.4%	15.0%	19.4%
GOODYEAR TIRE & RUBBER CO	1.140	49.000	2.4%	9.7%	12.1%
GPU INC	1.985	37.563	5.4%	3.0%	8.4%
GRACE (W R) & CO	0.560	12.875	4.7%	14.0%	18.7%

Discounted Cash Flow Analysis
Standard & Poor's 500 Companies

S&P Compustat Data Base
August 31, 1998

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GRAINGER (W W) INC	0.530	39.188	1.4%	12.0%	13.4%
GREAT ATLANTIC & PAC TEA CO	0.400	23.813	1.8%	9.5%	11.3%
GREAT LAKES CHEMICAL CORP	0.620	39.125	1.7%	10.0%	11.7%
GTE CORP	1.880	50.063	3.9%	9.5%	13.4%
GUIDANT CORP	0.050	61.750	0.1%	20.0%	20.1%
HALLIBURTON CO	0.500	26.563	2.1%	20.0%	22.1%
HARCOURT GENERAL INC	0.730	48.563	1.7%	20.0%	21.7%
HARNISCHFEGER INDUSTRIES INC	0.400	16.063	2.6%	10.0%	12.6%
HARRIS CORP	0.760	31.875	2.5%	12.0%	14.5%
HARTFORD FINL SVCS GRP INC	0.800	44.750	1.9%	12.0%	13.9%
HASBRO INC	0.307	31.313	1.1%	15.0%	16.1%
HBO & CO	0.025	21.250	0.1%	35.0%	35.1%
HEINZ (H J) CO	1.235	53.313	2.4%	10.4%	12.8%
HELMERICH & PAYNE	0.260	16.250	1.7%	16.5%	18.2%
HERCULES INC	1.000	25.563	4.1%	11.5%	15.6%
HERSHEY FOODS CORP	0.840	70.000	1.3%	12.0%	13.3%
HEWLETT-PACKARD CO	0.520	48.563	1.2%	15.0%	16.2%
HILTON HOTELS CORP	0.320	20.750	1.7%	19.0%	20.7%
HOME DEPOT INC	0.095	38.125	0.3%	24.0%	24.3%
HOMESTAKE MINING	0.150	8.875	1.8%	9.0%	10.8%
HONEYWELL INC	1.090	62.875	1.8%	13.0%	14.8%
HOUSEHOLD INTERNATIONAL INC	0.530	36.938	1.6%	17.0%	18.6%
HOUSTON INDUSTRIES INC	1.500	28.813	5.3%	4.0%	9.3%
HUNTINGTON BANCSHARES	0.677	22.750	3.1%	10.0%	13.1%
IKON OFFICE SOLUTIONS	0.260	5.312	5.3%	17.0%	22.3%
ILLINOIS TOOL WORKS	0.430	48.438	0.9%	13.8%	14.7%
IMS HEALTH INC	0.120	55.000	0.2%	21.0%	21.2%
INGERSOLL-RAND CO	0.573	39.750	1.5%	12.0%	13.5%
INTEL CORP	0.085	71.188	0.1%	20.0%	20.1%
INTERPUBLIC GROUP OF COS	0.503	57.000	0.9%	14.8%	15.7%
INTL BUSINESS MACHINES CORP	0.775	112.625	0.7%	11.8%	12.5%
INTL FLAVORS & FRAGRANCES	1.440	38.750	3.9%	11.0%	14.9%
INTL PAPER CO	1.000	37.000	2.8%	7.5%	10.3%
ITT INDUSTRIES INC	0.600	30.125	2.1%	10.5%	12.6%
JEFFERSON-PILOT CORP	1.040	56.625	1.9%	12.0%	13.9%
JOHNSON & JOHNSON	0.850	69.000	1.3%	13.5%	14.8%
JOHNSON CONTROLS INC	1.075	42.813	2.7%	13.5%	16.2%
JOSTENS INC	0.880	19.875	4.6%	10.0%	14.6%
KAUFMAN & BROAD HOME	0.300	21.375	1.5%	14.1%	15.6%
KELLOGG CO	0.870	30.500	3.0%	10.0%	13.0%
KERR-MCGEE CORP	1.760	38.500	4.8%	8.0%	12.8%
KEYCORP	0.840	25.500	3.5%	10.0%	13.5%
KIMBERLY-CLARK CORP	0.950	38.063	2.7%	13.0%	15.7%
KING WORLD PRODUCTIONS INC	1.000	21.000	5.0%	8.0%	13.0%
KNIGHT-RIDDER INC	0.800	47.625	1.8%	12.0%	13.8%
LAIDLAW INC	0.146	8.961	1.8%	17.5%	19.3%

Discounted Cash Flow Analysis
Standard & Poor's 500 Companies

S&P Compustat Data Base
August 31, 1998

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LEHMAN BROTHERS HOLDINGS INC	0.240	39.375	0.6%	10.5%	11.1%
LILLY (ELI) & CO	0.740	65.750	1.2%	16.0%	17.2%
LIMITED INC	0.480	21.000	2.4%	13.0%	15.4%
LINCOLN NATIONAL CORP	1.960	86.000	2.4%	11.0%	13.4%
LIZ CLAIBORNE INC	0.450	28.500	1.7%	15.0%	16.7%
LOCKHEED MARTIN CORP	1.600	87.563	1.9%	9.8%	11.7%
LONGS DRUG STORES INC	0.560	34.125	1.7%	9.0%	10.7%
LOUISIANA-PACIFIC CORP	0.560	18.750	3.1%	8.5%	11.6%
LOWES COS	0.110	35.063	0.3%	20.0%	20.3%
LUCENT TECHNOLOGIES INC	0.150	70.875	0.2%	20.0%	20.2%
MALLINCKRODT INC	0.650	22.875	3.0%	12.0%	15.0%
MANOR CARE INC	0.088	24.250	0.4%	15.0%	15.4%
MARRIOTT INTL INC	0.170	28.063	0.7%	18.0%	18.7%
MARSH & MCLENNAN COS	1.267	48.313	2.8%	12.0%	14.8%
MASCO CORP	0.405	23.000	1.9%	14.0%	15.9%
MATTEL INC	0.260	32.375	0.9%	15.0%	15.9%
MAY DEPARTMENT STORES CO	1.200	56.250	2.3%	11.0%	13.3%
MAYTAG CORP	0.640	43.125	1.6%	11.5%	13.1%
MBIA INC	0.765	56.125	1.5%	13.0%	14.5%
MBNA CORP	0.311	23.500	1.5%	22.1%	23.6%
MCDERMOTT INTL INC	0.200	20.063	1.1%	15.0%	16.1%
MCDONALDS CORP	0.322	56.375	0.6%	13.0%	13.6%
MCGRAW-HILL COMPANIES	1.440	76.250	2.0%	12.0%	14.0%
MCI COMMUNICATIONS	0.050	50.000	0.1%	10.0%	10.1%
MEAD CORP	0.610	27.375	2.3%	9.5%	11.8%
MEDTRONIC INC	0.220	51.375	0.5%	20.0%	20.5%
MELLON BANK CORP	1.290	52.000	2.6%	12.0%	14.6%
MERCANTILE BANCORPORATION	1.133	43.938	2.7%	9.0%	11.7%
MERCK & CO	1.690	115.937	1.6%	14.0%	15.6%
MEREDITH CORP	0.240	33.563	0.8%	15.0%	15.8%
MERRILL LYNCH & CO	0.750	66.000	1.2%	12.0%	13.2%
MGIC INVESTMENT CORP/WI	0.095	41.500	0.2%	15.0%	15.2%
MILLIPORE CORP	0.380	21.750	1.9%	16.5%	18.4%
MINNESOTA MINING & MFG CO	2.120	68.500	3.3%	11.0%	14.3%
MOBIL CORP	2.120	69.125	3.2%	8.0%	11.2%
MONSANTO CO	0.500	55.000	1.0%	20.0%	21.0%
MORGAN (J P) & CO	3.520	93.500	4.0%	10.0%	14.0%
MORGAN STANLY DEAN WITTER&C	0.522	58.063	1.0%	13.0%	14.0%
MORTON INTERNATIONAL INC	0.570	22.250	2.7%	12.0%	14.7%
MOTOROLA INC	0.480	42.938	1.2%	16.0%	17.2%
NALCO CHEMICAL CO	1.000	28.938	3.6%	10.0%	13.6%
NATIONAL CITY CORP	1.670	58.750	3.0%	11.0%	14.0%
NATIONAL SERVICE INDS INC	1.190	37.250	3.4%	11.5%	14.9%
NATIONSBANK CORP	1.370	57.500	2.5%	12.0%	14.5%
NEW YORK TIMES CO -CL A	0.320	29.000	1.2%	12.0%	13.2%
NEWELL COMPANIES	0.640	47.750	1.4%	15.0%	16.4%

Discounted Cash Flow Analysis
Standard & Poor's 500 Companies

S&P Compustat Data Base
August 31, 1998

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NEWMONT MINING CORP	0.390	13.688	3.0%	7.5%	10.5%
NICOR INC	1.380	38.813	3.7%	6.0%	9.7%
NIKE INC -CL B	0.440	34.688	1.4%	15.0%	16.4%
NORDSTROM INC	0.265	29.938	0.9%	14.0%	14.9%
NORFOLK SOUTHERN CORP	0.800	28.188	3.0%	10.9%	13.9%
NORTHERN STATES POWER/MN	1.395	26.500	5.4%	5.0%	10.4%
NORTHERN TELECOM LTD	0.290	47.500	0.7%	19.0%	19.7%
NORTHERN TRUST CORP	0.720	55.750	1.4%	12.0%	13.4%
NORTHROP GRUMMAN CORP	1.600	63.375	2.7%	10.0%	12.7%
NORWEST CORP	0.615	29.750	2.2%	13.0%	15.2%
NUCOR CORP	0.380	35.938	1.1%	15.0%	16.1%
OCCIDENTAL PETROLEUM CORP	1.000	18.500	5.6%	8.5%	14.1%
OMNICOM GROUP	0.425	47.625	1.0%	15.5%	16.5%
ONEOK INC	1.200	30.063	4.1%	6.0%	10.1%
OWENS CORNING	0.262	35.063	0.8%	13.0%	13.8%
PACCAR INC	1.325	41.000	3.4%	9.0%	12.4%
PACIFICORP	1.080	22.563	4.9%	4.0%	8.9%
PALL CORP	0.525	20.500	2.7%	14.5%	17.2%
PARKER-HANNIFIN CORP	0.507	29.000	1.8%	10.8%	12.6%
PECO ENERGY CO	1.800	34.250	5.3%	2.4%	7.7%
PENNEY (J C) CO	2.125	49.563	4.5%	10.0%	14.5%
PENNZOIL CO	1.000	35.750	3.0%	12.0%	15.0%
PEOPLES ENERGY CORP	1.860	33.125	5.7%	4.0%	9.7%
PEP BOYS-MANNY MOE & JACK	0.240	14.688	1.8%	15.0%	16.8%
PEPSICO INC	0.480	27.875	1.9%	15.0%	16.9%
PERKIN-ELMER CORP	0.680	57.875	1.3%	18.0%	19.3%
PFIZER INC	0.680	93.000	0.8%	19.5%	20.3%
PG&E CORP	1.200	32.125	3.8%	4.3%	8.1%
PHARMACIA & UPJOHN INC	1.080	41.688	2.7%	12.0%	14.7%
PHELPS DODGE CORP	2.000	44.750	4.6%	6.0%	10.6%
PHILIP MORRIS COS INC	1.600	41.563	4.1%	14.0%	18.1%
PHILLIPS PETROLEUM CO	1.340	40.813	3.4%	8.0%	11.4%
PIONEER HI-BRED INTERNATIONL	0.317	33.750	1.0%	15.0%	16.0%
PITNEY BOWES INC	0.800	49.625	1.7%	13.0%	14.7%
PLACER DOME INC	0.300	8.062	3.9%	9.0%	12.9%
PNC BANK CORP	1.500	43.000	3.7%	11.0%	14.7%
POLAROID CORP	0.600	28.125	2.3%	13.0%	15.3%
POTLATCH CORP	1.710	32.875	5.4%	8.0%	13.4%
PP&L RESOURCES INC	1.670	23.625	7.1%	2.0%	9.1%
PPG INDUSTRIES INC	1.330	51.000	2.7%	10.0%	12.7%
PRAXAIR INC	0.440	35.875	1.3%	15.0%	16.3%
PROCTER & GAMBLE CO	0.900	76.500	1.3%	13.0%	14.3%
PROGRESSIVE CORP-OHIO	0.240	97.438	0.3%	15.0%	15.3%
PROVIDENT COS INC	0.380	36.000	1.1%	15.0%	16.1%
PROVIDIAN FINANCIAL CORP	0.100	64.250	0.2%	22.0%	22.2%
PUBLIC SERVICE ENTRP	2.160	36.500	6.0%	2.0%	8.0%

Discounted Cash Flow Analysis
Standard & Poor's 500 Companies

S&P Compustat Data Base
August 31, 1998

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PULTE CORP	0.120	28.875	0.4%	12.0%	12.4%
QUAKER OATS CO	1.140	53.125	2.3%	11.0%	13.3%
RALSTON PURINA CO	0.400	26.313	1.6%	11.8%	13.4%
RAYCHEM CORP	0.240	29.000	0.9%	15.0%	15.9%
RAYTHEON CO -CL B	0.800	45.625	1.8%	10.0%	11.8%
REGIONS FINL CORP	0.775	34.625	2.4%	10.5%	12.9%
REPUBLIC NEW YORK CORP	0.880	41.250	2.2%	9.6%	11.8%
REYNOLDS METALS CO	1.400	48.063	3.0%	9.0%	12.0%
RITE AID CORP	0.407	36.188	1.2%	15.0%	16.2%
ROCKWELL INTL CORP	1.160	36.250	3.4%	11.0%	14.4%
ROHM & HAAS CO	1.900	86.313	2.3%	10.0%	12.3%
ROYAL DUTCH PET -NY REG	1.455	40.000	3.8%	8.0%	11.8%
RUBBERMAID INC	0.610	25.250	2.6%	13.0%	15.6%
RUSSELL CORP	0.530	31.625	1.8%	12.0%	13.8%
RYDER SYSTEM INC	0.600	23.563	2.7%	10.0%	12.7%
SAFECO CORP	1.220	40.625	3.2%	10.0%	13.2%
SARA LEE CORP	0.800	45.375	1.9%	13.8%	15.7%
SBC COMMUNICATIONS INC	0.886	38.063	2.4%	10.5%	12.9%
SCHERING-PLOUGH	0.736	86.000	0.9%	15.0%	15.9%
SCHLUMBERGER LTD	0.750	43.813	1.9%	20.0%	21.9%
SCHWAB (CHARLES) CORP	0.140	29.875	0.5%	20.0%	20.5%
SCIENTIFIC-ATLANTA INC	0.060	17.688	0.4%	20.0%	20.4%
SEAGRAM CO LTD	0.645	30.875	2.2%	12.5%	14.7%
SEARS ROEBUCK & CO	0.920	45.375	2.2%	13.0%	15.2%
SERVICE CORP INTERNATIONAL	0.285	33.875	0.9%	19.0%	19.9%
SHARED MEDICAL SYSTEMS CORP	0.840	53.375	1.7%	20.0%	21.7%
SHERWIN-WILLIAMS CO	0.402	23.875	1.8%	12.3%	14.1%
SIGMA-ALDRICH	0.250	27.750	1.0%	12.0%	13.0%
SLM HLDG CORP	0.517	35.875	1.5%	12.0%	13.5%
SNAP-ON INC	0.820	26.250	3.3%	12.0%	15.3%
SONAT INC	1.080	27.063	4.3%	14.0%	18.3%
SOUTHERN CO	1.300	28.125	4.7%	4.0%	8.7%
SOUTHWEST AIRLINES	0.020	17.813	0.1%	12.0%	12.1%
SPRINGS INDUSTRIES -CL A	1.320	33.063	4.2%	10.0%	14.2%
SPRINT CORP	1.005	67.063	1.6%	12.3%	13.9%
ST PAUL COS	0.925	30.750	3.2%	10.0%	13.2%
STANLEY WORKS	0.770	39.375	2.1%	12.0%	14.1%
STATE STREET CORP	0.420	52.063	0.9%	14.4%	15.3%
SUMMIT BANCORP	0.990	34.125	3.0%	10.0%	13.0%
SUN CO INC	1.000	33.063	3.2%	8.5%	11.7%
SUNAMERICA INC	0.267	61.938	0.5%	15.0%	15.5%
SUNTRUST BANKS INC	0.925	56.063	1.7%	11.0%	12.7%
SUPERVALU INC	0.510	20.313	2.6%	10.5%	13.1%
SYNOVUS FINANCIAL CP	0.229	18.188	1.3%	14.3%	15.6%
SYSCO CORP	0.280	20.188	1.5%	14.0%	15.5%
TANDY CORP	0.400	54.563	0.8%	15.0%	15.8%

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Standard & Poor's 500 Companies

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August 31, 1998

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TEKTRONIX INC	0.460	15.500	3.2%	15.0%	18.2%
TEMPLE-INLAND INC	1.280	44.813	3.0%	8.0%	11.0%
TENNECO INC	1.200	31.688	4.0%	12.0%	16.0%
TEXACO INC	1.750	55.563	3.3%	9.8%	13.1%
TEXAS INSTRUMENTS INC	0.340	47.375	0.8%	20.4%	21.2%
TEXAS UTILITIES CO	2.100	42.500	5.1%	5.0%	10.1%
TEXTRON INC	0.970	62.750	1.6%	13.0%	14.6%
THOMAS & BETTS CORP	1.120	34.063	3.5%	13.0%	16.5%
TIME WARNER INC	0.360	80.375	0.5%	12.0%	12.5%
TIMES MIRROR COMPANY -SER A	0.550	57.500	1.0%	12.8%	13.8%
TIMKEN CO	0.660	18.250	3.8%	11.0%	14.8%
TJX COMPANIES INC	0.093	22.313	0.5%	17.0%	17.5%
TORCHMARK CORP	0.585	35.750	1.7%	13.0%	14.7%
TRANSAMERICA CORP	2.000	102.313	2.1%	11.0%	13.1%
TRAVELERS GROUP INC	0.400	44.375	1.0%	15.0%	16.0%
TRIBUNE CO	0.640	64.438	1.1%	13.0%	14.1%
TRW INC	1.240	42.875	3.0%	10.0%	13.0%
TUPPERWARE CORP	0.880	18.875	4.9%	11.5%	16.4%
TYCO INTERNATIONAL LTD	0.075	55.250	0.1%	20.0%	20.1%
U S BANCORP/DE	0.620	34.125	1.9%	13.0%	14.9%
U S SURGICAL CORP	0.160	39.938	0.4%	15.0%	15.4%
U S WEST INC	2.140	51.688	4.3%	6.0%	10.3%
UNICOM CORP	1.600	35.625	4.6%	4.5%	9.1%
UNION CAMP CORP	1.800	37.063	5.0%	7.0%	12.0%
UNION CARBIDE CORP	0.787	40.000	2.0%	8.0%	10.0%
UNION PACIFIC CORP	1.720	39.813	4.5%	10.0%	14.5%
UNION PACIFIC RESOURCES GRP	0.200	8.562	2.5%	13.8%	16.3%
UNITED HEALTHCARE CORP	0.030	36.125	0.1%	19.5%	19.6%
UNITED TECHNOLOGIES CORP	1.240	72.563	1.8%	14.0%	15.8%
UNOCAL CORP	0.800	31.313	2.7%	8.0%	10.7%
UNUM CORP	0.565	44.000	1.4%	13.5%	14.9%
UST INC	1.620	26.125	6.5%	8.5%	15.0%
USX-MARATHON GROUP	0.760	26.000	3.1%	12.0%	15.1%
USX-U S STEEL GROUP	1.000	20.938	5.0%	8.0%	13.0%
WACHOVIA CORP	1.680	73.313	2.4%	11.0%	13.4%
WAL-MART STORES	0.270	59.000	0.5%	14.0%	14.5%
WALGREEN CO	0.235	38.375	0.7%	15.0%	15.7%
WARNER-LAMBERT CO	0.507	65.250	0.9%	22.6%	23.5%
WASHINGTON MUTUAL INC	0.707	32.000	2.4%	15.0%	17.4%
WELLS FARGO & CO	5.200	281.875	2.0%	13.0%	15.0%
WENDY'S INTERNATIONAL INC	0.240	20.063	1.3%	15.0%	16.3%
WESTVACO CORP	0.880	21.250	4.3%	7.0%	11.3%
WEYERHAEUSER CO	1.600	37.563	4.4%	8.0%	12.4%
WHIRLPOOL CORP	1.360	50.375	2.8%	10.0%	12.8%
WILLAMETTE INDUSTRIES	0.640	24.625	2.7%	10.0%	12.7%
WILLIAMS COS INC	0.540	23.000	2.5%	17.0%	19.5%

Discounted Cash Flow Analysis
Standard & Poor's 500 Companies

S&P Compustat Data Base
August 31, 1998

S&P Company Name	Current Dividend A	Current Price B	Expected Dividend Yield C= (calc)	Expected IBES LT Growth D	Market Required Return (Div Yld+Growth) E = C + D
WINN-DIXIE STORES INC	1.015	37.250	2.9%	10.0%	12.9%
WORTHINGTON INDUSTRIES	0.480	13.000	4.0%	15.0%	19.0%
WRIGLEY (WM) JR CO	1.170	77.500	1.6%	12.4%	14.0%
XEROX CORP	1.250	87.813	1.5%	16.5%	18.0%
WEIGHTED AVERAGE REQUIRED RETURN			**1.9%**	**12.9%**	**14.8%**

Notes:
1. 82 companies were deleted from the sample. 74 do not pay dividends, 3 do not have IBES growth rate, and 5 do not have compustat data for current market value.
2. Expected dividend yield is estimated using annual dividend increased by one half the IBES growth rate (dividend yield = annual dividend x (1 + .5 x growth rate) / price).
3. The S&P 500 is a market weighted index and the market required returns for individual companies are weighted by market value.

Standard & Poor's 500 Companies
Capital Asset Pricing Model Analysis
(Expected Return on the Market Model)

The Expected Return on the Market (Rm) is equal to the risk free rate of interest (Rf) plus Beta times the Market Risk Premium (MRP). $R_m = R_f + (\text{Beta} \times \text{MRP})$

			Refer to Note
Risk Free Rate			
Intermediate Term (3, 5, and 10 Yr Treasury Note Yields)		5.18%	(1)
Long Term (30 Year Treasury Bond Yields)		5.45%	(1)
Market Risk Premium			
Intermediate Term - Avg of Ex Post and Ex Ante		8.9%	
Ex Post (Ibbotson Data)	8.2%		(2)
Ex Ante (S&P 500 DCF - Risk Free Rate)	9.6%		(3)
Long Term - Avg of Ex Post and Ex Ante		8.6%	
Ex Post (Ibbotson Data)	7.8%		(2)
Ex Ante (S&P 500 DCF - Risk Free Rate)	9.4%		(4)
Beta			
By definition, the Beta of the market portfolio is	1.0		

CAPM Expected Return on the Market

Intermediate Term	5.18%	+	1.0	(8.9%)	=	14.1%
Long Term	5.45%	+	1.0	(8.6%)	=	14.1%
Average						14.1%

Notes:

1. Federal Reserve Statistical Release (H15 Reports)
2. Market Results 1926-1997 from Ibbotson Associates (Stocks, Bonds, Bills & Inflation 1998 Yearbook)
3. 14.80% (Exhibit PCC-11) - 5.18% = 9.6%
4. 14.80% (Exhibit PCC-11) - 5.45% = 9.4%

Equity Risk Premium Test

			Notes			
Ex-Post Equity Risk Premium			(1)			
1.	Common Stock Total Returns			13.0%		
2.	Corporate Bonds Total Returns			6.1%		
3.	Ex-Post Equity Risk Premium	(Line 1 - Line 2)		**6.9%**		
Ex-Ante Equity Risk Premium						
4.	DCF Estimate for the S&P 500 Index		(2)	14.8%		
5.	Cost of Single A LT Debt		(3)	7.1%		
6.	Ex-Ante Equity Risk Premium	(Line 4 - Line 5)		**7.7%**		
Cost of Single A LT Debt			(3)	7.1%		
Adjustment to Equity Risk Premiums for Risk/Beta						
7.	Beta Range from CAPM Estimate		(4)	0.76	to	0.89
8.	Ex-Post Equity Risk Premium	ERP	x	Beta	=	Adj-ERP
9.	(Risk-adjusted)	6.9%	x	0.76	=	5.2%
10.		6.9%	x	0.89	=	6.1%
11.	Ex-Ante Equity Risk Premium	ERP	x	Beta	=	Adj-ERP
12.	(Risk-adjusted)	7.7%	x	0.76	=	5.9%
13.		7.7%	x	0.89	=	6.9%

Calculation of the Return Range for the Equity Risk Premium Test

			Cost of Single A LT Debt		Adjusted Risk Premium		
	Equity Risk Premium Range	=		+			
14.			7.1%	+	6.9%	=	**14.0%**
15.			7.1%	+	5.2%	=	**12.3%**

Notes:

1. Market Results 1926-1997 from Ibbotson Associates (Stocks, Bonds, Bills & Inflation 1998 Yearbook)
2. Ex-Ante DCF Estimate from Exhibit PCC-11
3. Federal Reserve Statistical Release H.15 8/31/98
4. Beta Range from CAPM (Exhibits PCC-7, PCC-8, PCC-9)

US WEST	=	0.76
Telephone Cos Avg	=	0.89
Comparables Avg	=	0.85

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATE MAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON, AND TO APPPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN.	)	**DOCKET NO.**

STATE OF WASHINGTON)
: ss AFFIDAVIT OF PETER C. CUMMINGS
COUNTY OF KING)

Peter C. Cummings, of lawful age being first duly sworn, depose and states:

1. My name is Peter C. Cummings. I am Director – Finance & Economic Analysis of U S WEST Communications in Seattle, Washington.

2. Attached hereto and made a part hereof for all purposes is my testimony consisting of pages 1 through 66, and my exhibits numbered PCC-1 Through PCC-13.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Peter C. Cummings

SUBSCRIBED AND SWORN to before me this 4th day of December, 1998

Notary Public residing at Everett Washington.

JOYCE A. MORRIS
NOTARY PUBLIC
COMMISSION EXPIRES APRIL 11, 2002
STATE OF WASHINGTON

My Commission Expires: April 11, 2002

BEFORE THE ARIZONA CORPORATION COMMISSION

EXHIBIT
Q-9
Admitted

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN	)	DOCKET NO. _____

TESTIMONY OF

GEORGE REDDING

U S WEST COMMUNICATIONS

JANUARY 8, 1999

TESTIMONY INDEX

	Executive Summary	i
	Purpose & Organization of Testimony	1
I.	Financial Performance	2
II.	Development of Revenue Requirement	6
III.	Test Year	7
IV.	Original Cost & Fair Value Rate Base	8
V.	Adjustments to the Test Year	9
VI.	Explanation of Adjustments	12
A.	End of Period Adjustment	12
B.	Depreciation Changes	14
C.	Pension Adjustments	15
D.	Accounting Adjustments	16
E.	Adjustments for One-Time Items	16
F.	Commission Adjustments Not Made	17
1.	Post Retirement Benefits Other Than Pensions	18
2.	Directory	20
3.	Affiliated Interests	20
a.	History of Affiliate Changes	20
b.	Discussion of Disallowances	23
VII.	Other Items	35
VIII.	Conclusion	37

EXECUTIVE SUMMARY

Current Responsibilities

I am Director- Regulatory Accounting for U S WEST Communications, located at 1801 California St., Denver, Colorado. My area of responsibility is financial issues as they pertain to the regulatory environment. As such I am responsible for developing revenue requirements for the states of Arizona, Colorado and New Mexico.

Purpose of Testimony

I will present the Company's need for additional revenues in the amount of $225.1M. My testimony will show the inadequacy of the Company's current earnings in the Arizona intrastate jurisdiction. Inadequate earnings mean that U S WEST cannot meet the demands of both growth and more advanced telecommunications services. Additional revenues will provide the cash flow necessary to fund the investment required to meet the demands for new and improved service. Further, my testimony will lay out the development of the additional revenue requirement.

Summary of Testimony

The Company's current operations in Arizona continue to generate subpar earnings and cash flow. In fact, on an intrastate basis, the Company has had a negative cash flow of $(204.4)M over the past five years at the same time that it has invested $1,304M in capital expenditures. Obviously, these opposing trends cannot continue indefinitely. If U S WEST is to provide the modern telecommunications network demanded by its customers in Arizona, it must have the financial means to accomplish this goal. The additional revenue requested in this case will allow the Company an opportunity to earn at an adequate level. These increased earnings will generate improved cash flow that will permit U S WEST to continue to invest in and upgrade the network in Arizona.

My testimony describes the process and elements of a revenue requirement. The majority of my testimony focuses on the description and explanation of the adjustments necessary to properly adjust a test year so that it will be representative of the period after new rates from this proceeding go into effect. In particular I address the following major adjustments:

- End of period adjustment. Because of the use of a fair value rate base, it must be stated at end of period levels. I have moved the entire income statement to an end of period level to be consistent with the rate base. I used the same methodology used to move most of the income statement to and end of period level in the last case; however, I applied the methodology to the entire income statement. This adjustment, to be consistent and fair, must be applied to the entire income statement.
- Depreciation. U S WEST and the Staff of the Commission have entered into a stipulation as to the proper value of depreciation for this case. This stipulation was opposed by several parties, hearings have been held and it is currently pending an order. In the meantime, the Company has put its original advocacy into the revenue requirement; it will, however, replace that with the stipulation if it is adopted.
- Affiliated interest disallowances. In the last case there were numerous disallowances made with respect to affiliated interests. My testimony presents a through description of the items and the reasons why these disallowances are no proper.
- Post Retirement Benefits Other Than Pensions ("PBOPs"). In recent cases the Arizona Corporation Commission has outlined standards for accepting PBOPs. U S WEST can and will meet those standards and is requesting recognition of PBOPs in this case.

In summary, I present a through discussion of the need for additional revenues and the rationale for the adjusted test year that quantifies this need. This test year, along with the rate of return discussed by Mr. Cummings, will produce additional revenues that will allow U S WEST to meet its customer's needs for modern telecommunications service in Arizona.

Q. PLEASE STATE YOUR NAME, TITLE, EMPLOYER AND ADDRESS.

A. My name is George Redding. I am employed by U S WEST Communications ("U S WEST", the "Company") as a Director, Regulatory Accounting. My business address is 1801 California, Denver, Colorado.

Q. PLEASE LIST YOUR QUALIFICATIONS AND EXPERIENCE.

A. I have a Bachelor of Science in Business Administration degree from the University of Montana and a Juris Doctor from the University of Colorado. I hold both a CPA certificate in Montana as well as Membership in the Bar in Colorado. I have worked for U S WEST since 1977 and have held a number of positions in Regulatory and Corporate Accounting. I have testified to financial matters before the Arizona Corporation Commission, the Colorado Public Utility Commission, the Public Service Commission of Utah and the Public Utility Commission of Idaho.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY AND EXHIBIT?

A. I will present the Company's need for additional revenues in the amount of $225.9M. My testimony will show the inadequacy of the Company's current earnings in the Arizona intrastate jurisdiction. Inadequate earnings mean that U S WEST cannot meet the demands of both growth and more advanced telecommunications services. Additional revenues will provide the cash flow necessary to fund the investment required to meet the demands for new and improved service. Further, my testimony will lay out the development of the additional revenue requirement.

Q. HOW IS THE REMAINDER OF YOUR TESTIMONY ORGANIZED?

A. It is segregated into the following sections:

I. A discussion of Arizona's financial performance and the underlying reasons for U S WEST's request for additional revenues.

II. The development of the additional revenue requirement.

III. The selection of the test year used for calculating the additional revenue requirement.

IV. The development of the original cost and fair value rate base.

V. A description of the types of adjustments made to the test year.

VI. An explanation of certain of the specific adjustments made to the test year.

VII. Other items.

VIII. A summary of my recommendations.

I. FINANCIAL PERFORMANCE

Q. WHAT IS THE PURPOSE OF THIS SECTION OF YOUR TESTIMONY?

A. I will show that the Arizona intrastate operations have earned at an inadequate level over the past five years. I will compare the Arizona returns with those of the Company as a whole on an intrastate basis. Earnings are the fundamental driver of cash flow, and the adequacy of cash flow is the driver for additional investment. In the recent past Arizona's intrastate cash flow levels have been inadequate to support the levels of investment the Company has made and needs to continue to make in the state to support the demand for new and advanced telecommunications services in Arizona.

Q. WHAT YEARS DO YOUR COMPARISONS COVER?

A. They are made for the years 1993 through 1997.

Q. WHAT ARE THE RETURNS FOR THE ARIZONA INTRASTATE OPERATIONS FROM 1993 THROUGH 1997? HOW DO THEY COMPARE TO COMPANY RETURNS?

A. The returns on equity are as follows:

Intrastate Return on Equity	1993	1994	1995	1996	1997
Arizona - achieved	-0.89%	1.93%	6.57%	7.32%	7.92%
- current authorized	13.75%	13.75%	11.40%	11.40%	11.40%
Company – 14 state achieved	8.40%	8.75%	10.21%	11.03%	9.95%

For comparison purposes, the average cost of debt over the same period was:

Average Cost of Debt	1993	1994	1995	1996	1997
Arizona	7.33%	6.87%	7.60%	6.57%	7.56%

Equity is considered a riskier investment than debt and therefore has a higher cost than debt. Yet, only in the last two years has the Arizona intrastate jurisdiction had equity earnings higher than the average cost of debt, and that only by a small margin. At no time have the equity returns approached those found appropriate by the Commission. It is readily apparent from this comparison that the returns earned by Arizona intrastate operations have been inadequate. Clearly rates from the last rate case, which went into effect in January of 1995, have helped, but they still have not raised earnings to an adequate level.

Q. DO THE RETURNS YOU SHOW REFLECT THE VARIOUS ADJUSTMENTS MADE BY THE ARIZONA COMMISSION IN THE LAST RATE CASE?

A. No, they do not. While disallowances may be made during the process of a rate case, they are not recorded on the Company's books of account. They are not taken into account on the booked results of the Company since they have no accounting justification. Some of our competitors, such as AT&T and MCI, are not rate of return regulated and do not have disallowances. The returns they show on their books are not adjusted. In examining U S WEST's actual earned returns, disallowances should not be taken into account either.

Q. WHAT DO YOU CONCLUDE FROM THESE RETURNS?

A. Current rates are barely adequate to cover the cost of debt, much less equity, and in light of the capital expenditures being made in Arizona, need to be increased.

Q. WHAT FACTORS INFLUENCE CAPITAL EXPENDITURES?

A. First, capital expenditures are the lifeblood of the future. Arizona has experienced tremendous growth. Also, customers are demanding more advanced telecommunications services. On

top of this, Arizona has a harsh climate, which is hard on equipment and tends to shorten its useful life. All of these factors drive the need for heavy investment. In fact, capital expenditures in Arizona have grown from $251M in 1993 to $457M in 1997. On an intrastate basis, this equates to $187M in 1993 and $335M in 1997. This level of investment cannot be maintained without adequate earnings and cash flow.

Q. PLEASE DISCUSS THE RELATIONSHIP BETWEEN EARNINGS AND CASH FLOW.

A. In the Company's cash flow statements as shown in its filings with the Securities and Exchange Commission ("SEC"), cash flow is divided into three parts – operating, investing and financing. Operating cash flow is the major source of cash, and earnings before depreciation constitute the lion's share of operating cash flow. Investing is basically the Company's capital expenditures, which is the primary user of operating cash flow. Financing is the balancing section. It consists of changes in debt levels, the proceeds of new equity issues and the dividends paid on outstanding equity. In times of shortfall, when investing exceeds operating cash flow, financing activities can make up the difference. However, over the long pull using financing to cover deficits in operating cash flow is unhealthy for the Company. Either investments must slow down or cash from operations must increase.

Q. HAVE YOU DEVELOPED A CASH FLOW FOR ARIZONA OPERATIONS?

A. Yes, I have. While I cannot mirror a cash flow consistent with our SEC filings, because not all portions of the balance sheet are maintained on an individual state basis, I can develop a meaningful representation of cash flow on a state basis. As I stated earlier operating results or earnings are the main driver of cash inflows. Also, capital expenditures are the main outflow. Both of these elements are maintained on a state basis.

Q. HOW IS ARIZONA DOING FROM A CASH FLOW PERSPECTIVE?

A. As is the case with earnings, operating cash flow has improved since rates from the last case went into effect. However, Arizona still lags behind the Company, which is the composite of all the states in which U S WEST operates. In the table below, I show two things:

- the amount of operating cash flow available after capital expenditures; and
- the percent of operating cash flow available after capital expenditures.

Intrastate Operating Cash Flow after Capital Expenditures $(Millions)	1993	1994	1995	1996	1997
Arizona – Amount	$38.1	$14.4	$1.5	$16.6	$31.7
Percent	16.9%	6.3%	0.6%	5.3%	8.7%
Company (14 states)– Amount	$4.2	$1125.2	$458.5	$777.6	$1042.7
Percent	0.3%	40.3%	19.1%	28.3%	36.4%

This shows an inadequate cash flow after capital expenditures for Arizona. Other items such as income taxes and interest must also be paid out of this remaining cash flow as shown in the following table:

Operating Cash Flow After Capital Expenditures, Interest & Income Taxes ($Millions)	1993	1994	1995	1996	1997
Arizona	$ 3.6	$(27.3)	$(47.9)	$(54.9)	$(77.9)
Company	$(477.4)	$ 630.6	$(233.4)	$ 825.5	$240.1

When interest and taxes are deducted from the remaining operating cash flow after capital expenditures, the net cash flow for Arizona is negative in all but one year. The Company, as a whole, fared considerably better with positive margins in three of the past five years.

Q. PLEASE SUMMARIZE THIS PORTION OF YOUR TESTIMONY.

A. The Company's current operations in Arizona continue to generate subpar earnings and cash flow. In fact, on an intrastate basis, the Company has had a negative cash flow of $(204.4)M over the past five years at the same time that it has invested $1.3B in capital expenditures. Obviously, these opposing trends cannot continue indefinitely. If U S WEST is to provide the modern telecommunications network demanded by its customers in Arizona, it must have the financial means to accomplish this goal. The additional revenue requested in this case will

allow the Company an opportunity to earn at an adequate level. These increased earnings will generate improved cash flow that will permit U S WEST to continue to invest in and upgrade the network in Arizona.

II. DEVELOPMENT OF THE REVENUE REQUIREMENT

Q. HOW IS THE REVENUE REQUIREMENT CALCULATED?

A. The basic formula involves multiplying the rate base by the overall rate of return to arrive at an overall earnings requirement. The adjusted earnings from the test year are then subtracted from the total earnings requirement to arrive at the additional income required. This result is then multiplied by a factor to recognize taxes and uncollectibles to arrive at the additional revenue requirement. The revenue requirement is developed on both the original cost rate base and the fair value rate base. This calculation is shown on Exhibit GAR-1.

Q. WHAT IS THE ADDITIONAL REVENUE REQUIREMENT?

A. It is $225.9M on the original cost rate base and $273.3 on the fair value rate base. There are two parts to this additional revenue requirement. The first part is an ongoing requirement for an additional $142.6M annually on the original cost rate base. The second portion is a three year revenue requirement of $83.3M per year. This three year revenue requirement is composed of items having a limited life. It consists primarily of the reserve deficiency portion of the depreciation adjustment which is discussed at Section VI, B of my testimony. The remaining portion of the three year revenue requirement is discussed at Section VI, E of my testimony.

Q. WILL YOU ADDRESS ALL ELEMENTS OF THE REVENUE REQUIREMENT IN DETAIL IN YOUR TESTIMONY?

A. No, I will not. I will discuss the selection of the test year, the original cost and fair value rate base, the types of adjustments to the test year, and details of certain adjustments in

subsequent portions of my testimony. The discussion of the various adjustments will include, where appropriate, any adjustments to the rate base.

Q. WHAT ITEMS ARE YOU NOT DISCUSSING?

A. The appropriate rate of return, for one. Mr. Cummings will address that in detail in his testimony. I have included a calculation of the overall cost of capital at Exhibit GAR-2, but the elements all come from Mr. Cummings. The other item I will not discuss in detail is the income to revenue multiplier, which is used to convert the additional earnings requirement to an additional revenue requirement. The multiplier takes into account the additional income and other taxes, and uncollectibles that will be incurred on any additional revenues collected. I have included the calculation of the multiplier at Exhibit GAR-3. The elements used are the same as in prior cases.

III. TEST YEAR

Q. WHAT TEST YEAR HAVE YOU CHOSEN?

A. The revenue requirement I have developed is based on a fully adjusted test year comprising the twelve months ended June 30, 1998.

Q. WHY DID YOU CHOOSE THIS TEST YEAR?

A. The primary purpose of a test year is to provide a reasonable proxy for the period when new rates will be in effect. In Arizona, the Commission Rules require a historic test year. Therefore I have chosen the most recent twelve months that were available at the time of this filing and that allowed time for the necessary work required to develop the Reproduction Cost New Less Depreciation (RCND) study. This resulted in my choice of the twelve months ended June 30, 1998.

IV. ORIGINAL COST AND FAIR VALUE RATE BASE

Q. WHAT ARE THE ELEMENTS OF THE RATE BASE?

A. The elements of the original cost end of period rate base are as follows:

Plant in Service
+ Short Term Plant Under Construction
+ Materials & Supplies
+ Allowance for Cash Working Capital
- Depreciation Reserve
- Accumulated Deferred Income Taxes
- Customer Deposits
- Deposits for Land Development Agreements
- Other Assets & Liabilities Related to Rate Base
= Original Cost Rate Base

Together these items comprise the original cost rate base. All elements are stated at end of period levels, in this case, as of June 30, 1998. The basic elements are the same as used in U S WEST's last rate case. The rate base is adjusted in the same manner as the income statement for the impacts of accounting, commission and pro forma adjustments. These adjustments are described in detail in my Exhibit and some of them are discussed specifically in Section VI of my testimony. The original cost rate base and the adjustments thereto are shown on Exhibit GAR-4, Page 1.

Q. DO YOU CALCULATE A FAIR VALUE RATE BASE?

A. Yes, I do. It is shown on Exhibit GAR-4, Page 2. To develop the fair value rate base I used 50% of the original cost Plant in Service and Depreciation Reserve and 50% of the Reproduction Cost New Less Depreciation ("RCND"). The RCND was developed by Ms. Heller-Hughes of the engineering firm of R. W. Beck. All other elements of the fair value rate base are the same as for the original cost rate base. This development of the fair value rate base is consistent with the formulation in prior cases.

V. ADJUSTMENTS TO THE TEST YEAR

Q. WHAT KINDS OF ADJUSTMENTS WILL YOU PRESENT IN THIS CASE?

A. Adjustments are a necessary component of the test year construct. As I stated in my last section, the purpose of a test year is to develop a reasonable proxy for the period when rates will go into effect. In order to make a test year into a reasonable proxy, it is necessary to adjust the historical results. I will present three types of such adjustments – Accounting, Commission and Pro Forma. These adjustments are summarized on Exhibit GAR-5.

Q. PLEASE DESCRIBE THEM.

A. Accounting adjustments are made to remove items booked during the test year that belong to another period or to include items outside of the test year that belong to the test period. The most common accounting adjustment is for income taxes; they are estimated during the year, but are not trued up until after the income tax return is filed. This happens long after the close of each calendar year.

One of my pro forma adjustments has a major impact on the accounting adjustments. This pro forma adjustment moves the entire income statement to end of period levels. I will describe this in detail in my discussion of individual adjustments. In most cases, accounting adjustments are merely added to or subtracted from booked results. However, because I restated the income statement to end of period volumes, I changed this process. Since most of the end of period adjustment was calculated by annualizing the last month or months of the year, many of the accounting adjustments that related to other months of the test year were not used or needed. Those that impacted the months being annualized were made before those months were annualized, i.e. the base for the annualization rather than the annualization itself was adjusted. Since some accounting adjustments, where applicable, were included in the base for the end of period adjustment, it would be inappropriate to include them a second time.

Q. ARE THERE SOME ACCOUNTING ADJUSTMENTS THAT ARE DIRECTLY INCLUDED IN YOUR CALCULATION OF THE REVENUE REQUIREMENT?

A. Yes, there are. I will describe them in my discussion of specific adjustments.

Q. ARE THE ACCOUNTING ADJUSTMENTS INCLUDED IN YOUR EXHIBITS?

A. Yes, they are. I am presenting two lists of accounting adjustments. The first includes those adjustments that are directly included in the development of the revenue requirement (see Exhibit GAR-6). The second group includes the accounting adjustments that are not directly included because of the end of period adjustment (see Exhibit GAR-10). I included the second group to make them available if the end of period adjustment itself is modified; in that instance it may be proper to include all or some of them in arriving at test year results.

Q. IF YOU ARE FINISHED WITH YOUR OVERVIEW OF ACCOUNTING ADJUSTMENTS, PLEASE CONTINUE WITH YOUR EXPLANATION OF TYPES OF ADJUSTMENTS.

A. The next type of adjustments are Commission adjustments, which are made to conform to prior orders or practices. These adjustments are shown in detail at Exhibit GAR-7.

Q. HAVE YOU MADE ALL ADJUSTMENTS THAT THE COMMISSION FOUND IN THE LAST CASE?

A. No. However, there are several adjustments the Company has chosen not to contest. Adjustments that U S WEST disagrees with are not included. They are discussed in Section VI, F of my testimony.

There is one adjustment that merits further comment here and that, again, is the end of period adjustment. The Commission ordered certain end of period adjustments in the last case for all elements of the income statement except the non-wage portion of expenses. Since my

adjustment brings the entire income statement to an end of period level as a single adjustment, I have chosen to reflect this as a pro forma adjustment. However, it is important to note that I used the methodology accepted in the last case in my development of the end of period adjustment.

Q. THIS LEAVES JUST ONE TYPE OF ADJUSTMENT – PRO FORMA. PLEASE EXPLAIN.

A. Pro forma adjustments are used to make the test year more representative of the future. Especially when a historical test period is used, pro forma adjustments are required to reflect events occurring after the end of the test year. A perfect example is wages. Subsequent to the end of the test year, the Company negotiated a new three year agreement with its labor unions. Increases in wages and benefits resulting from this agreement need to be reflected in the test year if it is to be used as a reasonable proxy for the future, when new rates will go into effect.

As was the case with accounting adjustments, I am presenting two lists of pro forma adjustments. The first includes those adjustments that are directly included in the development of the revenue requirement (see Exhibit GAR-8). The second group includes the pro forma adjustments that are not directly included because of the end of period adjustment (see GAR-11). Again, the second group is included to make them available if the end of period adjustment itself is modified; in that instance it may be proper to include all or some of them in arriving at test year results.

Q. HOW DOES THE TEST OF KNOWN AND MEASURABLE IMPACT THE DEVELOPMENT OF PRO FORMA ADJUSTMENTS?

A. Adjustments must be known, such as a wage adjustment that will take place on a date certain. They also need to be measurable, that is, the price level change must be known or be reasonably estimable.

VI. EXPLANATION OF ADJUSTMENTS

Q. ARE YOU GOING TO EXPLAIN ALL OF YOUR ADJUSTMENTS IN YOUR TESTIMONY?

A. No, I am not. Each adjustment is explained in my Exhibit, beginning at Exhibit GAR-6. Each adjustment is set forth individually, showing its impact on both the income statement and the rate base. Each one also has an explanation. What I will do in my testimony is elaborate on certain adjustments.

A. END OF PERIOD ADJUSTMENT

Q. YOU HAVE MENTIONED THE END OF PERIOD ADJUSTMENT SEVERAL TIMES ALREADY IN YOUR TESTIMONY. PLEASE EXPLAIN THIS ADJUSTMENT.

A. Because of the Arizona Constitutional requirement of a fair value rate base, the rate base is necessarily stated at an end of period level. However, the income statement, as recorded, is stated at an average level of occurrences throughout the year. That is, it reflects the volumes that were in existence throughout the year. For example, the number of access lines, which are a prime driver of revenues collected, fluctuates throughout the year. Also, employee levels change throughout the year. What the end of period adjustment does is to restate these varying volumes and prices to an end of period level. When this adjustment is made both income statement and rate base are stated on a consistent basis.

Q. HOW DOES THIS FIT IN WITH THE KNOWN AND MEASURABLE TEST?

A. Quite well. The average volumes and price levels that occur throughout the year and at the end of the year are reasonably known and can be reasonably measured.

Q. YOU STATED EARLIER THAT YOU WERE TAKING THE ENTIRE INCOME STATEMENT TO END OF PERIOD LEVELS. IS THIS IMPORTANT?

A. It is very important. Given the requirement for an end of period rate base, it is logical to also state the income statement at the same level. However, I do have a problem with picking and choosing. This can lead to a great deal of mischief and cause the test year to be misleading. For example, if revenue volumes and employee levels were both rising over the course of the year, an adjustment that took only the revenues to end of period levels would obviously mistate the test year and provide a poor proxy for the period when new rates will be in effect.

Q. PLEASE EXPLAIN THE MAJOR ELEMENTS OF THIS ADJUSTMENT.

A. An end of period adjustment has two parts. The first is price level changes. The second portion of the adjustment is related to volume changes. As I explain below, the end of period adjustment combines both the price level and volume changes in a single step. This is consistent with the development accepted in the last rate case, which basically annualized the last month of the test year. Examination of June 1998, the last month in the test year I chose revealed that it was consistent with trends shown by prior months.

Q. PLEASE GO THROUGH THE INCOME STATEMENT BY MAJOR CATEGORY EXPLAINING HOW THE ADJUSTMENT WAS CALCULATED.

A. First is revenues. While a long and detailed study of the volumes underlying each revenue line item could be made, a reasonable approximation of the end of period volumes and price levels can be made by taking the last month of actual revenues and annualizing them. This is the method that was used in the last case, and the one I have used here.

Q. WHAT ABOUT EXPENSES?

A. Expenses were split apart in several pieces. Since depreciation is the subject of a separate Docket, I have shown it as a separate adjustment. I will discuss this adjustment in more detail later. Certain items, such as property taxes and uncollectibles, were treated separately and stated at end of period levels. All remaining expenses were then broken apart into wage and

non-wage components. Both of these components were then brought to end of period levels by annualizing the last month of the test year. Again, for the wage component, this was the method used and accepted in the last rate case. The non-wage portions were not brought to end of period levels in the last case, but I used the same method in this filing to be consistent.

B. DEPRECIATION CHANGES

Q. PLEASE DESCRIBE YOUR DEPRECIATION ADJUSTMENT.

A. On November 12 & 13, 1998, hearings were held on U S WEST's application for a change in depreciation rates. Prior to the hearings the Company and the Staff of the Commission had reached a settlement relating to new depreciation rates and an amortization of certain plant to be upgraded. At the time of filing this testimony, there has been no decision on this issue. Therefore, the depreciation adjustment I am making in my filing is the Company's original position that requested economic lives for plant and a three year amortization of its reserve deficiency. This does not mean that the Company no longer supports its agreement with staff; rather it is a placeholder until the depreciation issue is decided.

Q. HOW IS YOUR ADJUSTMENT STRUCTURED?

A. It is broken into two parts. The first adjustment applies the new depreciation rates against the end of period plant balances. This also results in depreciation expense being stated at an end of period level. This adjustment is detailed separately on Exhibit GAR-8C, but is actually part of the end of period adjustment. I prepared a separate exhibit page for this piece of the end of period adjustment since it is the subject of a separate proceeding.

Q. WHAT ABOUT THE SECOND PIECE OF THE ADJUSTMENT?

A. The second adjustment reflects the reserve deficiency amortization. Together with the adjustment related to rates it comprises the total proposed adjustment for depreciation. However, this portion of the adjustment is shown as a three year revenue requirement since it

1 has a limited duration. It is combined with other one-time items discussed in Section VI. E. of
2 my testimony.
3
4 C. PENSION ADJUSTMENT
5 **Q. PLEASE DESCRIBE YOUR ADJUSTMENTS RELATED TO PENSIONS.**
6 A. My first adjustment relates to pension credits that were booked in the third quarter of 1998 and
7 the amount expected to be recorded in the fourth quarter of 1998. These credits are a true up
8 to pension expense for the calendar year 1998. These additional credits have the effect of
9 reducing pension expense by an additional $7.4M.
10
11 **Q. THIS ADJUSTMENT, THEN, LOWERS THE REQUESTED REVENUE REQUIREMENT IN**
12 **THIS CASE.**
13 A. That is correct. However, this credit is a non-cash item.
14
15 **Q. WHAT EFFECT DOES THE CASH OR NON-CASH BASIS OF THIS EXPENSE HAVE?**
16 A. If the pension asset is treated correctly, then the non-cash nature of this adjustment is not an
17 issue.
18
19 **Q. PLEASE EXPLAIN.**
20 A. The customer will benefit from the pension credit in the form of reduced revenue requirements,
21 similar to the past when they benefited from pension credits the Company recorded in the late
22 80's and early 90's. Pension credits, which are a non-cash item, reduce the revenue
23 requirement. However, this reduction is a cash item. By this I mean that the revenues
24 collected from customers are lower because of the inclusion of the pension credit in the
25 development of the revenue requirement. Since the earnings of the pension plan cannot be
26 withdrawn, the Company's investors have to contribute the cash required to fund this
27 reduction in revenue requirements generated by the pension credits. The equitable balance

between the Company's customers and its investors is to flow through the pension credits to the customers and to allow the accumulated pension asset resulting from the pension credits to earn a return as part of the rate base. This reimburses the investors. This is my second pension related adjustment. It is shown at Exhibit GAR-8D.

D. ACCOUNTING ADJUSTMENTS

Q. EARLIER YOU MENTIONED THAT THERE WERE SOME ACCOUNTING ADJUSTMENTS THAT YOU WANTED TO EXPLAIN IN DETAIL.

A. Yes, they both relate to income taxes. Income taxes are the one portion of the end of period adjustment that are not brought to an end of period level directly. Income taxes on the difference between the actual net operating revenues recorded for the test year and the end of period net operating revenues are calculated. For this reason, the accounting adjustments that relate to income taxes are directly included in the calculation of the revenue requirement.

During the test year there were two such adjustments. One was the annual true-up of the prior year's income taxes in November of 1997. The other was the tax effect of the split costs that was inadvertently included in operating income taxes in June of 1998.

E. ADJUSTMENTS FOR ONE-TIME ITEMS

Q. ARE THERE ANY OTHER ADJUSTMENTS YOU WISH TO DISCUSS?

A. Yes, there are. There are three adjustments that I have made that involve a three year amortization of the costs to allow them to fit into the ratemaking model. Since these adjustments involve one-time issues, the most appropriate way to reflect them is a three year revenue requirement that will automatically cease after an amortization period. This three year revenue requirement is added to the basic revenue requirement to produce the total revenue requirement (see Exhibit GAR-1). All of these one-time adjustments are summarized at Exhibit GAR-9

Q. PLEASE DESCRIBE THESE ADJUSTMENTS.

A. The first one has already been discussed, namely the reserve deficiency amortization portion of the depreciation adjustment. The next one is the gain on the sale of Bellcore. This sale was completed in November of 1997 and resulted in a gain of $3.9M to the Arizona intrastate jurisdiction. At the time of approval of the sale, the disposition of the gain was left to the next rate case. The treatment I am proposing here is to return one half of the gain to the customers, which is consistent with past rulings of the Commission related to the sale of assets.

The last adjustment relates to the Company's costs to bring all of its systems into compliance for the year 2000 ("Y2K"). The Y2K costs will be primarily incurred over two years – 1998 and 1999. These costs are significant one time costs required to continue to provide service in the year 2000. I have removed the actual costs of this project from my test year results, and hence the end of period adjustment, and am requesting the recovery of these costs in equal portions over the next three years.

There is another potential one-time adjustment related to customer education for the new area code. In a decision issued just before the end of 1998, the Commission stated that U S WEST would have to pay its share of such customer education costs. If these costs become known during the pendency of this docket, these costs should also be included in the calculation of the three year revenue requirement.

F. COMMISSION ADJUSTMENTS NOT MADE

Q. EARLIER IN YOUR TESTIMONY YOU MENTIONED THAT THERE WERE SOME COMMISSION ADJUSTMENTS FROM THE LAST CASE THAT YOU HAVE NOT MADE IN THIS FILING. WOULD YOU ELABORATE ON THESE?

A. There were four adjustments accepted by the Commission in the last case with which I disagree. The first of these is Post Retirement Benefits Other Than Pensions ("PBOPs"). The others are Directory, the disallowance of certain Affiliated Interest costs and the disallowance of Image Advertising.

1. POST RETIREMENT BENEFITS OTHER THAN PENSIONS

Q. PLEASE ADDRESS THESE ADJUSTMENTS.

A. The first deals with Post-Retirement Benefits Other than Pensions. The Company was required to switch from "pay as you go" accounting for PBOPs to accrual accounting by Statement of Financial Accounting Standards No. 106 ("FAS 106"). U S WEST requested adoption of the new accounting standard in its last rate case, but was denied.

Q. WHAT HAS CHANGED SINCE THE LAST CASE?

A. The Commission has accepted accrual accounting for PBOPs for other utilities in Arizona. Specifically, the Commission laid out standards for acceptance for Paradise Valley Water Company in Decision 60220, dated May 27, 1997. In Decision No. 60352, dated August 29, 1997, the Commission approved a settlement in Docket No. U-1551-96-596 for Southwest Gas Corporation. The order stated that the settlement for PBOPs was in accordance with The Residential Utility Consumer Office ("RUCO") position on this matter. RUCO was in favor of the accrual treatment for PBOPs provided certain conditions were met. These conditions were the same as the conditions outlined in the Paradise Valley decision.

Q. PLEASE OUTLINE THESE CONDITIONS.

A. They are as follows:[1]

1. The PBOP expense allowance must meet the conditions of being both reasonable and prudent as determined by the Commission;

[1] Decision No. 60220, Paradise Valley Water Company & Direct Testimony of Marylee Diaz Cortez for RUCO in Docket No. U-1551-96-596, Southwest Gas Corporation.

2. The Company must compute PBOP expense in accordance with Statement of Financial Accounting Standards No. 106, Employers' Accounting for Postretirement Benefits Other Than Pensions (SFAS 106);
3. The Company must use reasonable, unbiased, and supportable actuarial assumptions as a basis for its calculation of PBOP expense;
4. The Company must fund PBOP expense no less frequently than quarterly, and the amount of each payment must represent a ratable portion of the annual PBOP expense;
5. Funding deposits must be made in cash to an irrevocable, independently managed external Trust;
6. To the extent allowed by law, the Company must maintain a tax deductible status for PBOP expense and a tax exempt status for the earnings of the Trust;
7. Investments made by the Trustee of the Trust must be compatible with meeting PBOP obligations as they come due;
8. Any accumulated excess of accrual-based over cash-based revenues intended to cover PBOP expenses is subject to refund, to the extent PBOP assets cannot be used for PBOP expenses or have been used for unauthorized, non-PBOP purposes;
9. Disbursements from the trust fund should be limited to payments for the benefits of retirees in accordance with the Company's benefit plans, administrative costs of the Trust and other purposes authorized by the Commission; and
10. Upon termination of the Trust and satisfaction of all PBOP obligations any residual funds are to be utilized only as approved by the Commission.

Q. DO THE PBOPs U S WEST IS PROPOSING IN THIS CASE MEET THESE CONDITIONS?

A. With one minor exception to number 4, yes.

Q. WHAT IS THE EXCEPTION?

A. It relates to the funding. Since the adoption of PBOPs, U S WEST has provided funding to a trust that meets the standards as enumerated by the Commission. Part of this funding has been provided by shareowners as the funding has been in excess of the authorizations from the various jurisdictions in which U S WEST operates. It was economically advantageous to both the Company and its customers to make this funding following the adoption of SFAS106 due to the tax deductible nature of the funding. What the Company proposes here is to assign this shareowner funding to Arizona before it makes incremental, new cash funding to the trust. Based on the assumption that rates from this proceeding will not go into effect until the year 2000, U S WEST would have to begin providing new funding in the latter part of 2001.

1 2. DIRECTORY

2 **Q. WHAT ADJUSTMENT HAVE YOU MADE FOR INCLUDING THE FEES AND VALUE OF**
3 **SERVICES PROVIDED BY U S WEST DEX TO THE COMPANY?**

4 A. I have made no adjustment in the development of the revenue requirement. In the Company's
5 opinion, the appropriate fees and value of services provided by DEX are already reflected on
6 its books. Ms. Koehler-Christensen addresses the rationale for this in detail in her testimony.
7

8 3. AFFILIATED INTERESTS

9 **Q. PLEASE ADDRESS THE OTHER COMMISSION ADJUSTMENTS FROM THE LAST CASE**
10 **THAT YOU DISAGREE WITH.**

11 A. They relate to the disallowances of various affiliated interest expenses and image advertising.
12 They will be addressed together since image advertising was an affiliated interest expense at
13 the time of the last case. There have been many changes in the affiliate structure since the
14 last case. Because of this I would like to briefly outline these changes. Then I want to
15 specifically address the disallowances from the last case and point out why I believe they are
16 improper.
17

18 a. HISTORY OF AFFILIATE CHANGES

19 **Q. WHAT CHANGES HAVE TAKEN PLACE IN THE AFFILIATE RELATIONSHIPS SINCE THE**
20 **LAST RATE CASE?**

21 A. A number of changes have taken place since the last rate case. These changes have been
22 described in the annual reports filed with the Commission each spring, but I will give a brief
23 overview for each of the affiliates affected. The following four former affiliates no longer have
24 an affiliated relationship with U S WEST; Bellcore, NewVector, U S WEST Enhanced
25 Services and U S WEST Real Estate. National Telecommunications Alliance ("NTA"),
26 InterpriseAmerica, U S WEST Information Technologies, Inc. ("IT"), U S WEST Long
27 Distance and U S WEST Wireless are all new affiliates which have been formed since the last

case. Finally, U S WEST, Inc., U S WEST Advanced Technologies, and U S WEST DEX have undergone changes since the 1993 test period.

Q. WHAT IS THE STATUS OF U S WEST'S AFFILIATE RELATIONSHIP WITH BELLCORE?

A. U S WEST was a consortium owner of Bellcore which was sold to Science Applications International Corporation ("SAIC"). The sale was finalized on November 17, 1997. Therefore, most 1997 payments are tracked as affiliated interest expense. Going forward in 1998 payments are made to SAIC as a third party supplier of products and services who competes for U S WEST's business like any other vendor. Because of the end of period adjustment, the test year expense reflects the current expenditure levels to a third party supplier.

Q. ASIDE FROM BELLCORE, WHAT OTHER COMPANIES ARE NO LONGER AFFILIATES?

A. NewVector is no longer an affiliate as result of a phased approach beginning in 1994 to create a joint venture and subsequently merge with AirTouch Communications. NewVector became part of the Media Group with targeted stock and AirTouch and Media Group entered the first phase of their joint venture on November 1, 1995. The phased approach was completed when New Vector was divested from U S WEST and combined its domestic operations with Airtouch into a joint venture on April 6, 1998.

U S WEST Enhanced Services, Inc. has phased out its operations and sold its assets to a non-affiliated third party.

U S WEST Real Estate, Inc. ("USREI") still exists as a corporation, however, USWREI no longer owns any buildings being leased to U S WEST, so there are no longer affiliated transactions between U S WEST and USWREI.

Q. WHAT AFFILIATES HAVE BEEN FORMED SINCE THE LAST CASE AND WHAT SERVICES DO THEY PROVIDE TO USW?

A. National Telecommunications Alliance (NTA), is a corporation jointly held in equal shares by U S WEST Communications, Ameritech Network Services, Inc., Bell Atlantic Network Services, Inc., BellSouth Telecommunications, Inc., Telesector Resources Group, Inc., Pacific Bell and Southwestern Bell Telephone Company. NTA was created in 1997 and assumed responsibility from Bellcore for providing a single point-of-contact for National Security and Emergency Preparedness and supporting reliability, security and interoperability of telecommunications networks.

!nterprise America was established in March 1995 as a subsidiary of U S WEST Communications Services, Inc. ("CSI"), which is a subsidiary of U S WEST. !nterprise America serves as a holding company for the various out-of-region joint ventures with alternative access/cable television companies to market data networking services. !nterprise America also provides U S WEST with management of data transport services for U S WEST's customers. These services include sales related activities, systems development and maintenance and technical operations.

U S WEST Information Technologies, Inc. ("IT) was formed in 1997. It provides the Company with technology systems development enhancement and support. This information systems services and support is primarily focused on integrated software and systems design, development, enhancement and operation of client business applications.

The Telecommunications Act of 1996, permits U S WEST to provide interLATA services in-region when certain requirements are met. U S WEST Long Distance (LD) was established for this purpose. Currently, LD provides management and procurement of interLATA toll services for U S WEST's official company services needs, as well as for other U S WEST

Companies. LD also acts as an agent of U S WEST for the payment of interLATA toll charges to outside third parties.

Finally, U S WEST Wireless ("USWW") was incorporated May 15, 1997. It is a fully owned subsidiary of U S WEST, set up as a Limited Liability Corporation. It became operational January 1, 1998. USWW was created to transfer U S WEST assets and personnel associated with providing Personal Communications Services (PCS) into a separate affiliate in accordance with FCC Order WT Docket No. 96-162.

Q. PLEASE DESCRIBE BRIEFLY THE REORGANIZATION THAT TOOK PLACE IN JUNE 1998 WITH REGARD TO U S WEST, INC.

A. In 1995 U S WEST, Inc. created two distinct parts of the business with the establishment of "targeted" stock. One stock was called U S WEST Media Group and the other U S WEST Communications Group. In June 1998, these two groups became separate corporations. The former U S WEST Communications Group, Inc. became the new U S WEST, Inc. and U S WEST Media Group became MediaOne, Inc. a wholly separate and unaffiliated company. For the most part, subsidiaries that had been in Communications Group remained with the new U S WEST, Inc., and subsidiaries that had been in Media Group remained with the corporation that is now MediaOne. DEX moved from the Media Group to the Communications Group as part of the restructure and is now a subsidiary of the new U S WEST, Inc.

Q. ARE THE COSTS OF THIS REORGANIZATION INCLUDED IN THE TEST PERIOD?

A. No, all costs associated with the reorganization have been booked below the line.

b. DISCUSSION OF DISALLOWANCES

Q. WERE CERTAIN CHARGES FROM U S WEST, INC. TO U S WEST COMMUNICATIONS (NOW U S WEST) DISALLOWED IN THE LAST CASE?

A. Yes. I will address each of them separately.

Q. WHAT WAS THE BASIS FOR THE DISALLOWANCE OF THE CASH MANAGEMENT EXPENSE IN THE LAST CASE?

A. The Commission disallowed the cash management expense on the basis that the benefit of the cash management group was higher interest income. Since the interest income is booked below the line, the assumption was that the cash management expense should not be included in the revenue requirement.

This overlooks the primary function of the cash management group, which is to assure the availability of the appropriate levels of cash to operate the ongoing business. Without this function, the necessary cash would not be on hand to meet the demands of the business at the lowest cost to the Company, and, ultimately, the customer.

Q. ARE ALL U S WEST, INC. EXECUTIVE SALARIES FOR THE TEST YEAR INCLUDED IN THIS FILING?

A. No. Prior to the restructure, there were U S WEST, Inc. officers and U S WEST Communications officers. Effective with the restructure in mid-June, there is only one set of officers. By annualizing the June executive salary amount, rather than using the entire test period amount, only the salaries of the new U S WEST, Inc. officers are included.

Q. WHY IS IT APPROPRIATE TO INCLUDE LEGISLATIVE EXPENSE?

A. U S WEST's operating environment is in a state of continual change. This state of change is due, in good part to legislative activity. It is normal for a business to incur expenses associated with participating in the legislative process. It is necessary for the continued well being of the corporation and its customers.

1 **Q. IN THE LAST CASE, THIS COMMISSION DISALLOWED PART OF THE PUBLIC**
2 **RELATIONS EXPENSE CHARGED BY U S WEST, INC. BECAUSE IT VIEWED THE**
3 **PROMOTION OF FAVORABLE PUBLIC IMAGE AS BENEFITING THE SHAREOWNERS,**
4 **RATHER THAN THE RATEPAYERS. DO YOU AGREE WITH THIS POSITION?**
5 A. No, I do not. In the changing and increasingly competitive market in which U S WEST now
6 operates, it is necessary to maintain a positive public image. This benefits the customers as
7 well as the shareowners and should be included as a regular business expense.
8
9 **Q. ARE THE IMAGE ADVERTISING EXPENSES INCLUDED IN THE U S WEST, INC.**
10 **CHARGES TO U S WEST COMMUNICATIONS?**
11 A. No. In 1996 U S WEST, Inc. stopped placing image advertising on behalf of the family of
12 companies. Since that time each entity has been responsible for placing and paying for its
13 own product and image advertising.
14
15 **Q. WHAT HAS CHANGED SINCE THE LAST CASE?**
16 A. The competitive landscape. U S WEST currently has competition in its business market and it
17 is rolling out in the residential market. In a competitive environment a company's "brand" is
18 an important segment of its competitive success. Because of these changed conditions I am
19 not removing image advertising from the calculation of the revenue requirement.
20
21 **Q. DO THE COMPANY'S CUSTOMERS RECEIVE A BENEFIT FROM IMAGE OR BRAND**
22 **ADVERTISING?**
23 A. They certainly do. To the extent U S WEST is successful in promoting its brand and loyalty to
24 that brand, it means lower losses to competition. To the extent the Company can retain
25 customers, the less likely it is to suffer revenue shortfalls and have to come to this
26 Commission for additional revenues. Image advertising is done by all of the Company's

competitors and is a normal part of advertising in a competitive environment. These costs should be allowed in the current environment.

Q. PLEASE EXPLAIN THE CHANGES THAT HAVE TAKEN PLACE AT U S WEST ADVANCED TECHNOLOGIES, INC. ("USWAT" or "AT") SINCE THE LAST RATE CASE.

A. AT has become an increasingly integral support resource to U S WEST. In the past AT supported the Company, however today this support is even more integrated with U S WEST's goals and objectives than it was previously. The resources of U S WEST Advanced Technologies are focused on: 1) strategic support of corporate initiatives, and 2) client specific support for business unit initiatives. With this focus, AT is driven by the needs and funding provided by the Company's business units which results in a closely integrated partnership.

Q. PLEASE DESCRIBE U S WEST ADVANCED TECHNOLOGIES, INC. AND THE SERVICES IT PROVIDES.

A. AT provides technology services that include 1) research, development, design, and engineering of telecommunications networks, products and services; 2) design and development of new products and services that are compatible with or enhance the products and services provided by the Company; 3) information management services related to U S WEST's internal data networks; 4) technology management services; 5) oversight and consulting services regarding Bellcore; and 6) development of intellectual properties. All of these services are provided for the purpose of supporting the cost-effective and efficient operation of the Company.

Q. WHAT HAPPENED TO THE PROJECTS THAT WERE SUPPORTING THE MEDIA GROUP SIDE OF BUSINESS?

A. Prior to the June restructure, USWAT was effectively divided. Employees who were supporting the media side of the business became part of MediaOne. Therefore, there are no longer employees or projects at USWAT that support that side of the business.

Q. WHAT ISSUES WERE RAISED WITH REGARD TO AT EXPENSES IN THE LAST RATE ORDER?

A. The issues raised in the last case centered primarily around the following assumptions: 1) The allocation process regarding AT's Corporate Research & Development projects placed an unfair amount of burden on the Company's regulated customers; and 2) Projects in the Emerging Technologies; Globalization; Information and Multimedia Services; Network Delivery Capabilities; and Wireless programs provided no current benefits to U S WEST and its regulated customers.

Q. DID THE COMMISSION DISALLOW ALL OF AT'S EXPENSES IN THIS CASE?

A. No. The Commission concurred with U S WEST that there was no evidence of imprudent expenditures for corporate research and development but focused on a concern over which entities bear the burden of the R&D costs. The Commission disallowed $2,369,000 from the programs mentioned above based on the assumption that the Company had failed to demonstrate the amount was appropriate. U S WEST was directed to develop an allocation process to improve the match between costs and expected benefits for corporate R&D.

Q. DO YOU AGREE WITH THE CONCLUSIONS REACHED IN THE LAST CASE REGARDING THESE USWAT EXPENDITURES?

A. No. I believe the process used to the allocate the corporate R&D projects included in the last rate case were reasonable and prudent, with the costs accurately aligned with the benefits. The majority of the disallowance impacted the work provided throughout the Network Delivery Capabilities program which provided significant benefit to U S WEST and its customers.

Much of the work contained in the program centered around operations research and modeling used to manage the business. Among the projects that were disallowed from the Network Delivery Capabilities program was the work AT provided in Integrated Plan for Network Architecture project. This work integrated Bellcore's generic architecture work with the Company's unique service mix and network evolution to create network architecture plans. Plans such as this enable the Company to make good decisions in allocating its resources to ensure customers get the services they want while avoiding unnecessary expenses. Since technology is not static, such architecture planning is necessary to ensure U S WEST's network stays abreast of the changing technology.

Another project that was disallowed was the Network Optimization Tools Project. This project developed several mathematical and computer aided modeling tools which optimize designs for building high reliability networks at the lowest cost. SONET (Synchronous Optical Network) Ring Planning Tool was developed under this project in 1993. SONET was used in the last test period by U S WEST's Network Planners to design USW's interoffice fiber network, which allows the Company to communicate with its facilities throughout the region. Much of the work that was disallowed in the last order actually included projects required to improve and plan for the most basic elements of its network. This type of fundamental network planning clearly benefits the Company and its customers.

Q. HAS THE ALLOCATION PROCESS FOR CORPORATE R&D CHANGED SINCE THE LAST CASE?

A. Yes. The relationship between the Company and AT has changed in the years since the last case and the processes used to fund and manage the work program have also evolved to support the changing relationship. The goal in allocating expense among entities has always been to match expense to the entities expecting to benefit from the work. This process has become even more customized and fine-tuned in recent years particularly as AT has sought

to partner even more closely with its clients. Interestingly, no current expenses for AT's work are booked to Account 6727, Corporate Research and Development. Typically, the AT work program supports specific initiatives requested by U S WEST and the other affiliated companies.

Q. HOW IS AT'S WORK FUNDED?

A. Work provided by AT is funded in two ways - either directly or designated as strategic. The vast majority of AT's projects, approximately 71% in the test period, are Directly Funded, where the budget and approval of the projects are specified and driven by client needs. Direct funded projects are requested by a particular client and generally produce a specific and immediate work product. Direct Funded project costs are not allocated; they are paid by the client that requests and receives the work. If the client is an unregulated subsidiary, the costs are booked to that entity and the Company's customers are not impacted.

Strategic work provides broader benefits to multiple entities within the U S WEST family. Only Strategic project costs are allocated and they are allocated to the entities that are expected to benefit from the results.

Q. PLEASE DESCRIBE THE FUNDING PROCESS.

A. The annual funding process begins when the Company's Finance Department provides a "top-down" budget for each business unit. This budget also includes an amount to be used in support of strategic and corporate initiatives.

Concurrently, a "bottom-up" view of the work program for the year is proposed jointly by AT and their clients or sponsors, which includes the foundational work typified by Strategic work as well as the very client specific needs represented by Directly Funded work of the individual units

The third step applies to Directly Funded work and involves AT's Business Council. The Business Council is chaired by AT's Director of Operations and includes AT's Vice President - Chief Technology Officer, John Czak and AT's Senior Directors. The Senior Directors are responsible individually and as a team for satisfying clients' needs. For a project to be approved by the Business Council, it must 1) be technically feasible, 2) have an appropriate sponsor outside of AT, and 3) have clearly defined outputs. The Business Council reconciles the top down and bottom up views by prioritizing the projects. This prioritization maximizes the benefit of the work to AT's clients within the budget boundaries.

With Strategic work, the allocation methodology is applied to the funding entities by the Senior Directors at AT based on their technical expertise and input from their clients. U S WEST's Chief Technology Officer, in his responsibility to manage the technology resources on behalf of the entire organization subsequently approves the allocation.

Q. WHAT CONTROL DOES U S WEST HAVE OVER AT'S ACTIVITIES?

A. The Company has control over AT's work at several levels of the organization. Currently, AT's Vice President - Chief Technology Officer (CTO) , is a U S WEST employee who is also responsible for oversight of the Company's Network Planning organization. In this dual capacity, the CTO is responsible for all new services and technology planning, project implementation, technology selection and development of standard network design, legal and regulatory planning, network systems planning and outside plant records conversion. These responsibilities ensure that AT's work serves the needs of the Company and its customers.

Additionally, U S WEST's Finance Department controls AT's budget through its control of the Business Unit's "top-down" budgets. These budgets are developed by Finance in conjunction with the Business Unit leaders. Subsequently, these clients determine the content of AT's

work program. This is done by U S WEST project leaders who establish contracts (i.e. Technical Service Orders) for specific AT projects and by the AT Board which approves the work program for projects with broader applications.

Q. DOES THIS REPORTING STRUCTURE DIFFER FROM AT'S REPORTING STRUCTURE IN THE LAST CASE?

A. Yes. As I mentioned previously, all processes continue to evolve and improve over time. This is also true of the structure and mission at AT which has evolved in response to the changing needs of the corporation, primarily those of the Company. During the last case, AT functioned far more autonomously than it does today. That arrangement served U S WEST's needs at the time but has transformed into a far more integrative and collaborative partnering approach today.

Q. PLEASE PROVIDE AN EXAMPLE OF HOW AT'S WORK BENEFITS ARIZONA CUSTOMERS.

A. Since the last case, numerous services have been introduced in Arizona. Some examples of where AT's work contributed to the creation of services and/or deployments are listed below:

- During the first quarter of 1998, a fiber optic network linking the three digital office switches in Yuma to the Company's Phoenix-based digital switch was deployed. This new infrastructure between Yuma and Phoenix provides additional voice circuits as well as high-speed data lines to benefit customers in southwest Arizona.

- In addition to providing value in the business computing, data networking, and distance learning arenas, AT's work with ATM and DSL benefits basic telephone customers because it reduces network complexity, increases network performance and capacity and improves network reliability and security. One way this helps voice customers is that the

technology allows for the Public Switched Telephone Network (PSTN) to be off-loaded onto an ATM backbone. With the burgeoning growth of the Internet, this has become increasingly important to ensure that the PSTN doesn't incur failures from the heavy usage placed upon it by Internet users. Currently, the far flung facilities comprising Maricopa County's law enforcement, transportation and administrative functions are networked through ATM switches in Phoenix and Mesa. One benefit derived from this arrangement is that the fingerprinting process to match suspects to a central database has been reduced to seconds.

Q. ARE THERE ANY OTHER AFFILIATED INTEREST ISSUES YOU WISH TO DISCUSS?

A. Yes. In the last case there were disallowances related to rent expense for leased buildings. Although this is not an affiliated interest issue in this case, it was brought up in the context of affiliated interests in the last case.

Q. REGARDING THE REAL ESTATE LEASES THAT WERE AT ISSUE IN THE LAST CASE, WHICH BUILDINGS WERE INCLUDED IN THE DISALLOWANCE?

A. The following eleven locations were partially disallowed in the previous rate case:

- 1801 California, Denver, Colorado
- Orchard Falls, Englewood, Colorado
- 188 Inverness, Englewood, Colorado
- Advanced Technologies Research Center, Boulder, Colorado
- Landmark Tower, Omaha, Nebraska
- Landmark Data Processing Center, Omaha, Nebraska
- PhoenixWest I, Phoenix, Arizona
- PhoenixWest II, Phoenix, Arizona
- 5090 N 40th, Phoenix, Arizona
- 20 E. Thomas, Phoenix, Arizona
- TusconWest, Tucson, Arizona

Q. DOES U S WEST OR AN AFFILIATE STILL OCCUPY ALL OF THESE BUILDINGS?

A. No, as a result of the company split in 1998, the 188 Inverness building has been vacated by U S WEST. In addition, since the last rate case, the Company's square footage in many of

the buildings has been reduced due to changing business needs. For example, at the time of the last rate case, the Company was leasing 74,424 square feet in the PhoenixWest II building. As of today, U S WEST is only leasing 3,132 square feet. At TucsonWest, U S WEST has gone from 132,243 square feet to a current 42,101 square feet. In total for the 11 properties at issue in the last case, the total square footage being leased has declined from 3,182,100 square feet in 1994 to 2,560,552 square feet today. Therefore, an assertion made in the last case that the Company was "locked in" to long term commitments at these locations simply is not true. Space that U S WEST no longer needs in the buildings is turned over to U S WEST Business Resources who then markets the space to third party tenants, with no financial impact to the Company.

Q. IN THE LAST CASE, U S WEST WAS ORDERED TO PROVIDE EVIDENCE THAT THE LEASE RATES IN THE BUILDINGS LISTED ABOVE ARE REASONABLE. WHAT EVIDENCE DO YOU HAVE?

A. I have market information from Cushman & Wakefield that shows the estimated cost of new market leases entered into in 1998 that would be comparable to the U S WEST properties. For eight of the ten remaining properties, the lease rates today are higher than the rates the Company is paying in those locations. This is the result of rapidly rising market lease rates in some locations such as Phoenix which has had a 49% increase in rates since 1994, and Denver which has seen a 38% increase. For the two other properties, TucsonWest is less than 1% above the estimated market rate, and 5090 N. 40th is 5% above the estimated market rate.

For example, at 1801 California, U S WEST is currently paying a lease cost of $24.59 (including operating expenses). According to the market data, the cost of similar space for a new 10 year lease beginning in 1998 would be $28.09 per square foot. Therefore, the $24.59 that the Company is booking is reasonable and is 12% below the current market rate.

Q. WHAT WOULD YOU CONCLUDE FROM THIS MARKET DATA?

A. I would conclude that overall, U S WEST's decisions regarding the leases for these properties have, in hindsight, proven to be good business decisions and of benefit to today's ratepayers. Entering into leases always involves a degree of risk as to what the future market rates will be and how the rates you negotiate will compare to the actual market rates over the life of the lease. As discussed above, in eight of the ten properties, the Company is already benefiting from a lower than market rate, and the rate we are paying still has many years to go. Therefore, most likely, the benefits from our rates will increase even more over time assuming market rates continue to grow. For the two properties where our rates are slightly above the market, we still have approximately nine years left on those leases. The Company expects that the market will rise, soon surpassing our rates and ratepayers will benefit for many years in the future. Therefore, there is no basis for a disallowance on any of these properties.

Q. THE LAST ORDER ALSO REQUIRED U S WEST TO JUSTIFY WHY IT DID NOT RENEGOTIATE ITS LEASES PRIOR TO THE SALE/LEASEBACK TRANSACTIONS. WERE THE LEASES RENEGOTIATED?

A. Yes, they were. U S WEST renegotiated all of the leases that are at issue except for 20 E Thomas where we have a very favorable rate (the Company's lease rate is approximately 35% below the current market rate). For example, at PhoenixWest I, PhoenixWest II, 5090 N 40th and TucsonWest, the renewal terms in the leases were all renegotiated and replaced with new terms that were more favorable. Other examples are 1801 California where the Company replaced the existing renewal terms with new terms, Landmark Data Center where the rate was lowered, and the Advanced Technologies Research Center where we renegotiated for a shorter lease term and more flexibility regarding the use of the facility.

Q. WHAT IS YOUR CONCLUSION REGARDING RENTS?

A. The amounts being paid are reasonable and no adjustment should be made to the level of rent expense recorded on the Company's books.

Q. WOULD YOU PLEASE SUMMARIZE THIS PORTION OF YOUR TESTIMONY?

A. Certainly. Affiliated interests have changed dramatically since the last case. The services provided to U S WEST today are directly related to its provision of modern telecommunications services. Competition has changed the landscape, driving the Company and its affiliates toward leaner and more directed services. There should be no question that the services provided to U S WEST are in the best interests of the Company and its customers.

VII. OTHER ITEMS

Q. WHAT OTHER ITEMS DO YOU WISH TO ADDRESS?

A. In Docket No. E-1051-93-183, the Commission ordered U S WEST to prepare a productivity study as part of its next rate case. U S WEST has prepared this study to comply with the Commission's order.

Q. DID RUCO RECOMMEND A PRODUCTIVITY ADJUSTMENT IN THE PRIOR CASE?

A. Yes, RUCO recommended reducing the revenue requirement by one-half of the productivity benefits. RUCO's reasoning for this adjustment was that the test year data incorporated only one-half of the gain in productivity.

Q. WOULD IT BE APPROPRIATE TO MAKE A SIMILAR PRODUCTIVITY ADJUSTMENT IN THIS REVENUE REQUIREMENT?

A. No, it would not. All productivity benefits are already incorporated into the test year revenue requirement. The revenues, expenses and rate base used in the determination of the revenue requirement reflect all the benefits of productivity increases. In addition, these have all been

annualized to the end of the test year, which assures that the gain has been captured. Further adjustment is neither necessary nor appropriate.

Q. ARE THERE OTHER REASONS A PRODUCTIVITY OFFSET SHOULD NOT BE MADE?

A. There is another very important reason. A fully adjusted test year, even with the end of period adjustment, cannot be fully representative of the future. Productivity is one of the means the Company has of maintaining its earnings levels between rate cases. However, as shown in the financial results section of my testimony (Section I), Arizona operations have not shown any dramatic gains since the rates from the last rate case went into effect despite the gain in productivity shown by the study. Similarly, the Company should be allowed to benefit from productivity going forward to increase the rate case interval and help offset other increases in the Company's cost of doing business.

Q. PLEASE EXPLAIN THE METHODOLOGY USED IN THE PRODUCTIVITY STUDY PREPARED FOR THIS FILING.

A. Productivity is measured as the relationship between the level of inputs and outputs in a firm. Therefore, this study calculated the year by year changes in inputs and outputs for U S WEST's Arizona intrastate operations over the last ten years, 1988 – 1998, using data from standard company reports. Overall productivity was then calculated as the difference between the change in outputs and the change in inputs. A ten-year study period is appropriate due to the volatile nature of the productivity results as can be seen in the study results shown as Exhibit GAR-12.

Q. WHAT WERE THE STUDY RESULTS?

A. The average productivity over the ten year period was 0.8%.

Q. WHAT DATA WAS USED TO MEASURE INPUTS?

A. U S WEST used operating expenses as a measure of the productivity inputs. The expenses included were maintenance, engineering, network operations, network administration, access, other, customer operations and corporate operations. U S WEST did not include expenses for depreciation and property taxes because those expenses are mandated by outside parties and therefore not under the Company's direct control.

To measure the capital input, gross investment was used since depreciation expense is not included. The authorized rate of return was applied to the gross investment to calculate the expense associated with the capital.

All of the expenses were then deflated to a 1988 level in order to eliminate any impacts of inflation.

Q. HOW WERE OUTPUTS MEASURED?

A. Outputs were measured as total revenues. Rate changes were removed, so that the increase in revenues would be attributable to increases in volumes.

VIII. CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY

A. Arizona's financial performance over the past five years dictates a need for an increase in rates. The Company has not been able to earn anywhere near its last authorized rate of return under present rates. U S WEST's cash flow in Arizona has been inadequate to cover its huge new investments in the state. The Company faces the need for continued massive investment in the state, but such investments are not justifiable unless the Company has adequate cash flow for these new investments. This need for adequate rates and cash flow is heightened by competition. Competition is present in Arizona and growing. Under the old model, U S WEST could invest and be guaranteed to eventually recover the cost of its

investments. This is no longer true with competition. Now, the Company must have reasonable earnings on a current basis to justify new investment.

I have calculated a total revenue requirement of $225.9M. The calculation is reasonable and follows the same basic methodology used by this Commission in prior cases. The only significant changes I have made are in the area of disallowances. Many of them, even if they once had any validity, are no longer appropriate in light of organizational changes, focus of costs, competition or changes in the market. I believe that the revenue requirement I have calculated is reasonable and would provide U S WEST in Arizona the opportunity to earn an adequate return. This, in turn, will allow the Company to make the investments necessary to compete fairly and provide the telecommunications services demanded by Arizona customers.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN	))))))))))	DOCKET NO. _____

EXHIBITS OF

GEORGE REDDING

U S WEST COMMUNICATIONS

JANUARY 8, 1999

EXHIBITS OF
GEORGE REDDING

INDEX

Revenue Requirement Summary GAR-1

Capital Structure GAR-2

Income to Revenue Multiplier GAR-3

Original Cost Rate Base Summary GAR-4
- Summary of Rate Base Commission Adjustments GAR-4A
- Summary of Rate Base Pro Forma Adjustments GAR-4B
- Summary of Rate Base 3 Yr. Rev. Rqmt. Adjustments GAR-4C

Income Statement Summary GAR-5

Accounting Adjustments Summary GAR-6
- Explanation of Adjustments
  - Removal of Media Split Cost GAR-6A
  - Prior Period Tax Adjustment GAR-6B

Commission Adjustments Summary GAR-7
- Explanation of Adjustments
  - Removal of Merger Costs GAR-7A
  - Disallowance of Non-Employee Concessions GAR-7B
  - Customer Deposits Adjustment GAR-7C
  - Cash Working Capital GAR-7D
  - Bellcore Adjustment GAR-7E
  - Interest Synchronization GAR-7F

Pro Forma Adjustments Summary GAR-8
- Explanation of Adjustments
  - End of Period Annualization Adjustment GAR-8A
  - Wage & Salary Increase GAR-8B
  - Depreciation Adjustment GAR-8C
  - Pension Asset GAR-8D
  - PBOP Adjustment GAR-8E

Three Year Revenue Requirements Adjustments Summary GAR-9
- Explanation of Adjustments
  - Depreciation Reserve Deficiency Amortization GAR-9A
  - Y2K Costs GAR-9B
  - Gain from Bellcore Sale GAR-9C

Accounting Adjustments Not Included ..... GAR-10 thru GAR-10N

Pro Forma Adjustments Not Included ..... GAR-11 thru GAR-11C

Productivity Study GAR-12

U S WEST
Arizona Intrastate Operations
Revenue Requirement Summary
Test Year Ending June 30, 1998
$(000)

		Original Cost	Fair Value
1.	Adjusted Rate Base	1,474,717	1,737,397
2.	Adjusted Net Operating Income	73,596	73,596
3.	Current Rate of Return (L2/L1)	4.99%	4.24%
4.	Required Operating Income (L1*L5)	158,404	186,619
5.	Required Rate of Return	10.74%	10.74%
6.	Operating Income Deficiency	84,808	113,023
7.	Gross Revenue Conversion Factor	1.6808	1.6808
8.	Increase in Gross Revenue Requirements (L6*L7)	$ 142,542	$ 189,966
9.	Three Year Revenue Requirement	83,336	83,336
10.	Total Increase in Revenue Requirement (L8+L9)	$ 225,878	$ 273,301

U S WEST
Arizona Intrastate Operations
Capital Structure
Test Year Ending June 30, 1998
$(000)

	Percent of Total Capital	Cost Rate	Weighted Cost
Total Debt	41.20%	7.52%	3.10%
Common Equity	58.80%	13.00%	7.64%
Total Capital	100.00%		10.74%

U S WEST
Arizona Intrastate Operations
Income to Revenue Multiplier
Test Year Ending June 30, 1998
$(000)

1	Gross Intrastate Revenue	100.00%
2	Less: Uncollectible Revenue (Note a)	1.032%
3	Total Revenue (L1-L2)	98.9680%
4	Less: Taxes on Local Revenue Service (Note b)	0.1137%
5	Taxable Income (L3-L4)	98.8543%
6	Less: Effective State Income Tax (L5 * 7.41%)	7.3225%
7	Less: Effective Federal Income Tax (L5 * 32.41%)	32.0361%
8	Net Operating Earnings (L5-L6-L7)	59.4957%
9	Income to Revenue Multiplier (L1 / L8)	1.6808

Notes:
a. Based on Test Year End of Period Adjustment.
b. Includes Franchise and License taxes and Sales tax assumed.

U S WEST
Arizona Intrastate Operations
Original Cost Rate Base Summary
Test Year Ending June 30, 1998
$(000)

Original Cost	[a] Intrastate EOP Rate Base	[b] Accounting Adjustments	[c] Commission Adjustments	[d] Proforma Adjustments	[e]=a+b+c+d Original Cost Rate Base	3 Yr. Rev. Rqmt. Adjustments
1 Telephone Plant In Service	3,446,771	0	0	959	3,447,730	1,165
2 Short-Term Plant Under Construction	0	0	0	0	0	0
3 Materials and Supplies	16,738	0	0	0	16,738	0
4 Allowance for Cash Working Capital	(20,190)	0	(15,851)	0	(36,041)	0
5 Accumulated Depr & Amort Reserve	(1,648,674)	0	0	(19,139)	(1,667,813)	(86,598)
6 Accumulated Deferred Income Tax	(327,431)	0	0	7,631	(319,800)	34,324
7 Customer Deposits	(6,341)	0	(2,184)	0	(8,525)	0
8 Land Development Agreement Deposits	(21,629)	0	0	0	(21,629)	0
9 Other Assets & Liabilities	0	0	0	64,057	64,057	0
10 **End-of-Period Rate Base(L1.L9)**	1,439,244	0	(18,035)	53,508	1,474,717	(51,109)

NOTE: Fair Value is 50% Original Cost and 50% RCND

U S WEST
Arizona Intrastate Operations
Fair Value Rate Base Summary
Test Year Ending June 30, 1998
$(000)

1	Telephone Plant In Service	3,937,682
2	Short-Term Plant Under Construction	0
3	Materials and Supplies	16,738
4	Allowance for Cash Working Capital	(36,041)
5	Accumulated Depr & Amort Reserve	(1,895,086)
6	Accumulated Deferred Income Tax	(319,800)
7	Customer Deposits	(8,525)
8	Land Development Agreement Deposits	(21,629)
9	Other Assets & Liabilities	64,057
10	**End-of-Period Rate Base(L1.L9)**	1,737,397

NOTE: Fair Value is 50% Original Cost and 50% RCND

U S WEST
Arizona Intrastate Operations
End of Period Rate Base - Summary of Rate Base Commission Adjustments
Test Year Ending June 30, 1998
$(000)

		[a]	[b]	[c]=a+b
		Customer Deposits Adjustment	**Cash Working Capital**	**Summary Commission Adjustments to Rate Base**
1	Telephone Plant In Service	0	0	0
2	Short-Term Plant Under Construction	0	0	0
3	Materials and Supplies	0	0	0
4	Allowance for Cash Working Capital	0	(15,851)	(15,851)
5	Accumulated Depr & Amort Reserve	0	0	0
6	Accumulated Deferred Income Tax	0	0	0
7	Customer Deposits	(2,184)	0	(2,184)
8	Land Development Agreement Deposits	0	0	0
9	Other Assets & Liabilities	0	0	0
10	**End-of-Period Rate Base(L1.L9)**	(2,184)	(15,851)	(18,035)

Note: For explanation of adjustments, see backup behind GAR - 5B

U S WEST
Arizona Intrastate Operations
End of Period Rate Base - Summary of Proforma Adjustments Included
Test Year Ending June 30, 1998
$(000)

		[a]	[b]	[c]	[d]
		Depreciation	**Pension Asset**	**OPEB Adjustment**	**Summary Proforma Adjustment Included**
1	Telephone Plant In Service	0	0	959	959
2	Short-Term Plant Under Construction	0	0	0	0
3	Materials and Supplies	0	0	0	0
4	Allowance for Cash Working Capital	0	0	0	0
5	Accumulated Depr & Amort Reserve	(19,165)	0	26	(19,139)
6	Accumulated Deferred Income Tax	7,631	0	0	7,631
7	Customer Deposits	0	0	0	0
8	Land Development Agreement Deposits	0	0	0	0
9	Other Assets & Liabilities	0	64,057	0	64,057
10	**End-of-Period Rate Base(L1.L9)**	(11,534)	64,057	985	53,508

Note: See explanations following GAR-8

U S WEST
Arizona Intrastate Operations
End of Period Rate Base - Summary of Three Year Revenue Requirement Adjustments
Test Year Ending June 30, 1998
$(000)

		Depreciation Surcharge	Year 2000 Cost Surcharge	Summary of 3 Yr. Rev. Rqmt. Adj. to Rate Base
1	Telephone Plant In Service	0	1,165	1,165
2	Short-Term Plant Under Construction	0	0	0
3	Materials and Supplies	0	0	0
4	Allowance for Cash Working Capital	0	0	0
5	Accumulated Depr & Amort Reserve	(86,210)	(388)	(86,598)
6	Accumulated Deferred Income Tax	34,324	0	34,324
7	Customer Deposits	0	0	0
8	Land Development Agreement Deposits	0	0	0
9	Other Assets & Liabilities	0	0	0
10	**End-of-Period Rate Base(L1.L9)**	(51,886)	777	(51,109)

Note: See explanations following GAR-9

U S WEST
Arizona Intrastate Operations
Income Statement Summary
Test Year Ending June 30, 1998
$(000)

		[a]	[b]	[c]	[d]	[e]=a+b+c+d	
		Year Ending June 30, 1998 Intrastate	Accounting Adjustments	Commission Adjustments	Proforma Adjustments	Adjusted Test Year	3 Yr. Rev. Rqmt. Adjustments
Revenues							
1	Local Service Revenues	880,744	0	1,855	(13,227)	869,372	0
2	Network Access Service Revenues	121,936	0	0	(2,066)	119,870	0
3	Long Distance Network Service Rev.	39,559	0	0	(6,913)	32,646	0
4	Miscellaneous	81,628	0	0	7,209	88,837	0
5	Total Oper. Rev. (L1 thru L4)	1,123,866	0	1,855	(14,997)	1,110,724	0
Expenses							
6	Maintenance	235,323	0	0	38,782	274,105	0
7	Engineering Expense	13,771	0	0	3,891	17,662	0
8	Network Operations	34,643	0	0	(9,355)	25,288	0
9	Network Administration	1,933	0	0	70	2,003	0
10	Access Expense	2,040	0	0	(498)	1,542	0
11	Other	2,079	0	0	822	2,901	0
12	Total Cost of Svcs & Products(L6 thru L11)	289,789	0	0	33,712	323,501	0
13	Customer Operations	193,252	0	0	498	193,750	0
14	Corporate Operations	170,108	(1)	(87)	7,542	177,562	5,547
15	Property & Other Taxes	54,687	1	2	(3,259)	51,431	0
16	Uncollectibles	11,377	0	19	(1,612)	9,784	0
17	Tot Selling, Gen. & Admin.(L13 thru L16)	429,424	0	(66)	3,169	432,527	5,547
18	Other Operating Income & Expense	1,660	0	512	0	2,172	(663)
19	Depreciation Expense	244,809	0	(13)	19,165	263,961	86,598
20	Universal Service Fund	(1,573)	0	0	0	(1,573)	0
21	Link Up America	(10)	0	0	0	(10)	0
22	Total Operating Expense(L12+L17 thru L21)	964,099	0	433	56,046	1,020,578	91,482
23	Income From Operations (L5-L22)	159,767	0	1,422	(71,043)	90,146	(91,482)
Taxes							
24	Federal Income Tax	41,531	(1,464)	(1,136)	(23,023)	15,908	(29,646)
25	State & Local Income Tax	7,617	(1,452)	(260)	(5,263)	642	(6,777)
26	**Net Operating Income (L23-L24-L25)**	110,619	2,916	2,818	(42,757)	73,596	(55,059)
Other							
27	Nonoperating Income & Expense	6,390	0	0	0	6,390	0
28	Nonoperating Income Tax	(222)	1,047	0	0	825	0
29	Net Operating Earnings (L26-L27-L28)	104,451	1,869	2,818	(42,757)	66,381	(55,059)
30	Interest Expense	40,791	0	4,925	0	45,716	0
31	Juris Diff & Nonreg Net Income	0	0	0	0	0	0
32	Extraordinary Items	0	0	0	0	0	0
33	**Net Income (L29-L30-L31-L32)**	63,660	1,869	(2,107)	(42,757)	20,665	(55,059)

U S WEST
Arizona Intrastate Operations
Accounting Adjustments Summary
Test Year Ending June 30, 1998
$(000)

		[a]	[b]	[c]=a+b
		Remove Media Split Costs	**Income Tax True-Up**	**Subtotal Accounting Adjustments Included in Test Period**
Revenues				
1	Local Service Revenues	0	0	0
2	Network Access Service Revenues	0	0	0
3	Long Distance Network Service Rev.	0	0	0
4	Miscellaneous	0	0	0
5	Total Oper. Rev. (L1 thru L4)	0	0	0
Expenses				
6	Maintenance	0	0	0
7	Engineering Expense	0	0	0
8	Network Operations	0	0	0
9	Network Administration	0	0	0
10	Access Expense	0	0	0
11	Other	0	0	0
12	Total Cost of Svcs & Products(L6 thru L11)	0	0	0
13	Customer Operations	0	0	0
14	Corporate Operations	0	0	0
15	Property & Other Taxes	0	0	0
16	Uncollectibles	0	0	0
17	Tot Selling, Gen. & Admin.(L13 thru L16)	0	0	0
18	Other Operating Income & Expense	0	0	0
19	Depreciation Expense	0	0	0
20	Universal Service Fund	0	0	0
21	Link Up America	0	0	0
22	Total Operating Expense(L12+L17 thru L21)	0	0	0
23	Income From Operations (L5-L22)	0	0	0
Taxes				
24	Federal Income Tax	(715)	(749)	(1,464)
25	State & Local Income Tax	(108)	(1,344)	(1,452)
26	**Net Operating Income (L23-L24-L25)**	823	2,093	2,916
Other				
27	Nonoperating Income & Expense	0	0	0
28	Nonoperating Income Tax	1,047	0	1,047
29	Net Operating Earnings (L26-L27-L28)	(224)	2,093	1,869
30	Interest Expense	0	0	0
31	Juris Diff & Nonreg Net Income	0	0	0
32	Extraordinary Items	0	0	0
33	**Net Income (L29-L30-L31-L32)**	(224)	2,093	1,869

U S WEST
Arizona Intrastate Operations
Accounting Adjustment
Remove Media Split Cost
Test Year Ending June 30, 1998
$(000)

Operating Revenues	0
Operating Expenses	0
Total Operating Income Taxes	(823)
Net Operating Income	823
Rate Base	0
Revenue Requirement	(1,383)

When the U S WEST Communications and Media Group split occurred in June 1998, the associated costs were booked below the line. However, taxes were inadvertantly booked above the line. The entry was corrected in July of 1998. The above adjustment reflects the correcting entry to the test period.

U S WEST
Arizona Intrastate Operations
Accounting Adjustment
Prior Period Tax Adjustment
Test Year Ending June 30, 1998
$(000)

Operating Revenues	0
Operating Expenses	0
Total Operating Income Taxes	(2,093)
Net Operating Income	2,093
Rate Base	0
Revenue Requirement	(3,518)

In November of 1997, the tax accounts were adjusted to reflect the 1996 tax return true-up. This true-up relates to a prior period and should be removed from the test year.

U S WEST
Arizona Intrastate Operations
Commission Adjustments Summary
Test Year Ending June 30, 1998
$(000)

		Removal of Merger Costs	Disallowance of Non Employee Concession	Customer Deposits Adjustment	Bellcore Adjustment	Interest Synchronization	Subtotal Commission Adj's to Income
Revenues							
1	Local Service Revenues	0	1,855	0	0	0	1,855
2	Network Access Service Revenues	0	0	0	0	0	0
3	Long Distance Network Service Rev.	0	0	0	0	0	0
4	Miscellaneous	0	0	0	0	0	0
5	Total Oper. Rev. (L1 thru L4)	0	1,855	0	0	0	1,855
Expenses							
6	Maintenance	0	0	0	0	0	0
7	Engineering Expense	0	0	0	0	0	0
8	Network Operations	0	0	0	0	0	0
9	Network Administration	0	0	0	0	0	0
10	Access Expense	0	0	0	0	0	0
11	Other	0	0	0	0	0	0
12	Total Cost of Svcs & Products(L6 thru L11)	0	0	0	0	0	0
13	Customer Operations	0	0	0	0	0	0
14	Corporate Operations	0	0	0	(87)	0	(87)
15	Property & Other Taxes	0	2	0	0	0	2
16	Uncollectibles	0	19	0	0	0	19
17	Tot Selling, Gen. & Admin.(L13 thru L16)	0	21	0	(87)	0	(66)
18	Other Operating Income & Expense	0	0	512	0	0	512
19	Depreciation Expense	(13)	0	0	0	0	(13)
20	Universal Service Fund	0	0	0	0	0	0
21	Link Up America	0	0	0	0	0	0
22	Total Operating Expense(L12+L17 thru L21)	(13)	21	512	(87)	0	433
23	Income From Operations (L5-L22)	13	1,834	(512)	87	0	1,422
Taxes							
24	Federal Income Tax	9	594	(43)	28	(1,724)	(1,136)
25	State & Local Income Tax	2	136	(10)	6	(394)	(260)
26	**Net Operating Income (L23-L24-L25)**	2	1,104	(459)	53	2,118	2,818
Other							
27	Nonoperating Income & Expense	0	0	0	0	0	0
28	Nonoperating Income Tax	0	0	0	0	0	0
29	Net Operating Earnings (L26-L27-L28)	2	1,104	(459)	53	2,118	2,818
30	Interest Expense	(16)	0	(379)	0	5,320	4,925
31	Juris Diff & Nonreg Net Income	0	0	0	0	0	0
32	Extraordinary Items	0	0	0	0	0	0
33	**Net Income (L29-L30-L31-L32)**	18	1,104	(80)	53	(3,202)	(2,107)

U S WEST
Arizona Intrastate Operations
Commission Adjustments Summary
Test Year Ending June 30, 1998
$(000)

		Removal of Merger Costs	Disallowance of Non Employee Concession	Customer Deposits Adjustment	Bellcore Adjustment	Interest Synchronization	Subtotal Commission Adj's to Income
Revenues							
1	Local Service Revenues	0	1,855	0	0	0	1,855
2	Network Access Service Revenues	0	0	0	0	0	0
3	Long Distance Network Service Rev.	0	0	0	0	0	0
4	Miscellaneous	0	0	0	0	0	0
5	Total Oper. Rev. (L1 thru L4)	0	1,855	0	0	0	1,855
Expenses							
6	Maintenance	0	0	0	0	0	0
7	Engineering Expense	0	0	0	0	0	0
8	Network Operations	0	0	0	0	0	0
9	Network Administration	0	0	0	0	0	0
10	Access Expense	0	0	0	0	0	0
11	Other	0	0	0	0	0	0
12	Total Cost of Svcs & Products(L6 thru L11)	0	0	0	0	0	0
13	Customer Operations	0	0	0	0	0	0
14	Corporate Operations	0	0	0	(87)	0	(87)
15	Property & Other Taxes	0	2	0	0	0	2
16	Uncollectibles	0	19	0	0	0	19
17	Tot Selling, Gen. & Admin.(L13 thru L16)	0	21	0	(87)	0	(66)
18	Other Operating Income & Expense	0	0	512	0	0	512
19	Depreciation Expense	(13)	0	0	0	0	(13)
20	Universal Service Fund	0	0	0	0	0	0
21	Link Up America	0	0	0	0	0	0
22	Total Operating Expense(L12+L17 thru L21)	(13)	21	512	(87)	0	433
23	Income From Operations (L5-L22)	13	1,834	(512)	87	0	1,422
Taxes							
24	Federal Income Tax	9	594	(43)	28	(1,724)	(1,136)
25	State & Local Income Tax	2	136	(10)	6	(394)	(260)
26	**Net Operating Income (L23-L24-L25)**	2	1,104	(459)	53	2,118	2,818
Other							
27	Nonoperating Income & Expense	0	0	0	0	0	0
28	Nonoperating Income Tax	0	0	0	0	0	0
29	Net Operating Earnings (L26-L27-L28)	2	1,104	(459)	53	2,118	2,818
30	Interest Expense	(16)	0	(379)	0	5,320	4,925
31	Juris Diff & Nonreg Net Income	0	0	0	0	0	0
32	Extraordinary Items	0	0	0	0	0	0
33	**Net Income (L29-L30-L31-L32)**	18	1,104	(80)	53	(3,202)	(2,107)

U S WEST
Arizona Intrastate Operations
Commission Adjustment
Removal of Merger Costs
Test Year Ending June 30, 1998
$(000)

Operating Revenues	0
Operating Expenses	(13)
Total Operating Income Taxes	11
Net Operating Income	2
Rate Base	0
Revenue Requirement	(3)

In Docket No.(E10-1051-89-311), the Arizona Corporation Commission disallowed costs associated with the merger of the three operating companies owned by U S WEST (Mountain States Telephone and Telegraph, Pacific Northwest Bell, Northwestern Bell). The merger was effective January 1, 1991 and the costs are still being amortized. This adjustment removes the amortization of merger costs from the test period.

U S WEST
Arizona Intrastate Operations
Commission Adjustment
Disallowance of Non-Employee Concession
Test Year Ending June 30, 1998
$000)

Operating Revenues	1,855
Operating Expenses	21
Total Operating Income Taxes	730
Net Operating Income	1,104
Rate Base	0
Revenue Requirement	(1,856)

In Decisions 53849, 54843 & 58927 the Arizona Corporation Commission disallowed non-employee concessions for retired employees and other special interest groups (I.e.,clergy, etc.). This adjustment removes the non-employee concession from test year results.

U S WEST
Arizona Intrastate Operations
Commission Adjustment
Customer Deposits Adjustment
Test Year Ending June 30, 1998
$(000)

Operating Revenues	0
Operating Expenses	512
Total Operating Income Taxes	(53)
Net Operating Income	(459)
Rate Base	(2,184)
Revenue Requirement	377

In Decisions 53849 and 54843 (Docket Nos. E-1051-83-035 and E-1051-84-100), the Arizona Corporation Commission ordered U S WEST to reflect customer deposits as 100% intrastate and to bring the associated interest into regulated operating results. This adjustment reflects the order at end-of-period test year.

U S WEST
Arizona Intrastate Operations
Commission Adjustment
Cash Working Capital
Test Year Ending June 30, 1998
$(000)

Operating Revenues	0
Operating Expenses	0
Total Operating Income Taxes	0
Net Operating Income	0
Rate Base	(15,851)
Revenue Requirement	(2,862)

In Decision 54843 (Docket No. E-1051-84-100) the Arizona Corporation Commission adopted Staff's recommendation to exclude non-cash items in the lead-lag studies to determine the amount of cash working capital. This adjustment removes the non-cash items from the rate base.

U S WEST
Arizona Intrastate Operations
Commission Adjustments
Test Year Ending June 30, 1998
Bellcore Adjustment
$(000)

Operating Revenues	0
Operating Expenses	(87)
Total Operating Income Taxes	34
Net Operating Income	53
Rate Base	0
Revenue Requirement	(89)

In Decision 58927 (Docket No. E-1051-93-183) the Arizona Corporation Commission ordered U S WEST to include the Bellcore investment in rate base and exclude the profit component of Bellcore charges from operating expense. This adjustment excludes the profit component from operating expense. The rate base component no longer applies with the sale of Bellcore in November of 1997.

US WEST
Arizona Intrastate Operations
Commission Adjustment
Interest Synchronization
Test Year Ending June 30, 1998
$(000)

Operating Revenues	0
Operating Expenses	0
Total Operating Income Taxes	(2,118)
Net Operating Income	2,118
Rate Base	0
Revenue Requirement	(3,560)

In Decisions 54843, 53849, and 58927 (Docket Nos. E-1051-84-100, and E-1051-83-035 and E-1051-93-183), the Arizona Corporation Commission ordered synchronization of interest expense. This adjustment synchronizes interest expense to the adjusted rate base for the test year.

U S WEST
Arizona Intrastate Operations
Proforma Adjustments Summary
Test Year Ending June 30, 1998
$(000)

		[a]	[b]	[c]	[d]	[e]	[f]=sum(a.e)
		End of Period Annualization	**Wage & Salaries Adjustment**	**Depreciation**	**Pension Asset**	**OPEB Adjustment**	**Summary Proforma Adj's**
Revenues							
1	Local Service Revenues	(13,227)	0	0	0	0	(13,227)
2	Network Access Service Revenues	(2,066)	0	0	0	0	(2,066)
3	Long Distance Network Service Rev.	(6,913)	0	0	0	0	(6,913)
4	Miscellaneous	7,209	0	0	0	0	7,209
5	Total Oper. Rev. (L1 thru L4)	(14,997)	0	0	0	0	(14,997)
Expenses							
6	Maintenance	27,853	5,344	0	167	5,418	38,782
7	Engineering Expense	3,568	177	0	(282)	428	3,891
8	Network Operations	(10,483)	930	0	(4,897)	5,095	(9,355)
9	Network Administration	(98)	55	0	7	106	70
10	Access Expense	(498)	0	0	0	0	(498)
11	Other	819	1	0	0	2	822
12	Total Cost of Svcs & Products(L6 thru L11)	21,161	6,507	0	(5,005)	11,049	33,712
13	Customer Operations	(7,947)	3,731	0	(2,369)	7,083	498
14	Corporate Operations	4,314	1,438	0	0	1,790	7,542
15	Property & Other Taxes	(3,259)	0	0	0	0	(3,259)
16	Uncollectibles	(1,612)	0	0	0	0	(1,612)
17	Tot Selling, Gen. & Admin.(L13 thru L16)	(8,504)	5,169	0	(2,369)	8,873	3,169
18	Other Operating Income & Expense	0	0	0	0	0	0
19	Depreciation Expense	0	0	19,165	0	0	19,165
20	Universal Service Fund	0	0	0	0	0	0
21	Link Up America	0	0	0	0	0	0
22	Total Operating Expense(L12+L17 thru L21)	12,657	11,676	19,165	(7,374)	19,922	56,046
23	Income From Operations (L5-L22)	(27,654)	(11,676)	(19,165)	7,374	(19,922)	(71,043)
xes							
24	Federal Income Tax	(8,962)	(3,784)	(6,211)	2,390	(6,456)	(23,023)
25	State & Local Income Tax	(2,048)	(865)	(1,420)	546	(1,476)	(5,263)
26	**Net Operating Income (L23-L24-L25)**	(16,644)	(7,027)	(11,534)	4,438	(11,990)	(42,757)
Other							
27	Nonoperating Income & Expense	0	0	0	0	0	0
28	Nonoperating Income Tax	0	0	0	0	0	0
29	Net Operating Earnings (L26-L27-L28)	(16,644)	(7,027)	(11,534)	4,438	(11,990)	(42,757)
30	Interest Expense	0	0	0	0	0	0
31	Juris Diff & Nonreg Net Income	0	0	0	0	0	0
32	Extraordinary Items	0	0	0	0	0	0
33	**Net Income (L29-L30-L31-L32)**	(16,644)	(7,027)	(11,534)	4,438	(11,990)	(42,757)

U S WEST
Arizona Intrastate Operations
Proforma Adjustment
End of Period Annualization Adjustment
Test Year Ending June 30, 1998
$(000)

Operating Revenues	(14,997)
Operating Expenses	12,657
Total Operating Income Taxes	(11,010)
Net Operating Income	(16,644)
Rate Base	0
Revenue Requirement	27,975

In Decision 58927 (Docket No E-1051-93-183) the Arizona Corporation Commission ordered U S WEST to synchronize test year revenues and various expenses with the end-of-period rate base. This adjustment synchronizes the entire income statement with the end-of-period rate base.

U S WEST
Arizona Intrastate Operations
Proforma Adjustment
Test Year Ended June 30, 1998
Wage and Salary Increase
$(000)

Operating Revenues	0
Operating Expenses	11,676
Total Operating Income Taxes	(4,649)
Net Operating Income	(7,027)
Rate Base	0
Revenue Requirement	11,811

Effective August 15, 1998 U S WEST incurred additional salary and wage expenses for occupational employees. On March 1, 1999 U S WEST will incur additional salary and wage expenses for management employees. This adjustment reflects the salary and wage increases.

U S WEST
Arizona Intrastate Operations
Proforma Adjustment
Depreciation
Test Year Ending June 30, 1998
$(000)

Operating Revenues	0
Operating Expenses	19,165
Total Operating Income Taxes	(7,631)
Net Operating Income	(11,534)
Rate Base	(11,534)
Revenue Requirement	17,304

This adjustment reflects the annual impact of the Company's proposed depreciation represcription.

U S WEST
Arizona Intrastate Operations
Proforma Adjustment
Pension Asset
Test Year Ending June 30, 1998
$(000)

Operating Revenues	0
Operating Expenses	(7,374)
Total Operating Income Taxes	2,936
Net Operating Income	4,438
Rate Base	64,057
Revenue Requirement	4,106

This adjustment reflects the incremental difference between the normal pension expense credit and the 3rd quarter 1998 and estimated 4th quarter 1998 credit per SFAS 87. It also reflects the incremental difference in the pension asset because of the expense credit booked. The adjustment also reflects the reduction to the pension asset and pension liability for a transfer from the pension fund to retiree healthcare claims in accordance with IRC Section 420.

U S WEST
Arizona Intrastate Operations
Proforma Adjustment
PBOP Adjustment
Test Year Ending June 30, 1998
$(000)

Operating Revenues	0
Operating Expenses	19,922
Total Operating Income Taxes	(7,932)
Net Operating Income	(11,990)
Rate Base	985
Revenue Requirement	20,330

This adjustment restates the test year Post Retirement Benefits Other than Pensions at the level required by SFAS 106.

U S WEST
Arizona Intrastate Operations
Three Year Revenue Requirement Adjustments Summary
Test Year Ending June 30, 1998
$(000)

		Depreciation Reserve Deficiency Amortization	Year 2000 Costs	Bellcore Gain from Sale	Subtotal 3 Yr. Rev. Rqmt. Adjustments
..evenues					
1	Local Service Revenues	0	0	0	0
2	Network Access Service Revenues	0	0	0	0
3	Long Distance Network Service Rev.	0	0	0	0
4	Miscellaneous	0	0	0	0
5	Total Oper. Rev. (L1 thru L4)	0	0	0	0
Expenses					
6	Maintenance	0	0	0	0
7	Engineering Expense	0	0	0	0
8	Network Operations	0	0	0	0
9	Network Administration	0	0	0	0
10	Access Expense	0	0	0	0
11	Other	0	0	0	0
12	Total Cost of Svcs & Products(L6 thru L11)	0	0	0	0
13	Customer Operations	0	0	0	0
14	Corporate Operations	0	5,547	0	5,547
15	Property & Other Taxes	0	0	0	0
16	Uncollectibles	0	0	0	0
17	Tot Selling, Gen. & Admin.(L13 thru L16)	0	5,547	0	5,547
18	Other Operating Income & Expense	0	0	(663)	(663)
19	Depreciation Expense	86,210	388	0	86,598
20	Universal Service Fund	0	0	0	0
21	Link Up America	0	0	0	0
22	Total Operating Expense(L12+L17 thru L21)	86,210	5,935	(663)	91,482
23	Income From Operations (L5-L22)	(86,210)	(5,935)	663	(91,482)
Taxes					0
24	Federal Income Tax	(27,938)	(1,923)	215	(29,646)
25	State & Local Income Tax	(6,386)	(440)	49	(6,777)
26	**Net Operating Income (L23-L24-L25)**	(51,886)	(3,572)	399	(55,059)
..ner					
27	Nonoperating Income & Expense	0	0	0	0
28	Nonoperating Income Tax	0	0	0	0
29	Net Operating Earnings (L26-L27-L28)	(51,886)	(3,572)	399	(55,059)
30	Interest Expense	0	0	0	0
31	Juris Diff & Nonreg Net Income	0	0	0	0
32	Extraordinary Items	0	0	0	0
33	**Net Income (L29-L30-L31-L32)**	(51,886)	(3,572)	399	(55,059)

U S WEST
Arizona Intrastate Operations
Three Year Revenue Requirement Adjustment
Depreciation Reserve Deficiency Amortization
Test Year Ending June 30, 1998
$(000)

Operating Revenues	0
Operating Expenses	86,210
Total Operating Income Taxes	(34,324)
Net Operating Income	(51,886)
Rate Base	(51,886)
Revenue Requirement	77,840

This adjustment reflects a 3 year
reserve deficiency amortization.

U S WEST
Arizona Intrastate Operations
Three Year Revenue Requirement Adjustments
Test Year Ending June 30, 1998
Year 2000 Costs
$(000)

Operating Revenues	0
Operating Expenses	5,935
Total Operating Income Taxes	(2,363)
Net Operating Income	(3,572)
Rate Base	777
Revenue Requirement	6,144

The Company has incurred and expects to incur software costs and to install additional computer hardware to meet the requirements of the Year 2000. This adjustment amortizes those costs over a 3 year period.

U S WEST
Arizona Intrastate Operations
Three Year Revenue Requirement Adjustment
Gain from Bellcore Sale
Test Year Ending June 30, 1998
$(000)

Operating Expenses	(663)
Total Operating Income Taxes	264
Net Operating Income	399
Rate Base	0
Revenue Requirement	(671)

In Decision 60382 Docket No. (E-1051-97-139) the Arizona Corporation Commission approved U S WEST's sale of its share in Bellcore. The Commission also deferred ratemaking treatment to the next general rate case. Consistent with that order, U S WEST proposes that 50% of the intrastate gain on the sale be amortized to the ratepayers over three years. This adjustment accounts for that proposed treatment.

U S WEST
Arizona Intrastate Operations
Accounting Adjustments Not Included Summary
Test Year Ending June 30, 1998
$(000)

		Compensated Absence Dropoff	Merit Award	Medical Dental Accrual Dropoff	Expense Limit Change	Remove Out of Period Revenue
Revenues						
1	Local Service Revenues					(2,150)
2	Network Access Service Revenues					
3	Long Distance Network Service Rev.					
4	Miscellaneous					
5	Total Oper. Rev. (L1 thru L4)	0	0	0	0	(2,150)
Expenses						
6	Maintenance					
7	Engineering Expense					
8	Network Operations					
9	Network Administration					
10	Access Expense					
11	Other					
12	Total Cost of Services & Products(L6 thru L11)	0	0	0	0	0
13	Customer Operations					
14	Corporate Operations	(791)	(398)	(102)	0	
15	Property & Other Taxes					(2)
16	Uncollectibles					(22)
17	Tot Selling, General & Admin.(L13 thru L16)	(791)	(398)	(102)	0	(24)
18	Other Operating Income & Expense					
19	Depreciation Expense				353	
20	Universal Service Fund					
21	Link Up America					
22	Total Operating Expense(L12+L17 thru L21)	(791)	(398)	(102)	353	(24)
23	Income From Operations (L5-L22)	791	398	102	(353)	(2,126)
Taxes						
24	Federal Income Tax	256	151	27	(114)	(689)
25	State & Local Income Tax	59	25	3	(26)	(157)
26	**Net Operating Income (L23-L24-L25)**	476	222	72	(213)	(1,280)
Other						
27	Nonoperating Income & Expense					
28	Nonoperating Income Tax					
29	Net Operating Earnings (L26-L27-L28)	476	222	72	(213)	(1,280)
30	Interest Expense					
31	Juris Diff & Nonreg Net Income					
32	Extraordinary Items					
33	**Net Income (L29-L30-L31-L32)**	476	222	72	(213)	(1,280)

U S WEST
Arizona Intrastate Operations
Accounting Adjustments Not Included Summary
Test Year Ending June 30, 1998
$(000)

		Directory Surcharge Adjustment	Telephone Assistance Plan Adjustment	Property Tax Adjustment	Affiliated Interest Billing True-Up	FICA & Savings Plan Contributions
·venues						
1	Local Service Revenues	(13,844)	(1,354)			
2	Network Access Service Revenues					
3	Long Distance Network Service Rev.					
4	Miscellaneous					
5	Total Oper. Rev. (L1 thru L4)	(13,844)	(1,354)	0	0	0
Expenses						
6	Maintenance					(306)
7	Engineering Expense					(14)
8	Network Operations					(52)
9	Network Administration				(72)	(4)
10	Access Expense					0
11	Other					(3)
12	Total Cost of Services & Products(L6 thru L11)	0	0	0	(72)	(379)
13	Customer Operations				(685)	(211)
14	Corporate Operations	0			1,339	(80)
15	Property & Other Taxes	(16)	(2)	1,516		
16	Uncollectibles	(143)	(14)			
17	Tot Selling, General & Admin.(L13 thru L16)	(159)	(16)	1,516	654	(291)
18	Other Operating Income & Expense					
19	Depreciation Expense					
20	Universal Service Fund					
21	Link Up America					
22	Total Operating Expense(L12+L17 thru L21)	(159)	(16)	1,516	582	(670)
23	Income From Operations (L5-L22)	(13,685)	(1,338)	(1,516)	(582)	670
Taxes						
24	Federal Income Tax	(4,435)	(434)	(491)	(189)	217
25	State & Local Income Tax	(1,014)	(99)	(112)	(43)	50
26	**Net Operating Income (L23-L24-L25)**	(8,236)	(805)	(913)	(350)	403
^ther						
27	Nonoperating Income & Expense					
28	Nonoperating Income Tax					
29	Net Operating Earnings (L26-L27-L28)	(8,236)	(805)	(913)	(350)	403
30	Interest Expense					
31	Juris Diff & Nonreg Net Income					
32	Extraordinary Items					
33	**Net Income (L29-L30-L31-L32)**	(8,236)	(805)	(913)	(350)	403

U S WEST
Arizona Intrastate Operations
Accounting Adjustments Not Included Summary
Test Year Ending June 30, 1998
$(000)

		Pension Plan Contributions	Toll Revenue Billing True-Up	Remove Test Period Year 2000 Costs	Remove Test Period Accounting Adjustments AA-01 - AA-13	Total
Revenues						
1	Local Service Revenues				17,348	0
2	Network Access Service Revenues				0	0
3	Long Distance Network Service Rev.		(1,593)		1,593	0
4	Miscellaneous				0	0
5	Total Oper. Rev. (L1 thru L4)	0	(1,593)	0	18,941	0
Expenses					0	0
6	Maintenance	120			186	0
7	Engineering Expense	6			8	0
8	Network Operations	20			32	0
9	Network Administration	1			75	0
10	Access Expense	0			0	0
11	Other	1			2	0
12	Total Cost of Services & Products(L6 thru L11)	148	0	0	303	0
13	Customer Operations	83			813	0
14	Corporate Operations	32		(3,864)	3,864	0
15	Property & Other Taxes		(2)		(1,494)	0
16	Uncollectibles		(16)		195	0
17	Tot Selling, General & Admin.(L13 thru L16)	115	(18)	(3,864)	3,378	0
18	Other Operating Income & Expense				0	0
19	Depreciation Expense			(670)	317	0
20	Universal Service Fund				0	0
21	Link Up America				0	0
22	Total Operating Expense(L12+L17 thru L21)	263	(18)	(4,534)	3,998	0
23	Income From Operations (L5-L22)	(263)	(1,575)	4,534	14,943	0
Taxes					0	0
24	Federal Income Tax	(85)	(510)	1,469	4,827	0
25	State & Local Income Tax	(19)	(117)	336	1,114	0
26	**Net Operating Income (L23-L24-L25)**	(159)	(948)	2,729	9,002	0
Other					0	0
27	Nonoperating Income & Expense				0	0
28	Nonoperating Income Tax				0	0
29	Net Operating Earnings (L26-L27-L28)	(159)	(948)	2,729	9,002	0
30	Interest Expense				0	0
31	Juris Diff & Nonreg Net Income				0	0
32	Extraordinary Items				0	0
33	**Net Income (L29-L30-L31-L32)**	(159)	(948)	2,729	9,002	0

U S WEST
Arizona Intrastate Operations
Accounting Adjustment Not Included
Compensated Absence Dropoff
Test Year Ending June 30, 1998
$(000)

Operating Revenues	0
Operating Expenses	(791)
Total Operating Income Taxes	315
Net Operating Income	476
Rate Base	0
Revenue Requirement	(800)

Accrual Accounting was adopted in accordance with SFAS 43 for compensated absences to amortize unaccrued absence on a straight line basis over a 10 year period beginning on January 1, 1988 and ending on December 31, 1997. This adjustment removes July through December 1997 amounts from the test period.

U S WEST
Arizona Intrastate Operations
Accounting Adjustment Not Included
Merit Award
Test Year Ending June 30, 1998
$(000)

Operating Revenues	0
Operating Expenses	(398)
Total Operating Income Taxes	176
Net Operating Income	222
Rate Base	0
Revenue Requirement	(373)

Accrual accounting was adopted for merit awards to be amortized over a ten year period beginning on January 1, 1988 ending on December 31, 1997. This adjustment removes the July through December 1997 amounts from the test period.

U S WEST
Arizona Intrastate Operations
Accounting Adjustment Not Included
Medical Dental Accrual Dropoff
Test Year Ending June 30, 1998
$(000)

Operating Revenues	0
Operating Expenses	(102)
Total Operating Income Taxes	30
Net Operating Income	72
Rate Base	0
Revenue Requirement	(121)

Accrual accounting was adopted for medical and dental expenses to be amortized over a ten year period beginning on January 1, 1988 ending on December 31, 1997. This adjustment removes the July through December 1997 amounts from the test period.

U S WEST
Arizona Intrastate Operations
Accounting Adjustment Not Included
Expense Limit Change
Test Year Ending June 30, 1998
$(000)

Operating Revenues	0
Operating Expenses	353
Total Operating Income Taxes	(140)
Net Operating Income	(213)
Rate Base	0
Revenue Requirement	358

FCC Order 78-196 authorized a change in capitalization rules, and a 10 year amortization for assets whose initial value was between $200 and $500. The amortization period ran from January 1988 through December 1997. This adjustment removes from the test period the final six months of expenses related to this order. FCC Order 95-60 authorized a change in capitalization rules for assets whose value was between $500 and $2000 effective January 1, 1998. This adjustment brings the test year to 1998 levels.

U S WEST
Arizona Intrastate Operations
Accounting Adjustment Not Included
Remove Out of Period Revenue
Test Year Ending June 30, 1998
$(000)

Operating Revenues	(2,150)
Operating Expenses	(24)
Total Operating Income Taxes	(846)
Net Operating Income	(1,280)
Rate Base	0
Revenue Requirement	2,151

This adjustment removes out of period revenue from the test period.

U S WEST
Arizona Intrastate Operations
Accounting Adjustment Not Included
Directory Surcharge Adjustment
Test Year Ending June 30, 1998
$(000)

Operating Revenues	(13,844)
Operating Expenses	(159)
Total Operating Income Taxes	(5,449)
Net Operating Income	(8,236)
Rate Base	0
Revenue Requirement	13,843

In Decision 60381, the Arizona Corporation Commission allowed US WEST to implement a surcharge to recover $34M plus interest related to a directory imputation. In US WEST's last rate case, this was found to be inappropriate by the Arizona Court of Appeals.

U S WEST
Arizona Intrastate Operations
Accounting Adjustment Not Included
Telephone Assistance Plan Adjustment
Test Year Ending June 30, 1998
$(000)

Operating Revenues	(1,354)
Operating Expenses	(16)
Total Operating Income Taxes	(533)
Net Operating Income	(805)
Rate Base	0
Revenue Requirement	1,353

In February 1998 an amount was booked for the Telephone Assistance Program that relates to a prior period. This adjustment removes the out of period amount from the test year.

U S WEST
Arizona Intrastate Operations
Accounting Adjustment Not Included
Out of Period Property & Other Taxes
Test Year Ending June 30, 1998
$(000)

Operating Revenues	0
Operating Expenses	1,515
Total Operating Income Taxes	(603)
Net Operating Income	(913)
Rate Base	0
Revenue Requirement	1,535

This adjustment removes out of period property and other taxes from the test period.

U S WEST
Arizona Intrastate Operations
Accounting Adjustment Not Included
Affiliated Interest True-Up
Test Year Ending June 30, 1998
$(000)

Operating Revenues	0
Operating Expenses	582
Total Operating Income Taxes	(232)
Net Operating Income	(350)
Rate Base	0
Revenue Requirement	588

This adjustment reflects billing true-ups for U S WEST affiliates that should have been recorded in the test period.

U S WEST
Arizona Intrastate Operations
Accounting Adjustment Not Included
FICA & Savings Plan Contributions
Test Year Ending June 30, 1998
$(000)

Operating Revenues	0
Operating Expenses	(670)
Total Operating Income Taxes	267
Net Operating Income	403
Rate Base	0
Revenue Requirement	(677)

The Company recorded payroll tax and savings plan contributions in February 1998 relating to the calendar year 1997 Annual Bonus Plan payout made in that month. This adjustment removes January through June 1997 amounts from the total and the test period.

U S WEST
Arizona Intrastate Operations
Accounting Adjustment Not Included
Pension Plan Contributions
Test Year Ending June 30, 1998
$(000)

Operating Revenues	0
Operating Expenses	263
Total Operating Income Taxes	(104)
Net Operating Income	(159)
Rate Base	0
Revenue Requirement	267

The Company recorded pension plan true-ups in December 1997 related to the entire calendar year 1997. This adjustment removes January through June 1997 amounts from the total and test period.

U S WEST
Arizona Intrastate Operations
Accounting Adjustment Not Included
Toll Revenue Billing True-Up
Test Year Ending June 30, 1998
$(000)

Operating Revenues	(1,593)
Operating Expenses	(18)
Total Operating Income Taxes	(627)
Net Operating Income	(948)
Rate Base	0
Revenue Requirement	1,593

This adjustment reflects a billing true-up for Toll Revenue booked in November 1998 that should have been recorded in the test year.

U S WEST
Arizona Intrastate Operations
Accounting Adjustment Not Included
Test Year Ending June 30, 1998
Remove Test Period Year 2000 Costs
$(000)

Operating Revenues	0
Operating Expenses	(4,534)
Total Operating Income Taxes	1,805
Net Operating Income	2,729
Rate Base	0
Revenue Requirement	(4,587)

The Company has incurred software costs and costs to install additional computer hardware to meet the requirements of the Year 2000. This adjustment removes those costs from the test period because it will not be a recurring expense.

U S WEST
Arizona Intrastate Operations
Accounting Adjustment Not Included
Remove Test Period Accounting Adjustments
Test Year Ending June 30, 1998
$(000)

Operating Revenues	18,941
Operating Expenses	3,998
Total Operating Income Taxes	5,941
Net Operating Income	9,002
Rate Base	0
Revenue Requirement	(15,130)

This adjustment removes test period accounting adjustments not included as a result of the end of period annualization adjustment.

U S WEST
Arizona Intrastate Operations
Proforma Adjustments Not Included Summary
Test Year Ending June 30, 1998
$(000)

		Test Period Wage Increase	State Tax Rate Change	Remove Test Period Proforma Adjustments	Total
Revenues					
1	Local Service Revenues			-	-
2	Network Access Service Revenues			-	-
3	Long Distance Network Service Rev.			-	-
4	Miscellaneous			-	-
5	Total Oper. Rev. (L1 thru L4)	0	0	-	-
Expenses					
6	Maintenance	2,206		(2,206)	-
7	Engineering Expense	97		(97)	-
8	Network Operations	358		(358)	-
9	Network Administration	28		(28)	-
10	Access Expense			0	-
11	Other	44		(44)	-
12	Total Cost of Services & Products(L6 thru L11)	2,733	0	(2,733)	-
13	Customer Operations	1,555		(1,555)	-
14	Corporate Operations	652		(652)	-
15	Property & Other Taxes			0	-
16	Uncollectibles			0	-
17	Tot Selling, General & Admin.(L13 thru L16)	2,207	0	(2,207)	-
18	Other Operating Income & Expense			0	-
19	Depreciation Expense			0	-
20	Universal Service Fund			0	-
21	Link Up America			0	-
22	Total Operating Expense(L12+L17 thru L21)	4,940	0	(4,940)	-
23	Income From Operations (L5-L22)	(4,940)	0	4,940	-
Taxes					
24	Federal Income Tax	(1,601)	240	1,361	(0)
25	State & Local Income Tax	(366)	(679)	1,045	(0)
26	**Net Operating Income (L23-L24-L25)**	(2,973)	439	2,534	0
Other					-
27	Nonoperating Income & Expense			0	-
28	Nonoperating Income Tax			0	-
29	Net Operating Earnings (L26-L27-L28)	(2,973)	439	2,534	0
30	Interest Expense			0	-
31	Juris Diff & Nonreg Net Income			0	-
32	Extraordinary Items			0	-
33	**Net Income (L29-L30-L31-L32)**	(2,973)	439	2,534	0

U S WEST
Arizona Intrastate Operations
Proforma Adjustment Not Included
Test Period Wage Proforma
Test Year Ending June 30, 1998
$(000)

Operating Revenues	0
Operating Expenses	4,940
Total Operating Income Taxes	(1,967)
Net Operating Income	(2,973)
Rate Base	0
Revenue Requirement	4,997

On January 1, 1998 occupational employees received a wage and salary increase. On March 1, 1998 management employees received a wage and salary increase. This adjustment annualizes the impacts of those increases.

U S WEST
Arizona Intrastate Operations
Proforma Adjustment Not Included
State Tax Rate Change
Test Year Ending June 30, 1998
$(000)

Operating Revenues	0
Operating Expenses	0
Total Operating Income Taxes	(439)
Net Operating Income	439
Rate Base	0
Revenue Requirement	(738)

This adjustment reflects the state tax rate change from 9 percent to 8 percent effective January 1, 1998.

U S WEST
Arizona Intrastate Operations
Proforma Adjustment Not Included
Remove Test Period Proforma Adjustments
Test Year Ending June 30, 1998
$(000)

Operating Revenues	0
Operating Expenses	(4,940)
Total Operating Income Taxes	2,406
Net Operating Income	2,534
Rate Base	0
Revenue Requirement	(4,259)

This adjustment removes the test period proforma adjustments not included as a result of the end of period annualization adjustment.

RESULTS OF USWC PRODUCTIVITY STUDY
BASED ON ARIZONA INTRASTATE FINANCIAL DATA

	1988	1989	1990	1991	1992	1993
Annual Growth in Outputs (Revenues)	Base	3.4%	0.9%	-0.5%	1.8%	3.9%
Annual Growth in Inputs (Expenses)	Year	5.8%	-0.8%	5.9%	4.6%	3.4%
Annual Productivity	Data	-2.4%	1.7%	-6.4%	-2.8%	0.5%

	1994	1995	1996	1997	1998
	7.3%	6.9%	8.6%	5.4%	3.5%
Annual Growth in Outputs (Revenues)	4.6%	2.5%	4.1%	1.1%	1.9%
Annual Growth in Inputs (Expenses)	2.7%	4.4%	4.5%	4.3%	1.6%
Annual Productivity					

Average Productivity from 1988 - 1998 0.80%

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN	)	DOCKET NO. AFFIDAVIT OF GEORGE REDDING
STATE OF COLORADO	)	
COUNTY OF DENVER	)	
	) :)	SS

George Redding, of lawful age being first duly sworn, deposes and states:

1. My name is George Redding. I am Director – Regulatory Accounting of U S WEST Communications in Denver, Colorado.

2. Attached hereto and made a part hereof for all purposes is my testimony.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

George Redding

SUBSCRIBED AND SWORN to before me this 5TH day of JANUARY, 1999.

Notary Public

My Commission Expires:

10/28/1999

BEFORE THE ARIZONA CORPORATION COMMISSION

EXHIBIT
Q-10
Admitted

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN	)	DOCKET NO. _____

TESTIMONY OF

NANCY HELLER HUGHES

U S WEST COMMUNICATIONS

JANUARY 8, 1999

TESTIMONY INDEX OF

NANCY HELLER HUGHES

	Page
Executive Summary	i
Identification of Witness	1
Qualifications	1
Assignment	3
Methodology	3
Analysis	5
Conclusion	8
Exhibits	
Record of Testimony	NHH-1
Report Titled "Reproduction Cost New Less Depreciation Study of the Properties of U S WEST Communications Located in the State of Arizona, As of June 30, 1998"	NHH-2
Witness Qualification Statement	NHH-3

EXECUTIVE SUMMARY

1. CURRENT RESPONSIBILITIES

Ms. Hughes is an Executive Consultant in the Seattle office of R. W. Beck, Inc. She is also an Accredited Senior Appraiser (ASA) in Public Utilities certified by the American Society of Appraisers. At R. W. Beck, Ms. Hughes is responsible for managing projects and performing studies involving utility rates and regulation, cost of service, depreciation and valuation.

2. PURPOSE OF TESTIMONY

Ms. Hughes' testimony presents the results of a study conducted by R. W. Beck to determine the estimated Reproduction Cost New Less Depreciation (RCNLD) of the Arizona plant in service of U S WEST Communications, Inc. (U S WEST) as of June 30, 1998.

3. SUMMARY OF TESTIMONY

The estimated RCNLD was developed using the same methodology used in previous RCNLD studies for U S WEST or its predecessor, Mountain States Telephone and Telegraph Company, which were accepted with approval by the Arizona Corporation Commission (ACC). The original cost of the property, by account and year of installation, was indexed to current cost using the U S WEST Telephone Plant Index prepared by Joel Popkin and Associates. This index represents the change in price levels from the date of investment to the date of valuation. Depreciation was deducted based upon estimates of life expectancy incorporated in U S WEST's proposed depreciation rates.

The total estimated reproduction cost new and reproduction cost new less depreciation value of the Arizona plant in service of U S WEST as of June 30, 1998 is shown below.

Reproduction Cost New	$5,896,742,092
Reproduction Cost New Less Depreciation	$3,064,125,056
Condition Percent	52%

IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Nancy Heller Hughes. I am an Executive Consultant in the Seattle office of R. W. Beck, Inc.. My business address is 1001 Fourth Avenue, Suite 2500, Seattle, Washington 98154-1004.

QUALIFICATIONS

Q. PLEASE OUTLINE YOUR EDUCATIONAL BACKGROUND.

A. I graduated from the University of Chicago with a Bachelor's Degree in Business and Statistics in 1977. I received a Master's Degree in Business Administration at the University of Chicago in 1978. In addition, I have completed a series of depreciation courses taught by Depreciation Programs, Inc., Kalamazoo, Michigan.

Q. PLEASE SUMMARIZE YOUR PROFESSIONAL EXPERIENCE.

A. I have worked as a consultant in the utilities industry for over twenty years specializing in utility rates and regulation. From 1977 to 1982, I was employed by Ernst and Whinney (now Ernst and Young) in Tacoma, Washington, as a management consultant in their telecommunications group. At Ernst and Whinney, I was responsible for the supervision and preparation of revenue requirement and rate design studies for telephone companies. I was also involved in numerous proceedings before the Federal Communications Commission (FCC), including Federal-State Joint Board proceedings examining jurisdictional cost separations procedures. This work involved the preparation of comments, briefs, and testimony on behalf of independent telephone companies and other common carriers.

In 1982, I joined R. W. Beck where I am responsible for conducting and analyzing revenue requirement, cost of service, and rate design studies for electric, gas, telephone, water, and solid waste utilities. A substantial part of my work involves depreciation and valuation issues. I have performed valuation and appraisal studies to determine the value of a wide range of utility property including electric, water, telephone, railroad, and solid waste landfill property. These studies have been performed in connection with the sale and acquisition of property, eminent domain cases, property tax issues, and utility rate cases. I have conducted analyses to determine the Original Cost Less Depreciation (OCLD) and Reproduction Cost New Less Depreciation (RCNLD) value of utility property, and determined the value of property based on the estimated future earning power of the property.

Q. ARE YOU A MEMBER OF ANY PROFESSIONAL SOCIETIES?

A. Yes. I am an Accredited Senior Appraiser (ASA) in Public Utilities certified by the American Society of Appraisers.

Q. HAVE YOU TESTIFIED AS AN EXPERT WITNESS REGARDING UTILITY REVENUE REQUIREMENTS, RATES AND OTHER REGULATORY MATTERS?

A. Yes. I have testified as an expert witness before federal and state regulatory agencies, city councils, and courts of law. A record of my testimony is provided in Exhibit NHH-1 to my testimony.

Q. HAVE YOU TESTIFIED BEFORE THE ARIZONA CORPORATION COMMISSION (ACC) IN PRIOR UTILITY RATE PROCEEDINGS?

A. Yes. I testified on behalf of U S WEST Communications, Inc. (U S WEST) in Docket Nos. E-1051-91-004 and E-1051-93-183 regarding the RCNLD value of its Arizona properties.

Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS PROCEEDING?

A. I am testifying on behalf of U S WEST.

ASSIGNMENT

Q. WHAT WAS YOUR ASSIGNMENT BY THE COMPANY IN THIS CASE?

A. R. W. Beck was requested by U S WEST to perform a study to estimate the RCNLD of its total plant in service located in the State of Arizona as of June 30, 1998. My testimony presents the results of that study.

Q. IS A COPY OF YOUR STUDY PROVIDED WITH YOUR TESTIMONY?

A. Yes. A copy of the study entitled "Reproduction Cost New Less Depreciation Study of the Properties of U S WEST Communications Located in the State of Arizona as of June 30, 1998" is provided in Exhibit NHH-2.

METHODOLOGY

Q. PLEASE DEFINE REPRODUCTION COST NEW LESS DEPRECIATION.

A. Reproduction cost new less depreciation (RCNLD) is defined as the cost of constructing an exact replica of the property at current price with the same or closely related materials, less accrued depreciation.

Q. WHAT GENERAL PROCEDURE DID YOU USE TO ESTIMATE THE RCNLD OF U S WEST'S ARIZONA PROPERTIES?

A. The trended original cost approach was used to estimate the RCNLD of U S WEST's Arizona properties. Under this approach, the original cost of the property, by account and year of installation, was indexed to current cost using a cost index that represents the change in price levels from the date of investment to the date of valuation. The trended costs are equal to the estimated reproduction cost new (RCN) of the property. The estimated RCNLD was then determined by subtracting an amount representing the accrued depreciation from the estimated RCN. The amount of accrued depreciation was developed based on the life expectancies and mortality characteristics reflected in U S WEST's proposed depreciation rates.

Q. HAS THE ACC APPROVED PREVIOUS VALUATION STUDIES PREPARED BY R. W. BECK ON BEHALF OF U S WEST?

A. Yes. The ACC has accepted the results of previous RCNLD valuation studies which R. W. Beck has prepared in connection with U S WEST rate filings, including RCNLD studies filed in U S WEST's last two rate cases.

Q. IN DETERMINING THE ESTIMATED RCNLD FOR THIS CASE, DID YOU USE THE SAME METHODOLOGY AS WAS USED IN PREVIOUS VALUATION STUDIES OF U S WEST PROPERTY?

A. Yes. The estimated RCNLD as of June 30, 1998 was developed using the same basic procedure and data that was used in previous RCNLD studies performed for U S WEST. The RCNLD study was performed using a computer model that R. W. Beck originally developed

on behalf of the ACC in connection with a Mountain Bell rate case in 1971. In subsequent rate cases, Mountain Bell or U S WEST has retained R. W. Beck to determine the estimated RCNLD of its Arizona properties using the same methodology approved by the ACC.

ANALYSIS

Q. PLEASE DESCRIBE EXHIBIT NHH-2.

A. Exhibit NHH-2 is a copy of the final report prepared by R. W. Beck presenting the results of the RCNLD study of U S WEST's Arizona properties. The report provides a step-by-step description of the analyses performed, describes the source of data used in the analyses, and presents our opinion as to the RCN and RCNLD value of the properties. A detailed summary of the RCN and RCNLD value by plant account is provided in Table 1 of the report. The detailed output from the computer model is provided in Appendix A of the report.

Q. WHAT IS THE SOURCE OF THE ORIGINAL COST DATA USED IN THE RCNLD STUDY?

A. Vintaged plant data, i.e., the original cost of the property by year of installation, is needed when using the trended original cost approach to determine the RCN of the property. Vintaged original cost data for each plant account as of December 31, 1997 was available from U S WEST's Generation Arrangement Data File for Arizona. This data is used to support the depreciation rates prescribed by the ACC. The total original cost as of December 31, 1997 for each account is equal to the plant investment shown on U S WEST's MR2 financial report for Arizona.

To determine the original cost by vintage as of June 30, 1998, we relied on data from U S WEST's MR2 monthly financial report for Arizona. This report shows the additions, retirements, and reclassifications of plant by account that occurred during the first six months of 1998. However, it does not indicate the year for any retirements or reclassifications of plant. By definition, the vintage year for all additions on the MR2 is 1998, the year of placement. The age of plant that was retired during 1998 was determined based on the survivor curve and average service life for each account. Reclassifications during 1998 were distributed by vintage on the basis of the original cost data as of December 31, 1997. The vintaged data for the first six months of 1998 was then added to the vintaged plant data as of December 31, 1997. The total original cost as of June 30, 1998 for each account is equal to the plant investment shown on U S WEST's MR2 financial report for Arizona.

Q. WHAT COST INDICES WERE USED TO TREND THE ORIGINAL COST DATA TO REFLECT CURRENT COST?

A. The original cost of the property, by account and year of installation, was indexed to current cost using the U S WEST Telephone Plant Index (TPI) prepared by Joel Popkin and Associates, economic consultants. This index shows the change in cost over time for various types of telephone plant and equipment. A copy of the TPIs used in the study is provided in Appendix B of Exhibit NHH-2.

Q. HOW DID YOU DETERMINE THE AMOUNT OF DEPRECIATION RESERVE TO DEDUCT FROM THE RCN OF THE PROPERTY?

A. The amount of depreciation reserve to be deducted from the RCN was determined by applying a factor known as the "condition percent." The condition percent is defined as the ratio of the present depreciable value to the depreciable value of the plant when new. Thus, the condition percent when multiplied by the RCN gives the RCN less depreciation (i.e., RCNLD), whereupon the dollar amount of the depreciation reserve may be derived, if desired. A more detailed description of how the condition percent was determined is provided in Exhibit NHH-2.

The use of the condition percent is based on the principle that the value of a piece of property, as affected by all the physical and functional conditions that will ultimately force its retirement from service, depends upon the number of years it can reasonably be expected to give service in the future. To illustrate, if the life expectancy of an existing item of property is estimated to be 15 years but a consistent estimate of its life expectancy if it were new is 20 years, then the remaining service to be expected from the property is 15/20 or 75% of the service to be expected from a new item. On this basis, the present condition percent is 75%.

Q. HOW DID YOU DETERMINE THE LIFE EXPECTANCIES OF THE PLANT IN EACH ACCOUNT?

A. The life expectancies for each plant account were determined based on the survivor curves and average service lives incorporated in U S WEST's proposed depreciation rates for Arizona. A copy of the depreciation parameters used in the study is provided in Appendix C of Exhibit NHH-2. A survivor curve shows the percentage of each vintage, or group of plant placed in service during a single year, which is still surviving in service at a given age. Once the survivor curve is defined, the computer model calculates the life expectancies of the plant

when new and at the date of valuation. The condition percent is then equal to the life expectancy of the plant at the date of valuation divided by the life expectancy of the plant when new.

CONCLUSION

Q. WHAT IS THE RCN AND RCNLD VALUE OF THE ARIZONA PROPERTIES OF U S WEST?

A. Based on the results of our study as described in this testimony and the study report provided in Exhibit NHH-2, the total estimated RCN and RCNLD value of the Arizona plant in service of U S WEST as of June 30, 1998 is shown below:

Reproduction Cost New	$5,896,742,092
Reproduction Cost New Less Depreciation	$3,064,125,056
Condition Percent	52%

Q. HAVE YOU INCLUDED THE DETAILED CALCULATIONS SUPPORTING THIS DETERMINATION OF VALUE?

A. Yes. The detailed calculations supporting our determination of the RCN and RCNLD value are provided in Exhibit NHH-2.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN	))))))))))	DOCKET NO. _____

EXHIBITS OF

NANCY HELLER HUGHES

U S WEST COMMUNICATIONS

JANUARY 8, 1999

INDEX OF EXHIBITS OF

NANCY HELLER HUGHES

DESCRIPTION	EXHIBIT
Record of Testimony Submitted by Nancy Heller Hughes	NHH-1
Report titled "Reproduction Cost New Less Depreciation Study of the Properties of U S WEST Communications Located in the State of Arizona as of June 30, 1998"	NHH-2
Witness Qualification Statement	NHH-3

Record of Testimony
Submitted by
Nancy Heller Hughes

Utility	Proceeding	Subject of Testimony	Before	Client	Date
1. Anchorage Telephone Utility	Docket U-80-42	Access Charge Cost of Service and Rate Design	Alaska Public Utilities Commission	Municipality of Anchorage	3-81
2. Washington Natural Gas Company	Cause No. U-84-60	Revenue Attrition	Washington Utilities and Transportation Commission	Commission Staff	12-84
3. El Paso Electric Company	Docket No. ER86-368	Depreciation	Federal Energy Regulatory Commission	Imperial Irrigation District	8-86
4. System Energy Resources, Inc.	Docket No. ER82-616-030	Depreciation	Federal Energy Regulatory Commission	City Council of New Orleans	3-87
5. Sierra Pacific Power Company	Docket No. 86-557	Depreciation	Public Service Commission of Nevada	Commission Staff	3-87
6. Duke Power Company	First Proceeding in Arbitration	Depreciation, Purchased Capacity Rate	Mecklenberg County, North Carolina	North Carolina Municipal Power Agency No. 1, et al	11-87 2-88
7. Louisiana Power & Light Company	Docket No. CD-86-11	Depreciation	City Council of New Orleans	City Council of New Orleans	12-87 3-88
8. United Cities Gas Company	Docket No. 3799-U	Rate of Return and Capital Structure, Rate Design	Georgia Public Service Commission	U.S. Department of Defense	10-88
9. Alascom, Inc.	Docket No. U-87-25	Cost Allocation and Rate Design	Alaska Public Utilities Commission	U.S. Department of Defense	11-88
10. System Energy Resources, Inc.	Docket No. ER89-678	Decommissioning	Federal Energy Regulatory Commission	City of New Orleans	11-90 1-91
11. U S WEST Communications, Inc.	Docket No. E-1051-91-004	Reproduction Cost New Less Depreciation Study	Arizona Corporation Commission	U S WEST Communications, Inc.	1-91
12. El Paso Electric Company	Docket No. 9945	Cost Allocation and Rate Design	Public Utilities Commission of Texas	U.S. Department of Defense	5-91

Utility	Proceeding	Subject of Testimony	Before	Client	Date
13. Georgia Power Company	Docket No. 4007-U	Depreciation, Decommissioning, Cost Allocation and Rate Design	Georgia Public Service Commission	U.S. Department of Defense	8-91
14. Pacific Gas and Electric Company	Case No. 393325-6	Street Light Condemnation	Superior Court of the State of California, County of Fresno	City of Fresno, California	9-91
15. Pacific Gas and Electric Company	Case No. 213069	Street Light Condemnation	Superior Court of the State of California, County of Kern	City of Bakersfield, California	3-92
16. Washington Natural Gas Company	Docket No. UG-920840	Revenue Attrition	Washington Utilities and Transportation Commission	Commission Staff	4-93
17. Jess Ranch Water Company	Application 92-01-034	Certificate of Public Convenience and Necessity	California Public Utilities Commission	Town of Apple Valley, California	4-93
18. U S WEST Communications, Inc.	Docket No. E-1051-93-183	Reproduction Cost New Less Depreciation Study	Arizona Corporation Commission	U S WEST Communications, Inc.	7-93
19. Chugach Electric Association	Docket No. U-93-15	Depreciation	Alaska Public Utilities Commission	Homer Electric Assn., Matanuska Electric Assn., and Alaska Electric Generation & Transmission Cooperative	8-93
20. Waste Management of Arkansas, Inc.	Case No. 93-0234	Landfill Condemnation	Circuit Court of Pulaski County, Arkansas	Arkansas State Highway Department	8-94
21. Southern California Edison	Case No. BC 093 146	Condemnation of Electric Distribution Plant	Superior Court of the State of California, County of Los Angeles	City of Azusa, California	2-95
22. Municipal Electric Authority of Georgia	Docket No. 7967-U	Authority to Provide Telecommunications Services	Public Service Commission State of Georgia	Municipal Electric Association of Georgia	11-97
23. Chugach Electric Association, Inc.	Docket No. U-97-107	Depreciation	Alaska Public Utilities Commission	Alaska Electric Generation & Transmission Cooperative	11-97

REPRODUCTION COST NEW LESS DEPRECIATION STUDY

Of the Properties of U S WEST COMMUNICATIONS Located in the State of Arizona

As of June 30, 1998

R·W·BECK

REPRODUCTION COST NEW LESS DEPRECIATION STUDY OF THE PROPERTIES OF U S WEST COMMUNICATIONS LOCATED IN THE STATE OF ARIZONA

AS OF JUNE 30, 1998

INTRODUCTION

The Arizona Corporation Commission requires a utility to provide a calculation of its fair value rate base whenever it makes a rate filing. In past rate cases, the Arizona Corporation Commission has determined that the fair value of the plant investment included in rate base shall be equal to the average of the original cost less accrued depreciation and the reproduction cost new less depreciation (RCNLD) of the property in service. RCNLD is defined as the cost of constructing an exact replica of the property at current price with the same or closely related materials, less accrued depreciation. This report presents the results of our study to estimate the RCNLD of the Arizona plant in service of U S WEST Communications, Inc. (U S WEST) as of June 30, 1998.

The estimated RCNLD was developed using the same procedure, the trended original cost approach, that was used in previous RCNLD studies for U S WEST or its predecessor, Mountain States Telephone and Telegraph Company (Mountain Bell), which were accepted with approval by the Arizona Corporation Commission. Under this approach, the original cost of the property is indexed to current cost using a cost index that represents the change in price levels from the date of investment to the date of valuation. The amount of accumulated depreciation in the RCNLD study is computed based on the life expectancies and mortality characteristics used to calculate U S WEST's depreciation rates for each plant account.

ORIGINAL COST DATA

Original cost data as of December 31, 1997 by vintage for each plant account or sub-account was obtained from U S WEST's Generation Arrangement Data File for Arizona. This data is used to support the depreciation rates prescribed by the Arizona Corporation Commission. The original cost of the plant investment by year of placement is shown in Column B on the detailed output in Appendix A.

The total original cost as of June 30, 1998, shown in Column C on the output in Appendix A, was obtained from U S WEST's MR2A monthly financial report for Arizona. This report shows the additions, retirements, and reclassifications by plant sub-account that occurred during the first six months of 1998. However, it does not indicate the vintage for any retirements or reclassifications of plant. (The vintage year for all additions on the MR2A is 1998, the year of placement.) The age of plant that was retired during 1998 was estimated based on the survivor curve and average service life for each account. Reclassifications during 1998 were distributed on the basis of the original cost data by vintage shown in Column B for each account. The total original cost as of June 30, 1998 shown in Column C for each account is equal to the plant investment shown on U S WEST's MR2A financial report.

COST INDICES

The original cost of the property as of June 30, 1998 was indexed to current cost using the U S WEST Telephone Price Index (TPI) prepared by Joel Popkin and Company, economic consultants. This index shows the change in cost over time for various types of telephone plant and equipment. A copy of the TPIs used in the study is provided in Appendix B. The TPI for each plant account, by vintage, is also shown in Column D of the detailed output in Appendix B. These TPIs represent the average annual index for each year.

The cost indices in Column D were converted into translators in Column E by dividing the index at the date for which the RCN is desired, June 30, 1998, by the index for the year of placement. For example, on page 1 of Appendix A, which shows the calculation for motor vehicles – passenger cars, the index at June 30, 1998 is 116.7 while the index for the year 1984 is 92.0 This indicates, for example, that a car which cost $10,000 in 1984 would cost $12,680 on June 30, 1998, or (116.7 divided by 92.0) 1.268 times as much. This 1.268, which is shown in the line of Column E for 1984, is used to "translate" the dollars spent for a passenger car in 1984 into the cost of an equivalent passenger car at prices forecast to be in effect on June 30, 1998.

REPRODUCTION COST NEW

The reproduction cost new (RCN) of the plant investment shown in Column F of the detailed output was calculated by multiplying the original cost of the plant by vintage in Column C, by the corresponding translator in Column E. The average increase in cost for each account (RCN divided by original cost) is shown on the "total" line in Column E.

DEPRECIATION RESERVE

The amount of depreciation reserve to be deducted from the RCN was determined by applying a factor known as the "condition percent." The condition percent is defined as the ratio of the present depreciable value to the depreciable value of the plant when new. Thus, the condition percent when multiplied by the RCN gives the RCN less depreciation (RCNLD), whereupon the dollar amount of the depreciation reserve may be derived, if desired.

Mathematically, the condition percent is defined by the equation (N-X)/N, where N is equal to the probable average service life of the plant and X is equal to the age of the plant. Since by definition the probable average service life is equal to the age plus the life expectancy, the formula for determining the condition percent can be written as follows:

$$\text{Condition Percent} = \frac{\text{Life Expectancy at Age X}}{\text{Life Expectancy When New}}$$

The use of the condition percent is based on the principle that the value of a piece of property, as affected by all the physical and functional conditions that will ultimately force its retirement from service, depends upon the number of years it can reasonably be expected to give service in the future. To illustrate, if the life expectancy of an existing item of property is estimated to be 15 years but a consistent estimate of its life expectancy if it were new is 20 years, then the remaining service to be expected from the property is 15/20 or 75% of the service to be expected from a new item. On this basis, the present condition percent is 75%.

The calculation of the condition percent is shown in Columns G through J on the detailed output provided in Appendix A. Column G shows the average age of each plant vintage as of June 30, 1998. In calculating the average age, it was assumed that all plant was placed into service at the middle of the year. Thus, the average age of plant placed in service during 1978, for example, is equal to 20 years (June 30, 1998 minus June 30, 1978). Columns H and I show the estimated life expectancies for each vintage as estimated in the calculation of the prescribed depreciation rates. Column H shows the estimated life expectancy for new plant which is the reference point as new plant is, by definition, in 100% condition. Column I shows the estimated life expectancy for each plant vintage given its age as of June 30, 1998. The condition percent in Column J is equal to Column I divided by Column H.

The life expectancies shown in Columns H and I for each plant vintage were determined based on the survivor curves and average service lives proposed by U S WEST. A survivor curve shows the percentage of each vintage, or group of plant placed in service during a single year, which is still surviving in service at a given age. U S WEST uses Gompertz-Makeham type curves to describe the mortality characteristics of each plant account. With this type of curve, the specific shape of the curve is defined mathematically as a function of three factors, designated "C," "G," and "S" factors. The depreciation parameters used for each plant account are shown in Appendix C.

REPRODUCTION COST NEW LESS DEPRECIATION

The RCNLD value of the property shown in Column K for each account in Appendix A was calculated by applying the condition percent in Column J to the RCN value in Column F. The procedures described in this report were used in the computer model to determine the RCN and RCNLD, by plant account or sub-account, for all Arizona property of U S WEST for which vintage plant data was available. A summary of the output from the computer model is provided in Table 2 to this report.

The RCN value of land (Account 2111) and art works (Account 2122.2) was assumed to be equal to the original plant investment recorded on U S WEST's books as of June 30, 1998. TPIs were not available for these accounts and the nature of this plant does not lend itself to use of a trended cost approach. In addition, because land and art works are not depreciable plant accounts, there is no depreciation reserve. Thus, the RCNLD for land and art works is equal to the original cost of the plant.

Effective January 1, 1998, the Federal Communications Commission (FCC) raised the expense limit from $500 to $1000 for certain items of furniture and equipment required to be capitalized under the Uniform System of Accounts. The FCC also required companies to amortize the embedded net investment in this plant over a five-year period. In response to the FCC's order, U S WEST reclassified the net investment for embedded furniture, tools, and equipment into separate sub-accounts. The RCN for these embedded plant accounts were estimated based on the average telephone plant translator for plant installed in 1998 and prior years in the related primary accounts. The condition percent used to calculate the RCNLD for the embedded plant accounts is based on the book investment and reserve for these accounts as of June 30, 1998. The calculation of the RCN and RCNLD for embedded plant is shown in Table 3 to this report.

The RCNLD of nonregulated plant was assumed to be equal to the original cost less depreciation (i.e., net investment) recorded on U S WEST's books as of June 30, 1998. Over half of the nonregulated plant currently booked has been added in the last two years. Because the vintage of plant in the nonregulated accounts is relatively new, it is reasonable to assume that the RCNLD and OCLD values would be comparable. The RCN and RCNLD for nonregulated plant is shown in Table 4 to this report.

ASSUMPTIONS AND LIMITING CONDITIONS

This study was prepared at the request and for the use of U S WEST, and the conclusions, observations, and opinions contained herein constitute only the opinion of R. W. Beck. To the extent that information provided by U S WEST or prepared by others has been used in the preparation of this report, we have relied upon the same to be accurate, and for which no assurances are intended and no representations or warranties are made. The information was deemed reasonable for the purposes of this report.

The conclusions and opinions found in this report are made expressly to the following conditions and stipulations:

1. The vintage data contained in the Generation Arrangement Data File for Arizona as of December 31, 1997 prepared by U S WEST is assumed to be an accurate and acceptable estimate of the age distribution of the plant in service.
2. The U S WEST Telephone Plant Index prepared by Joel Popkin and Company, economic consultants, is assumed to be an accurate and reasonable indicator of the change in cost over time for various types of telephone plant and equipment.
3. The depreciation parameters proposed by U S WEST and used in the study are assumed to be accurate and acceptable.

OPINION OF VALUE

The total estimated RCN and RCNLD value of the Arizona plant in service of U S WEST as of June 30, 1998 is shown in the table below. This estimate is based on the limiting conditions and assumptions described in this report. A detailed summary of the RCN and RCNLD value by plant account is provided in Table 1.

	Value as of June 30, 1998
Reproduction Cost New	$5,896,742,092
Reproduction Cost New Less Depreciation	$3,064,125,056
Condition Percent	52%

We appreciate the opportunity to perform this valuation study for U S WEST Communications, Inc.

Respectfully submitted,

Table 1

US WEST COMMUNICATIONS, INC.

REPRODUCTION COST NEW LESS DEPRECIATION
TELEPHONE PLANT IN SERVICE
Company Proposed
As of June 30, 1998

	Original Cost	Reproduction Cost New	Depreciation	Reproduction Cost New Less Depreciation
Vintage Plant (1)	$4,462,764,222	$5,813,626,701	$2,793,774,121	$3,019,852,580
Land	10,159,484	10,159,484	0	10,159,484
Artwork	261,137	261,137	0	261,137
Embedded Plant (2)				
COE Accounts	0	0	0	0
Other Plant Accounts	36,790,280	29,802,533	19,747,879	10,054,654
Subtotal Embedded Plant	36,790,280	29,802,533	19,747,879	10,054,654
Unregulated and Other Plant (3)	42,892,236	42,892,236	19,095,036	23,797,201
Total Arizona Plant	$4,552,867,359	$5,896,742,092	$2,832,617,036	$3,064,125,056

(1) See Table 2
(2) See Table 3
(3) See Table 4

Table 2

US WEST COMMUNICATIONS, INC.

REPRODUCTION COST NEW LESS DEPRECIATION
VINTAGE PLANT
Company Proposed
As of June 30, 1998

Account	Description	Original Cost 6/30/98	Telephone Plant Translator	Reproduction Cost New	Condition Percent	Reproduction Cost New Less Depreciation
2112	Motor Vehicles	$55,684,341	1.099	$61,178,130	35.7%	$21,812,505
2114	Special Purpose Vehicles	25,794	1.217	31,401	83.3%	26,147
2115	Garage Work Equip	1,243,113	1.256	1,560,805	81.4%	1,271,170
2116	Other Work Equip	24,793,277	1.241	30,777,144	80.7%	24,840,071
2121	Buildings	156,969,244	2.118	332,430,782	61.4%	204,192,363
2122	Furniture	974,108	1.386	1,349,916	54.7%	738,230
2123	Company Comm Equip	6,616,540	0.964	6,376,987	46.7%	2,975,187
2124	Gen Purpose Computer	103,873,230	0.476	49,449,629	41.3%	20,433,728
2211	Analog SW Equip	193,225,467	0.912	176,255,349	81.4%	143,537,505
2212	Digital SW Equip	682,159,890	0.915	624,464,347	59.6%	372,462,435
2220	Operator Systems	8,619,634	1.040	8,962,972	10.7%	958,888
2231	Radio Systems	38,299,675	1.016	38,924,041	50.3%	19,592,061
2232	Circuit Equip	1,047,754,463	0.946	991,174,819	61.4%	608,588,271
2362	Other Term Equip	46,908,379	1.081	50,728,818	76.0%	38,538,027
2411	Pole Lines	44,148,770	4.513	199,258,373	15.7%	31,256,219
2421	Aerial Cable	159,883,370	1.865	298,172,235	41.7%	124,283,035
2422	Underground Cable	413,328,239	1.501	620,547,700	30.3%	188,300,207
2423	Buried Cable	1,141,678,856	1.447	1,652,190,587	49.6%	818,919,476
2424	Sub Cable	2,572	1.275	3,279	60.5%	1,984
2426	Intra Bldg Cable	39,956,114	2.120	84,724,836	36.5%	30,924,962
2431	Aerial Wire	7,728,621	1.400	10,823,662	70.2%	7,599,116
2441	Conduit Systems	288,890,525	1.988	574,240,889	62.4%	358,600,993
	Total Vintage Plant	$4,462,764,222		$5,813,626,701		$3,019,852,580

Table 3

US WEST COMMUNICATIONS, INC.

REPRODUCTION COST NEW LESS DEPRECIATION
EMBEDDED PLANT
Company Proposed
As of June 30, 1998

Account	Sub Code	Description	Original Cost 6/30/98	Telephone Plant Translator	Reproduction Cost New	Condition Percent	Reproduction Cost New Less Depreciation
2115	1264c	Garage Work Equipment	62,539	1.256	78,549	48.14%	37,813
2116	1564c	Other Work Equipment	7,900,862	1.241	9,804,969	58.03%	5,689,808
2122	2161c	Furniture	779,361	1.386	1,080,194	56.57%	611,023
2123.1	2261c	Office Equipment	1,125,912	1.028	1,157,438	35.32%	408,834
2123.2	124c, 114c	Comp Comm Equip	15,699,027	0.786	12,339,436	20.89%	2,577,735
2124	1361c	General Purpose Computers	11,222,578	0.476	5,341,947	13.65%	729,441
		Total Embedded Plant	$36,790,280	0.810	$29,802,533	33.74%	$10,054,654

Table 4

US WEST COMMUNICATIONS, INC.

REPRODUCTION COST NEW LESS DEPRECIATION
NONREGULATED AND OTHER ACCOUNTS
Company Proposed
As of June 30, 1998

Account	Sub Codes	Description	Original Cost 6/30/98	Telephone Plant Translator	Reproduction Cost New	Condition Percent	Reproduction Cost New Less Depreciation
2112	9464c	Motor Vehicles	$1,533,615	1.000	$1,533,615	93.01%	$1,426,430
2124	561c, 6361c	General Purpose Computers	99,807	1.000	99,807	91.11%	90,935
2212	9007c, 9277c, 9577c	Digital Electronic Switching	18,143,643	1.000	18,143,643	58.84%	10,675,727
2231	367c	Radio Systems	216,210	1.000	216,210	95.33%	206,120
2232	507c, 5257c, 6257c, 9057c	Circuit Equipment	7,196,452	1.000	7,196,452	92.98%	6,690,992
2311	9128c	Station Apparatus	2,502	1.000	2,502	41.28%	1,033
2351	9188c, 9288c, 9488c, 9788c, 9988c	Public Tel. Term. Equip.	15,693,462	1.000	15,693,462	29.95%	4,699,506
2422	5805c	Underground Cable	534	1.000	534	100.00%	534
2423	535c, 545c, 5845c	Buried Cable	5,897	1.000	5,897	98.52%	5,809
2441	504c	Conduit System	115	1.000	115	100.00%	115
		Total Nonregulated Plant	$42,892,236		$42,892,236	55.48%	$23,797,201

Appendix A

DETAILED OUTPUT BY PLANT ACCOUNT

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U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Motor Vehicles
Plant Sub-Account: Passenger Cars
Index Number: 2112
Field Code: MVA
Survivor Curve: 1
Probable Life: 7

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1984	40,630	40,630	92.0	1.268	51,534	14.00	7.00	0.00	0.00%	0
1985	9,585	9,585	94.0	1.241	11,894	13.00	7.00	0.00	0.00%	0
1986	88,638	88,638	96.5	1.210	107,220	12.00	7.00	0.00	0.00%	0
1987	242,371	242,371	98.8	1.182	286,392	11.00	7.00	0.00	0.00%	0
1988	709,373	708,888	100.0	1.167	827,273	10.00	7.00	0.50	7.14%	59,067
1989	692,366	686,338	102.7	1.136	779,588	9.00	7.00	0.50	7.17%	55,896
1990	345,944	339,325	104.5	1.117	378,906	8.00	7.00	0.57	8.19%	31,032
1991	229,917	226,064	108.0	1.081	244,371	7.00	7.00	0.85	12.19%	29,789
1992	17,078	16,923	110.4	1.057	17,883	6.00	7.00	1.35	19.32%	3,455
1993	0	0	113.2	1.031	0	5.00	7.00	2.04	29.18%	0
1994	0	0	116.2	1.004	0	4.00	7.00	3.00	42.89%	0
1995	0	0	117.6	0.992	0	3.00	7.00	4.00	57.17%	0
1996	0	0	118.6	0.984	0	2.00	7.00	5.00	71.46%	0
1997	0	0	117.3	0.995	0	1.00	7.00	6.00	85.75%	0
1998	0	98,051	116.7	1.000	98,051	0.25	7.00	7.00	100.03%	98,080
	2,375,902	2,456,812		1.141	2,803,111				9.89%	277,320

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account:	Motor Vehicles
Plant Sub-Account:	Light Trucks
Index Number:	2112
Field Code:	MVB
Survivor Curve:	2
Probable Life:	8.5

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1980	10,442	10,442	73.4	1.590	16,602	18.00	8.50	0.00	0.00%	0
1981	0	0	83.6	1.396	0	17.00	8.50	0.50	5.88%	0
1982	29,857	29,855	88.4	1.320	39,413	16.00	8.50	0.54	6.33%	2,495
1983	167,842	167,783	90.4	1.291	216,596	15.00	8.50	0.59	6.90%	14,945
1984	1,841,541	1,839,088	92.0	1.268	2,332,843	14.00	8.50	0.66	7.80%	181,962
1985	49,118	48,949	94.0	1.241	60,770	13.00	8.50	0.78	9.13%	5,548
1986	93,464	92,850	96.5	1.209	112,286	12.00	8.50	0.93	10.94%	12,284
1987	770,339	762,711	98.8	1.181	900,895	11.00	8.50	1.13	13.30%	119,819
1988	4,340,495	4,286,840	100.0	1.167	5,002,743	10.00	8.50	1.39	16.29%	814,947
1989	6,415,592	6,330,591	102.7	1.136	7,193,573	9.00	8.50	1.70	20.00%	1,438,715
1990	4,798,381	4,738,412	104.5	1.117	5,291,605	8.00	8.50	2.08	24.51%	1,296,972
1991	5,898,958	5,836,930	108.0	1.081	6,307,127	7.00	8.50	2.54	29.92%	1,887,092
1992	4,423,105	4,388,244	110.4	1.057	4,638,660	6.00	8.50	3.09	36.33%	1,685,225
1993	4,433,825	4,414,255	113.2	1.031	4,550,738	5.00	8.50	3.73	43.84%	1,995,043
1994	2,266,038	2,266,038	116.2	1.004	2,275,789	4.00	8.50	4.50	52.94%	1,204,802
1995	282,559	282,559	117.6	0.992	280,397	3.00	8.50	5.50	64.71%	181,445
1996	5,450,641	5,450,641	118.6	0.984	5,363,320	2.00	8.50	6.50	76.47%	4,101,331
1997	3,915,208	3,915,208	117.3	0.995	3,895,181	1.00	8.50	7.50	88.24%	3,437,108
1998	0	1,864,835	116.7	1.000	1,864,835	0.25	8.50	8.50	100.00%	1,864,835
	45,187,405	46,726,231		1.077	50,343,371				40.21%	20,244,569

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account:	Motor Vehicles
Plant Sub-Account:	Heavy Trucks
Index Number:	2112
Field Code:	MVC
Survivor Curve:	3
Probable Life:	10

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1980	92,946	92,946	73.4	1.590	147,777	18.00	10.00	0.00	0.00%	0
1981	912,044	912,044	83.6	1.396	1,273,152	17.00	10.00	0.00	0.00%	0
1982	854,288	854,223	88.4	1.320	1,127,690	16.00	10.00	0.50	5.00%	56,384
1983	1,537,211	1,533,814	90.4	1.291	1,980,045	15.00	10.00	0.50	5.03%	99,596
1984	963,181	949,007	92.0	1.268	1,203,795	14.00	10.00	0.53	5.34%	64,283
1985	93,027	89,435	94.0	1.241	111,032	13.00	10.00	0.64	6.39%	7,095
1986	0	0	96.5	1.209	0	12.00	10.00	0.85	8.48%	0
1987	32,845	30,964	98.8	1.181	36,574	11.00	10.00	1.17	11.70%	4,279
1988	115,878	110,473	100.0	1.167	128,921	10.00	10.00	1.60	16.05%	20,692
1989	38,833	37,542	102.7	1.136	42,660	9.00	10.00	2.15	21.50%	9,172
1990	351,249	343,584	104.5	1.117	383,697	8.00	10.00	2.80	27.96%	107,282
1991	157,139	155,003	108.0	1.081	167,490	7.00	10.00	3.53	35.31%	59,141
1992	186,430	184,910	110.4	1.057	195,462	6.00	10.00	4.34	43.38%	84,792
1993	830,030	826,110	113.2	1.031	851,652	5.00	10.00	5.20	52.04%	443,200
1994	116,604	116,298	116.2	1.004	116,799	4.00	10.00	6.11	61.13%	71,399
1995	5,487	5,480	117.6	0.992	5,438	3.00	10.00	7.06	70.55%	3,836
1996	0	0	118.6	0.984	0	2.00	10.00	8.02	80.21%	0
1997	0	0	117.3	0.995	0	1.00	10.00	9.00	90.05%	0
1998	0	259,466	116.7	1.000	259,466	0.25	10.00	10.00	100.00%	259,466
	6,287,192	6,501,298		1.235	8,031,648				16.07%	1,290,616

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Special Purpose Vehicles
Plant Sub-Account: Special Purpose Vehicles
Index Number: 2114
Field Code: SPZ
Survivor Curve: 4
Probable Life: 15

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1975	8	8	48.2	2.859	23	23.00	15.00	7.61	50.73%	12
1976	14	14	51.7	2.665	37	22.00	15.00	7.92	52.81%	20
1977	55	55	55.6	2.478	136	21.00	15.00	8.24	54.91%	75
1978	193	193	60.5	2.278	440	20.00	15.00	8.55	57.03%	251
1979	258	258	66.5	2.072	535	19.00	15.00	8.88	59.18%	316
1980	330	330	75.2	1.832	605	18.00	15.00	9.20	61.34%	371
1981	642	642	83.4	1.652	1,061	17.00	15.00	9.53	63.52%	674
1982	609	609	89.4	1.541	939	16.00	15.00	9.86	65.71%	617
1983	1,062	1,062	91.5	1.506	1,599	15.00	15.00	10.19	67.90%	1,086
1984	1,191	1,191	92.8	1.485	1,769	14.00	15.00	10.52	70.11%	1,240
1985	697	697	94.6	1.457	1,015	13.00	15.00	10.85	72.31%	734
1986	361	361	95.4	1.444	521	12.00	15.00	11.18	74.52%	389
1987	297	297	97.4	1.415	420	11.00	15.00	11.51	76.72%	322
1988	830	830	100.0	1.378	1,144	10.00	15.00	11.84	78.91%	903
1989	1,704	1,704	105.7	1.304	2,221	9.00	15.00	12.17	81.10%	1,802
1990	61	61	112.1	1.229	75	8.00	15.00	12.49	83.28%	62
1991	512	512	118.0	1.168	598	7.00	15.00	12.82	85.44%	511
1992	162	162	122.4	1.126	182	6.00	15.00	13.14	87.59%	160
1993	0	0	124.7	1.105	0	5.00	15.00	13.46	89.72%	0
1994	16,808	16,808	128.1	1.076	18,081	4.00	15.00	13.77	91.83%	16,604
1995	0	0	132.0	1.044	0	3.00	15.00	14.09	93.92%	0
1996	0	0	135.1	1.020	0	2.00	15.00	14.40	95.98%	0
1997	0	0	136.5	1.010	0	1.00	15.00	14.70	98.02%	0
1998	0	0	137.8	1.000	0	0.25	15.00	15.01	100.03%	0
	25,794	25,794		1.217	31,401				83.27%	26,147

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Garage Work Equipment
Plant Sub-Account: Garage Work Equipment
Index Number: 2115
Field Code: GWZ
Survivor Curve: 4
Probable Life: 15

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1975	223	212	48.2	2.859	607	23.00	15.00	7.61	50.73%	308
1976	473	450	51.7	2.665	1,200	22.00	15.00	7.92	52.81%	634
1977	2,070	1,971	55.6	2.478	4,885	21.00	15.00	8.24	54.91%	2,682
1978	8,598	8,186	60.5	2.278	18,646	20.00	15.00	8.55	57.03%	10,634
1979	13,038	12,413	66.5	2.072	25,723	19.00	15.00	8.88	59.18%	15,223
1980	18,596	17,705	75.2	1.832	32,444	18.00	15.00	9.20	61.34%	19,901
1981	39,656	37,757	83.4	1.652	62,384	17.00	15.00	9.53	63.52%	39,626
1982	40,559	38,616	89.4	1.541	59,523	16.00	15.00	9.86	65.71%	39,112
1983	75,482	71,867	91.5	1.506	108,232	15.00	15.00	10.19	67.90%	73,489
1984	89,303	85,025	92.8	1.485	126,256	14.00	15.00	10.52	70.11%	88,518
1985	54,649	52,031	94.6	1.457	75,792	13.00	15.00	10.85	72.31%	54,805
1986	29,373	27,966	95.4	1.444	40,395	12.00	15.00	11.18	74.52%	30,103
1987	24,938	23,743	97.4	1.415	33,592	11.00	15.00	11.51	76.72%	25,772
1988	71,657	68,225	100.0	1.378	94,014	10.00	15.00	11.84	78.91%	74,186
1989	150,603	143,389	105.7	1.304	186,935	9.00	15.00	12.17	81.10%	151,604
1990	5,459	5,198	112.1	1.229	6,389	8.00	15.00	12.49	83.28%	5,321
1991	46,830	44,587	118.0	1.168	52,068	7.00	15.00	12.82	85.44%	44,487
1992	12,002	11,427	122.4	1.126	12,865	6.00	15.00	13.14	87.59%	11,268
1993	48,261	45,949	124.7	1.105	50,776	5.00	15.00	13.46	89.72%	45,557
1994	172,409	164,151	128.1	1.076	176,581	4.00	15.00	13.77	91.83%	162,154
1995	131,324	125,034	132.0	1.044	130,528	3.00	15.00	14.09	93.92%	122,592
1996	131,713	125,404	135.1	1.020	127,910	2.00	15.00	14.40	95.98%	122,768
1997	138,436	131,805	136.5	1.010	133,060	1.00	15.00	14.70	98.02%	130,426
1998	0	0	137.8	1.000	0	0.25	15.00	15.01	100.03%	0
	1,305,652	1,243,113		1.256	1,560,805				81.44%	1,271,170

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Other Work Equipment
Plant Sub-Account: Other Work Equipment
Index Number: 2116
Field Code: OWZ
Survivor Curve: 4
Probable Life: 15

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1963	26	20	23.1	5.606	114	35.00	15.00	4.32	28.82%	33
1964	121	95	23.7	5.464	517	34.00	15.00	4.56	30.39%	157
1965	331	258	24.3	5.329	1,375	33.00	15.00	4.80	32.01%	440
1966	486	378	25.1	5.159	1,949	32.00	15.00	5.05	33.69%	657
1967	1,986	1,540	26.0	4.981	7,668	31.00	15.00	5.31	35.41%	2,715
1968	2,061	1,594	27.5	4.709	7,504	30.00	15.00	5.58	37.18%	2,790
1969	7,220	5,568	28.7	4.512	25,123	29.00	15.00	5.85	38.99%	9,795
1970	17,988	13,836	30.0	4.317	59,725	28.00	15.00	6.13	40.85%	24,398
1971	11,536	8,851	31.6	4.098	36,271	27.00	15.00	6.41	42.75%	15,506
1972	20,740	15,872	32.7	3.960	62,859	26.00	15.00	6.70	44.70%	28,098
1973	21,807	16,648	34.0	3.809	63,410	25.00	15.00	7.00	46.67%	29,593
1974	36,785	28,015	39.6	3.270	91,615	24.00	15.00	7.30	48.69%	44,607
1975	25,250	19,184	48.2	2.687	51,543	23.00	15.00	7.61	50.73%	26,148
1976	32,050	24,294	51.7	2.505	60,851	22.00	15.00	7.92	52.81%	32,136
1977	95,475	72,201	55.6	2.329	168,165	21.00	15.00	8.24	54.91%	92,339
1978	297,968	224,809	60.5	2.140	481,204	20.00	15.00	8.55	57.03%	274,430
1979	373,528	281,167	66.5	1.947	547,536	19.00	15.00	8.88	59.18%	324,032
1980	467,256	350,906	75.2	1.722	604,287	18.00	15.00	9.20	61.34%	370,670
1981	907,338	679,821	83.4	1.553	1,055,597	17.00	15.00	9.53	63.52%	670,515
1982	866,114	647,410	89.4	1.449	937,803	16.00	15.00	9.86	65.71%	616,230
1983	1,529,816	1,140,794	91.5	1.415	1,614,567	15.00	15.00	10.19	67.90%	1,096,291
1984	1,738,034	1,292,920	92.8	1.395	1,804,236	14.00	15.00	10.52	70.11%	1,264,950
1985	1,030,042	764,346	94.6	1.369	1,046,329	13.00	15.00	10.85	72.31%	756,601
1986	539,545	399,352	95.4	1.357	542,098	12.00	15.00	11.18	74.52%	403,971
1987	1,656,512	1,222,881	97.4	1.330	1,625,904	11.00	15.00	11.51	76.72%	1,247,394
1988	2,842,728	2,092,905	100.0	1.295	2,710,312	10.00	15.00	11.84	78.91%	2,138,707
1989	2,385,827	1,751,607	104.8	1.236	2,164,439	9.00	15.00	12.17	81.10%	1,755,360
1990	1,442,561	1,056,016	108.8	1.190	1,256,931	8.00	15.00	12.49	83.28%	1,046,772
1991	2,265,706	1,653,593	112.0	1.156	1,911,967	7.00	15.00	12.82	85.44%	1,633,585
1992	4,405,888	3,205,487	115.1	1.125	3,606,521	6.00	15.00	13.14	87.59%	3,158,952
1993	1,741,458	1,262,848	118.1	1.097	1,384,749	5.00	15.00	13.46	89.72%	1,242,396
1994	2,345,359	1,694,973	119.6	1.083	1,835,276	4.00	15.00	13.77	91.83%	1,685,334
1995	878,827	632,858	122.3	1.059	670,115	3.00	15.00	14.09	93.92%	629,372
1996	2,478,775	1,778,353	125.0	1.036	1,842,374	2.00	15.00	14.40	95.98%	1,768,311
1997	3,430,951	2,451,879	127.2	1.018	2,496,213	1.00	15.00	14.70	98.02%	2,446,788
1998	0	0	129.5	1.000	0	0.25	15.00	15.01	100.03%	0
	33,898,095	24,793,277		1.241	30,777,144				80.71%	24,840,071

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Buildings
Plant Sub-Account: Large Buildings
Index Number: 2121
Field Code: BUA
Survivor Curve: 5
Probable Life: 50

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1925	33,926	33,734	11.9	10.670	359,956	73.00	50.00	8.73	17.45%	62,812
1926	0	0	11.9	10.670	0	72.00	50.00	8.98	17.95%	0
1927	0	0	11.9	10.670	0	71.00	50.00	9.23	18.47%	0
1928	60,158	59,787	11.9	10.670	637,954	70.00	50.00	9.50	19.00%	121,211
1929	0	0	11.9	10.670	0	69.00	50.00	9.77	19.54%	0
1930	9,600	9,538	11.9	10.670	101,773	68.00	50.00	10.05	20.09%	20,446
1931	0	0	11.9	10.670	0	67.00	50.00	10.33	20.66%	0
1932	1,084	1,077	11.9	10.670	11,489	66.00	50.00	10.62	21.24%	2,440
1933	0	0	11.9	10.670	0	65.00	50.00	10.92	21.83%	0
1934	0	0	11.9	10.670	0	64.00	50.00	11.22	22.44%	0
1935	0	0	11.9	10.670	0	63.00	50.00	11.53	23.07%	0
1936	2,000	1,986	11.9	10.670	21,187	62.00	50.00	11.85	23.70%	5,021
1937	29,030	28,818	11.9	10.670	307,504	61.00	50.00	12.18	24.36%	74,908
1938	4,200	4,169	11.9	10.670	44,486	60.00	50.00	12.51	25.02%	11,130
1939	0	0	11.9	10.670	0	59.00	50.00	12.85	25.70%	0
1940	0	0	11.9	10.670	0	58.00	50.00	13.20	26.40%	0
1941	0	0	11.9	10.670	0	57.00	50.00	13.56	27.12%	0
1942	49,391	49,017	11.9	10.670	523,033	56.00	50.00	13.92	27.84%	145,612
1943	8,820	8,753	11.9	10.670	93,398	55.00	50.00	14.29	28.59%	26,703
1944	0	0	11.9	10.670	0	54.00	50.00	14.68	29.35%	0
1945	0	0	11.9	10.670	0	53.00	50.00	15.06	30.13%	0
1946	62,105	61,633	11.9	10.670	657,649	52.00	50.00	15.46	30.92%	203,345
1947	92,249	91,550	13.6	9.394	859,980	51.00	50.00	15.87	31.73%	272,872
1948	291,557	289,355	14.8	8.586	2,484,494	50.00	50.00	16.28	32.56%	808,951
1949	663,388	658,401	15.4	8.295	5,461,251	49.00	50.00	16.70	33.41%	1,824,604
1950	58,142	57,708	15.5	8.202	473,310	48.00	50.00	17.14	34.27%	162,203
1951	170,514	169,249	16.5	7.740	1,309,953	47.00	50.00	17.58	35.15%	460,448
1952	266,690	264,728	17.1	7.451	1,972,540	46.00	50.00	18.03	36.05%	711,101
1953	301,700	299,502	17.6	7.254	2,172,723	45.00	50.00	18.48	36.97%	803,256
1954	174,693	173,434	18.0	7.068	1,225,802	44.00	50.00	18.95	37.90%	464,579
1955	382,743	380,016	18.6	6.869	2,610,353	43.00	50.00	19.43	38.86%	1,014,383
1956	455,020	451,819	19.7	6.484	2,929,626	42.00	50.00	19.92	39.83%	1,166,870
1957	1,015,867	1,008,818	20.2	6.316	6,372,076	41.00	50.00	20.41	40.82%	2,601,081
1958	577,856	573,905	20.7	6.157	3,533,614	40.00	50.00	20.92	41.83%	1,478,111
1959	736,387	731,430	21.1	6.055	4,429,081	39.00	50.00	21.43	42.87%	1,898,747
1960	1,998,602	1,985,370	21.2	6.006	11,923,612	38.00	50.00	21.96	43.92%	5,236,850
1961	1,768,525	1,757,019	21.3	5.989	10,523,446	37.00	50.00	22.49	44.99%	4,734,498
1962	253,428	251,809	21.5	5.925	1,491,919	36.00	50.00	23.04	46.08%	687,476
1963	748,480	743,790	22.0	5.784	4,302,436	35.00	50.00	23.59	47.19%	2,030,319
1964	919,134	913,489	22.7	5.622	5,135,399	34.00	50.00	24.16	48.32%	2,481,425
1965	174,446	173,397	23.4	5.454	945,766	33.00	50.00	24.73	49.47%	467,870
1966	274,378	272,763	24.3	5.246	1,430,932	32.00	50.00	25.32	50.64%	724,624
1967	412,358	409,985	25.5	5.007	2,052,819	31.00	50.00	25.91	51.83%	1,063,976
1968	781,915	777,518	26.8	4.758	3,699,268	30.00	50.00	26.52	53.04%	1,962,092

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account:	Buildings
Plant Sub-Account:	Large Buildings
Index Number:	2121
Field Code:	BUA
Survivor Curve:	5
Probable Life:	50

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1969	782,590	778,293	28.5	4.468	3,477,165	29.00	50.00	27.14	54.28%	1,887,405
1970	2,132,935	2,121,507	31.1	4.101	8,700,156	28.00	50.00	27.77	55.53%	4,831,197
1971	3,018,722	3,002,950	33.8	3.770	11,322,101	27.00	50.00	28.41	56.81%	6,432,085
1972	4,655,476	4,631,774	36.7	3.473	16,083,889	26.00	50.00	29.06	58.11%	9,346,348
1973	6,061,325	6,031,272	39.4	3.233	19,496,087	25.00	50.00	29.72	59.43%	11,586,525
1974	1,508,087	1,500,810	45.1	2.825	4,240,269	24.00	50.00	30.39	60.78%	2,577,236
1975	1,813,303	1,804,792	50.9	2.504	4,518,352	23.00	50.00	31.07	62.14%	2,807,704
1976	285,354	284,052	54.2	2.351	667,780	22.00	50.00	31.76	63.53%	424,241
1977	1,661,574	1,654,208	58.0	2.198	3,636,115	21.00	50.00	32.47	64.94%	2,361,293
1978	1,224,055	1,218,786	62.8	2.032	2,475,982	20.00	50.00	33.19	66.37%	1,643,309
1979	3,035,233	3,022,552	67.7	1.882	5,688,246	19.00	50.00	33.91	67.83%	3,858,337
1980	2,192,194	2,183,309	74.3	1.716	3,746,395	18.00	50.00	34.65	69.31%	2,596,626
1981	4,167,807	4,151,429	81.3	1.569	6,513,387	17.00	50.00	35.40	70.81%	4,612,130
1982	5,802,903	5,780,803	87.3	1.461	8,443,046	16.00	50.00	36.17	72.33%	6,106,855
1983	1,770,368	1,763,837	90.1	1.415	2,496,516	15.00	50.00	36.94	73.88%	1,844,426
1984	3,775,708	3,762,221	91.2	1.398	5,260,647	14.00	50.00	37.73	75.45%	3,969,158
1985	11,893,774	11,852,653	92.6	1.378	16,328,282	13.00	50.00	38.52	77.05%	12,580,942
1986	4,593,714	4,578,348	96.1	1.327	6,077,094	12.00	50.00	39.33	78.67%	4,780,850
1987	2,926,352	2,916,886	97.4	1.309	3,818,705	11.00	50.00	40.16	80.31%	3,066,802
1988	6,207,694	6,188,280	100.0	1.275	7,890,057	10.00	50.00	40.99	81.98%	6,468,269
1989	5,200,073	5,184,357	100.5	1.269	6,579,523	9.00	50.00	41.84	83.67%	5,505,087
1990	4,125,034	4,112,989	102.9	1.239	5,096,258	8.00	50.00	42.69	85.39%	4,351,695
1991	3,782,235	3,771,569	105.6	1.207	4,552,601	7.00	50.00	43.56	87.13%	3,966,681
1992	5,228,731	5,214,495	108.9	1.171	6,105,125	6.00	50.00	44.45	88.89%	5,426,845
1993	1,975,356	1,970,165	116.8	1.092	2,150,651	5.00	50.00	45.34	90.68%	1,950,210
1994	2,288,433	2,282,630	117.8	1.082	2,470,588	4.00	50.00	46.25	92.49%	2,285,047
1995	6,099,461	6,084,538	123.2	1.035	6,296,904	3.00	50.00	47.17	94.33%	5,939,870
1996	4,288,117	4,277,998	127.0	1.004	4,294,840	2.00	50.00	48.10	96.20%	4,131,636
1997	1,628,203	1,624,498	127.7	0.998	1,621,954	1.00	50.00	49.04	98.09%	1,590,974
1998	0	270,804	127.5	1.000	270,804	0.25	50.00	50.00	100.00%	270,804
	116,903,197	116,716,369		2.231	260,418,346				62.56%	162,930,554

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account:	Buildings
Plant Sub-Account:	Other Buildings
Index Number:	2121
Field Code:	BUB
Survivor Curve:	6
Probable Life:	30

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1926	2,619	2,635	11.9	10.670	28,116	72.00	30.00	2.29	7.63%	2,145
1927	6,423	6,462	11.9	10.670	68,952	71.00	30.00	2.38	7.93%	5,468
1928	2,702	2,718	11.9	10.670	29,006	70.00	30.00	2.47	8.24%	2,390
1929	2,496	2,511	11.9	10.670	26,794	69.00	30.00	2.57	8.57%	2,296
1930	0	0	11.9	10.670	0	68.00	30.00	2.67	8.91%	0
1931	0	0	11.9	10.670	0	67.00	30.00	2.78	9.26%	0
1932	0	0	11.9	10.670	0	66.00	30.00	2.89	9.62%	0
1933	0	0	11.9	10.670	0	65.00	30.00	3.00	10.00%	0
1934	0	0	11.9	10.670	0	64.00	30.00	3.12	10.40%	0
1935	0	0	11.9	10.670	0	63.00	30.00	3.24	10.81%	0
1936	5,691	5,724	11.9	10.670	61,079	62.00	30.00	3.37	11.23%	6,859
1937	0	0	11.9	10.670	0	61.00	30.00	3.50	11.67%	0
1938	2,791	2,807	11.9	10.670	29,951	60.00	30.00	3.64	12.13%	3,633
1939	0	0	11.9	10.670	0	59.00	30.00	3.78	12.61%	0
1940	1,077	1,083	11.9	10.670	11,556	58.00	30.00	3.93	13.10%	1,514
1941	0	0	11.9	10.670	0	57.00	30.00	4.08	13.61%	0
1942	4,668	4,693	11.9	10.670	50,075	56.00	30.00	4.24	14.14%	7,081
1943	0	0	11.9	10.670	0	55.00	30.00	4.41	14.70%	0
1944	7,532	7,570	11.9	10.670	80,779	54.00	30.00	4.58	15.27%	12,335
1945	0	0	11.9	10.670	0	53.00	30.00	4.76	15.86%	0
1946	3,399	3,415	11.9	10.670	36,443	52.00	30.00	4.94	16.47%	6,002
1947	0	0	13.6	9.394	0	51.00	30.00	5.13	17.11%	0
1948	0	0	14.8	8.586	0	50.00	30.00	5.33	17.77%	0
1949	55,377	55,618	15.4	8.295	461,337	49.00	30.00	5.54	18.45%	85,117
1950	16,323	16,391	15.5	8.202	134,440	48.00	30.00	5.75	19.16%	25,759
1951	3,975	3,991	16.5	7.740	30,890	47.00	30.00	5.97	19.89%	6,144
1952	7,508	7,537	17.1	7.451	56,160	46.00	30.00	6.20	20.65%	11,597
1953	6,133	6,156	17.6	7.254	44,656	45.00	30.00	6.43	21.44%	9,574
1954	80,437	80,722	18.0	7.068	570,531	44.00	30.00	6.67	22.25%	126,943
1955	97,210	97,540	18.6	6.869	670,006	43.00	30.00	6.93	23.09%	154,704
1956	55,188	55,367	19.7	6.484	359,004	42.00	30.00	7.19	23.96%	86,017
1957	107,435	107,768	20.2	6.316	680,707	41.00	30.00	7.46	24.86%	169,224
1958	132,113	132,506	20.7	6.157	815,858	40.00	30.00	7.74	25.79%	210,410
1959	32,239	32,331	21.1	6.055	195,776	39.00	30.00	8.03	26.75%	52,370
1960	362,118	363,113	21.2	6.006	2,180,759	38.00	30.00	8.32	27.75%	605,161
1961	428,964	430,101	21.3	5.989	2,576,037	37.00	30.00	8.63	28.78%	741,384
1962	191,787	192,280	21.5	5.925	1,139,218	36.00	30.00	8.95	29.84%	339,943
1963	153,263	153,646	22.0	5.784	888,763	35.00	30.00	9.28	30.94%	274,983
1964	88,272	88,488	22.7	5.622	497,456	34.00	30.00	9.62	32.07%	159,534
1965	64,386	64,541	23.4	5.454	352,029	33.00	30.00	9.97	33.25%	117,049
1966	81,735	81,930	24.3	5.246	429,808	32.00	30.00	10.34	34.45%	148,069
1967	58,179	58,317	25.5	5.007	291,997	31.00	30.00	10.71	35.70%	104,243
1968	148,507	148,860	26.8	4.758	708,244	30.00	30.00	11.10	36.99%	261,979
1969	181,387	181,821	28.5	4.468	812,319	29.00	30.00	11.50	38.32%	311,281

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account:	Buildings
Plant Sub-Account:	Other Buildings
Index Number:	2121
Field Code:	BUB
Survivor Curve:	6
Probable Life:	30

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1970	370,876	371,775	31.1	4.101	1,524,626	28.00	30.00	11.91	39.70%	605,276
1971	338,770	339,607	33.8	3.770	1,280,428	27.00	30.00	12.33	41.11%	526,384
1972	566,210	567,641	36.7	3.473	1,971,139	26.00	30.00	12.77	42.57%	839,114
1973	872,298	874,563	39.4	3.233	2,827,023	25.00	30.00	13.22	44.08%	1,246,152
1974	629,899	631,585	45.1	2.825	1,784,430	24.00	30.00	13.69	45.63%	814,235
1975	1,183,762	1,187,037	50.9	2.504	2,971,783	23.00	30.00	14.17	47.23%	1,403,573
1976	336,419	337,383	54.2	2.351	793,157	22.00	30.00	14.66	48.88%	387,695
1977	341,788	342,805	58.0	2.198	753,519	21.00	30.00	15.17	50.58%	381,130
1978	563,375	565,116	62.8	2.032	1,148,041	20.00	30.00	15.70	52.33%	600,770
1979	848,683	851,409	67.7	1.882	1,602,296	19.00	30.00	16.24	54.13%	867,323
1980	373,926	375,175	74.3	1.716	643,772	18.00	30.00	16.79	55.98%	360,384
1981	937,286	940,541	81.3	1.569	1,475,663	17.00	30.00	17.37	57.89%	854,261
1982	1,160,801	1,164,992	87.3	1.461	1,701,507	16.00	30.00	17.96	59.86%	1,018,522
1983	2,054,114	2,061,818	90.1	1.415	2,918,276	15.00	30.00	18.56	61.88%	1,805,829
1984	869,794	873,180	91.2	1.398	1,220,953	14.00	30.00	19.19	63.97%	781,044
1985	3,925,084	3,940,933	92.6	1.378	5,429,052	13.00	30.00	19.83	66.11%	3,589,146
1986	3,679,539	3,694,932	96.1	1.327	4,904,486	12.00	30.00	20.49	68.31%	3,350,255
1987	3,314,740	3,329,090	97.4	1.309	4,358,352	11.00	30.00	21.17	70.57%	3,075,689
1988	3,975,159	3,992,946	100.0	1.275	5,091,007	10.00	30.00	21.87	72.90%	3,711,344
1989	3,032,850	3,046,860	100.5	1.269	3,866,803	9.00	30.00	22.59	75.30%	2,911,702
1990	2,302,594	2,313,560	102.9	1.239	2,866,650	8.00	30.00	23.33	77.76%	2,229,107
1991	935,953	940,543	105.6	1.207	1,135,314	7.00	30.00	24.09	80.29%	911,544
1992	840,169	844,406	108.9	1.171	988,629	6.00	30.00	24.87	82.88%	819,376
1993	975,577	980,630	116.8	1.092	1,070,465	5.00	30.00	25.67	85.55%	915,783
1994	831,037	835,452	117.8	1.082	904,246	4.00	30.00	26.49	88.29%	798,358
1995	329,873	331,668	123.2	1.035	343,244	3.00	30.00	27.33	91.11%	312,730
1996	215,986	217,189	127.0	1.004	218,044	2.00	30.00	28.20	94.00%	204,961
1997	388,925	391,139	127.7	0.998	390,526	1.00	30.00	29.09	96.96%	378,654
1998	0	1,510,259	127.5	1.000	1,510,259	0.25	30.00	30.00	100.00%	1,510,259
	38,587,421	40,252,875		1.789	72,012,436				57.30%	41,261,809

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Furniture
Plant Sub-Account: Furniture
Index Number: 2122
Field Code: FEZ
Survivor Curve: 7
Probable Life: 15

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent*	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1957	1,929	1,072	25.8	4.829	5,175	41.00	15.00	11.89	22.48%	1,163
1958	143	79	26.5	4.702	374	40.00	15.00	11.89	22.91%	86
1959	435	242	26.6	4.684	1,132	39.00	15.00	11.89	23.37%	264
1960	435	242	26.9	4.632	1,119	38.00	15.00	11.89	23.83%	267
1961	0	0	26.8	4.649	0	37.00	15.00	11.89	24.32%	0
1962	264	147	26.9	4.632	679	36.00	15.00	11.89	24.83%	169
1963	684	380	27.0	4.615	1,754	35.00	15.00	11.89	25.36%	445
1964	1,122	623	27.1	4.598	2,866	34.00	15.00	11.89	25.91%	743
1965	305	169	27.2	4.581	776	33.00	15.00	11.89	26.49%	206
1966	0	0	27.8	4.482	0	32.00	15.00	11.89	27.09%	0
1967	378	210	29.2	4.267	896	31.00	15.00	11.89	27.72%	248
1968	500	278	30.3	4.112	1,142	30.00	15.00	11.89	28.39%	324
1969	0	0	31.5	3.956	0	29.00	15.00	11.89	29.08%	0
1970	3,190	1,772	33.4	3.731	6,611	28.00	15.00	11.89	29.81%	1,971
1971	1,416	787	34.5	3.612	2,841	27.00	15.00	11.89	30.58%	869
1972	3,817	2,120	35.1	3.550	7,527	26.00	15.00	11.89	31.39%	2,363
1973	13,143	7,301	37.8	3.296	24,067	25.00	15.00	11.89	32.24%	7,759
1974	77,893	43,272	44.5	2.800	121,162	24.00	15.00	11.89	33.14%	40,149
1975	8,171	4,539	48.7	2.559	11,614	23.00	15.00	11.90	34.09%	3,959
1976	7,326	4,070	50.6	2.462	10,022	22.00	15.00	11.90	35.10%	3,517
1977	9,684	5,380	54.3	2.295	12,345	21.00	15.00	11.90	36.17%	4,465
1978	63,814	35,451	58.8	2.119	75,122	20.00	15.00	11.90	37.30%	28,023
1979	9,061	5,034	64.7	1.926	9,694	19.00	15.00	11.90	38.52%	3,734
1980	8,976	4,986	68.9	1.808	9,018	18.00	15.00	11.91	39.81%	3,590
1981	103,606	57,556	75.2	1.657	95,366	17.00	15.00	11.91	41.20%	39,290
1982	51,010	28,338	80.4	1.550	43,916	16.00	15.00	11.92	42.69%	18,747
1983	30,269	16,815	83.7	1.489	25,032	15.00	15.00	11.93	44.29%	11,087
1984	37,712	20,950	86.8	1.435	30,074	14.00	15.00	11.94	46.03%	13,842
1985	35,045	19,469	90.1	1.383	26,923	13.00	15.00	11.95	47.90%	12,897
1986	52,999	29,443	92.9	1.341	39,489	12.00	15.00	11.98	49.95%	19,724
1987	32,707	18,170	95.5	1.305	23,706	11.00	15.00	12.00	52.18%	12,370
1988	235,618	130,893	100.0	1.246	163,093	10.00	15.00	12.04	54.63%	89,099
1989	452,236	251,232	103.9	1.199	301,284	9.00	15.00	12.09	57.33%	172,728
1990	10,600	5,889	107.4	1.160	6,832	8.00	15.00	12.16	60.32%	4,121
1991	0	0	109.7	1.136	0	7.00	15.00	12.25	63.64%	0
1992	81,008	45,003	111.2	1.121	50,425	6.00	15.00	12.38	67.35%	33,963
1993	9,140	5,078	113.1	1.102	5,594	5.00	15.00	12.55	71.51%	4,000
1994	35,962	19,978	116.5	1.070	21,367	4.00	15.00	12.78	76.16%	16,273

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account:	Furniture
Plant Sub-Account:	Furniture
Index Number:	2122
Field Code:	FEZ
Survivor Curve:	7
Probable Life:	15

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent*	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1995	14,155	7,864	119.3	1.044	8,213	3.00	15.00	13.09	81.36%	6,682
1996	286,321	159,060	122.1	1.020	162,317	2.00	15.00	13.53	87.12%	141,412
1997	72,395	40,218	124.2	1.003	40,347	1.00	15.00	14.14	93.39%	37,682
1998	0	0	124.6	1.000	0	0.25	15.00	15.00	98.36%	0
	1,753,469	974,108		1.386	1,349,916				54.69%	738,230

* Condition percent equals 1 - (age/(age + life expectancy)) at 6/30/98.

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Office Equipment
Plant Sub-Account: Office Equipment
Index Number: 2123.1
Field Code: OEZ
Survivor Curve: 8
Probable Life: 10

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1953	435	358	84.5	1.241	444	45.00	10.00	0.00	0.00%	0
1954	0	0	84.9	1.236	0	44.00	10.00	0.00	0.00%	0
1955	0	0	85.3	1.230	0	43.00	10.00	0.00	0.00%	0
1956	0	0	85.7	1.224	0	42.00	10.00	0.00	0.00%	0
1957	0	0	86.2	1.217	0	41.00	10.00	0.00	0.00%	0
1958	0	0	86.6	1.211	0	40.00	10.00	0.00	0.00%	0
1959	0	0	87.0	1.206	0	39.00	10.00	0.00	0.00%	0
1960	521	428	87.4	1.200	514	38.00	10.00	0.00	0.00%	0
1961	0	0	87.8	1.195	0	37.00	10.00	0.00	0.00%	0
1962	0	0	88.3	1.188	0	36.00	10.00	0.50	5.00%	0
1963	0	0	88.7	1.183	0	35.00	10.00	1.00	10.00%	0
1964	0	0	89.1	1.177	0	34.00	10.00	0.88	8.75%	0
1965	0	0	89.5	1.172	0	33.00	10.00	0.96	9.58%	0
1966	1,071	881	90.0	1.166	1,026	32.00	10.00	1.00	10.00%	103
1967	3,676	3,023	90.4	1.160	3,507	31.00	10.00	1.06	10.56%	370
1968	1,061	872	90.8	1.155	1,008	30.00	10.00	1.11	11.13%	112
1969	338	278	91.3	1.149	319	29.00	10.00	1.18	11.76%	38
1970	2,813	2,313	91.7	1.144	2,646	28.00	10.00	1.24	12.45%	329
1971	4,094	3,366	92.2	1.138	3,830	27.00	10.00	1.32	13.20%	506
1972	2,053	1,688	92.6	1.133	1,912	26.00	10.00	1.40	14.01%	268
1973	7,222	5,938	93.0	1.128	6,698	25.00	10.00	1.49	14.89%	997
1974	7,435	6,113	93.5	1.122	6,859	24.00	10.00	1.58	15.84%	1,086
1975	5,637	4,635	93.9	1.117	5,178	23.00	10.00	1.69	16.88%	874
1976	9,990	8,214	94.4	1.111	9,128	22.00	10.00	1.80	18.00%	1,643
1977	17,581	14,455	94.8	1.107	15,995	21.00	10.00	1.92	19.21%	3,073
1978	28,472	23,409	95.3	1.101	25,767	20.00	10.00	2.05	20.53%	5,290
1979	26,328	21,645	95.8	1.095	23,701	19.00	10.00	2.20	21.96%	5,205
1980	47,156	38,767	96.2	1.090	42,273	18.00	10.00	2.35	23.52%	9,943
1981	92,984	76,437	96.7	1.085	82,919	17.00	10.00	2.52	25.22%	20,912
1982	71,013	58,372	97.2	1.079	62,997	16.00	10.00	2.71	27.06%	17,047
1983	41,493	34,105	97.6	1.075	36,656	15.00	10.00	2.91	29.08%	10,660
1984	230,762	189,662	98.1	1.069	202,809	14.00	10.00	3.13	31.28%	63,439
1985	74,302	61,065	98.6	1.064	64,967	13.00	10.00	3.37	33.68%	21,881
1986	108,595	89,244	99.0	1.060	94,563	12.00	10.00	3.63	36.32%	34,345
1987	120,291	98,853	99.5	1.054	104,218	11.00	10.00	3.92	39.21%	40,864
1988	312,194	256,550	100.0	1.049	269,121	10.00	10.00	4.24	42.38%	114,054
1989	1,895,628	1,557,760	102.3	1.025	1,597,351	9.00	10.00	4.59	45.86%	732,545
1990	1,372,198	1,127,643	102.3	1.025	1,156,303	8.00	10.00	4.97	49.71%	574,798
1991	139,593	114,719	102.6	1.022	117,290	7.00	10.00	5.39	53.95%	63,278
1992	245,010	201,362	103.7	1.012	203,692	6.00	10.00	5.86	58.63%	119,424
1993	52,264	42,956	103.7	1.012	43,453	5.00	10.00	6.38	63.83%	27,736
1994	74,241	61,024	104.0	1.009	61,552	4.00	10.00	6.96	69.59%	42,834
1995	737,310	606,099	104.2	1.007	610,170	3.00	10.00	7.60	75.99%	463,668
1996	107,619	88,475	104.7	1.002	88,644	2.00	10.00	8.31	83.13%	73,690

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Office Equipment
Plant Sub-Account: Office Equipment
Index Number: 2123.1
Field Code: OEZ
Survivor Curve: 8
Probable Life: 10

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1997	490,193	403,033	105.0	0.999	402,649	1.00	10.00	9.11	91.09%	366,773
1998	0	0	104.9	1.000	0	0.25	10.00	10.00	100.01%	0
	6,331,573	5,203,742		1.028	5,350,159				52.67%	2,817,784

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Company Communications Equipment
Plant Sub-Account: Stand Alone
Index Number: 2123.2
Field Code: OECA
Survivor Curve: 9
Probable Life: 7

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1982	52,546	104	98.0	0.682	71	16.00	7.00	0.00	0.00%	0
1983	386,573	764	102.7	0.650	497	15.00	7.00	0.50	7.14%	35
1984	722,017	1,419	94.4	0.708	1,004	14.00	7.00	0.51	7.26%	73
1985	731,612	1,371	85.3	0.783	1,074	13.00	7.00	0.54	7.67%	82
1986	842,021	1,286	86.8	0.770	989	12.00	7.00	0.60	8.62%	85
1987	749,950	622	86.7	0.770	480	11.00	7.00	0.72	10.32%	49
1988	1,124,573	1	100.0	0.668	1	10.00	7.00	0.90	12.89%	0
1989	805,238	-476	111.0	0.602	-287	9.00	7.00	1.15	16.44%	-47
1990	643,928	-481	114.5	0.583	-281	8.00	7.00	1.47	21.04%	-59
1991	400,183	-205	114.8	0.582	-119	7.00	7.00	1.87	26.77%	-32
1992	551,296	-30	100.7	0.663	-20	6.00	7.00	2.36	33.70%	-7
1993	5,101,584	2,380	96.7	0.691	1,644	5.00	7.00	2.93	41.84%	688
1994	2,450,990	2,327	83.0	0.805	1,872	4.00	7.00	3.58	51.19%	959
1995	519,032	700	80.0	0.835	585	3.00	7.00	4.32	61.74%	361
1996	590,954	980	69.1	0.967	947	2.00	7.00	5.14	73.44%	696
1997	0	0	68.1	0.981	0	1.00	7.00	6.03	86.21%	0
1998	0	0	66.8	1.000	0	0.25	7.00	7.00	100.00%	0
	15,672,497	10,761		0.786	8,457				34.10%	2,884

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Company Communication Equipment
Plant Sub-Account: PBX & Key Intrasystems
Index Number: 2123.2
Field Code: OECB
Survivor Curve: 10
Probable Life: 7

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1978	38,639	37,769	74.7	0.894	33,775	20.00	7.00	0.00	0.00%	0
1979	873	853	78.3	0.853	728	19.00	7.00	0.00	0.00%	0
1980	1,724	1,685	81.1	0.824	1,388	18.00	7.00	0.00	0.00%	0
1981	3,260	3,187	88.4	0.756	2,408	17.00	7.00	0.00	0.00%	0
1982	20,263	19,807	98.0	0.682	13,501	16.00	7.00	0.00	0.00%	0
1983	173,667	169,759	102.7	0.650	110,418	15.00	7.00	0.00	0.00%	0
1984	40,408	39,499	94.4	0.708	27,950	14.00	7.00	0.00	0.00%	0
1985	33,333	32,583	85.3	0.783	25,516	13.00	7.00	0.00	0.00%	0
1986	567,820	555,042	86.8	0.770	427,152	12.00	7.00	0.00	0.00%	0
1987	165	161	86.7	0.770	124	11.00	7.00	0.50	7.14%	9
1988	74,870	73,185	100.0	0.668	48,888	10.00	7.00	0.52	7.43%	3,632
1989	56,750	55,473	111.0	0.602	33,384	9.00	7.00	0.81	11.52%	3,846
1990	52,048	50,877	114.5	0.583	29,682	8.00	7.00	1.38	19.65%	5,832
1991	23,881	23,344	114.8	0.582	13,583	7.00	7.00	2.10	29.95%	4,068
1992	135,385	132,338	100.7	0.663	87,787	6.00	7.00	2.87	41.04%	36,028
1993	69,199	67,642	96.7	0.691	46,727	5.00	7.00	3.65	52.11%	24,349
1994	118,658	115,988	83.0	0.805	93,349	4.00	7.00	4.40	62.80%	58,623
1995	581	568	80.0	0.835	474	3.00	7.00	5.11	72.97%	346
1996	22,791	22,278	69.1	0.967	21,537	2.00	7.00	5.78	82.58%	17,785
1997	0	0	68.1	0.981	0	1.00	7.00	6.41	91.64%	0
1998	0	0	66.8	1.000	0	0.25	7.00	7.01	100.18%	0
	1,434,315	1,402,037		0.726	1,018,371				15.17%	154,519

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: General Purpose Computer
Plant Sub-Account: General Purpose Computer
Index Number: 2124
Field Code: GCZ
Survivor Curve: 11
Probable Life: 5

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1947	47,334	43,012	71.3	0.404	17,374	51.00	5.00	0.00	0.00%	0
1948	0	0	72.3	0.398	0	50.00	5.00	0.00	0.00%	0
1949	0	0	69.2	0.416	0	49.00	5.00	0.00	0.00%	0
1950	0	0	71.3	0.404	0	48.00	5.00	0.00	0.00%	0
1951	0	0	73.8	0.390	0	47.00	5.00	0.00	0.00%	0
1952	0	0	66.2	0.435	0	46.00	5.00	0.00	0.00%	0
1953	0	0	58.3	0.494	0	45.00	5.00	0.00	0.00%	0
1954	0	0	58.3	0.494	0	44.00	5.00	0.00	0.00%	0
1955	0	0	60.7	0.474	0	43.00	5.00	0.00	0.00%	0
1956	0	0	63.7	0.452	0	42.00	5.00	0.00	0.00%	0
1957	0	0	68.1	0.423	0	41.00	5.00	0.00	0.00%	0
1958	0	0	71.6	0.402	0	40.00	5.00	0.00	0.00%	0
1959	0	0	71.5	0.403	0	39.00	5.00	0.00	0.00%	0
1960	0	0	71.3	0.404	0	38.00	5.00	0.00	0.00%	0
1961	0	0	69.5	0.414	0	37.00	5.00	0.00	0.00%	0
1962	0	0	66.6	0.432	0	36.00	5.00	0.00	0.00%	0
1963	0	0	65.6	0.439	0	35.00	5.00	0.00	0.00%	0
1964	0	0	65.6	0.439	0	34.00	5.00	0.00	0.00%	0
1965	0	0	63.9	0.451	0	33.00	5.00	0.00	0.00%	0
1966	0	0	62.8	0.459	0	32.00	5.00	0.00	0.00%	0
1967	0	0	65.3	0.441	0	31.00	5.00	0.00	0.00%	0
1968	0	0	69.6	0.414	0	30.00	5.00	0.00	0.00%	0
1969	0	0	72.5	0.397	0	29.00	5.00	0.00	0.00%	0
1970	0	0	74.5	0.387	0	28.00	5.00	0.00	0.00%	0
1971	0	0	76.8	0.375	0	27.00	5.00	0.00	0.00%	0
1972	0	0	78.0	0.369	0	26.00	5.00	0.00	0.00%	0
1973	0	0	77.6	0.371	0	25.00	5.00	0.00	0.00%	0
1974	0	0	82.2	0.350	0	24.00	5.00	0.00	0.00%	0
1975	0	0	88.3	0.326	0	23.00	5.00	0.00	0.00%	0
1976	2,230	2,026	90.3	0.319	646	22.00	5.00	0.00	0.00%	0
1977	0	0	86.1	0.334	0	21.00	5.00	0.00	0.00%	0
1978	0	0	78.4	0.367	0	20.00	5.00	0.00	0.00%	0
1979	0	0	74.9	0.385	0	19.00	5.00	0.00	0.00%	0
1980	0	0	75.1	0.383	0	18.00	5.00	0.00	0.00%	0
1981	64,507	58,617	82.3	0.350	20,512	17.00	5.00	0.00	0.00%	0
1982	22,625	20,559	92.9	0.310	6,374	16.00	5.00	0.00	0.00%	0
1983	868,623	789,309	103.8	0.277	218,999	15.00	5.00	0.00	0.00%	0
1984	442,095	401,727	108.6	0.265	106,535	14.00	5.00	0.00	0.00%	0
1985	823,525	748,329	103.0	0.280	209,241	13.00	5.00	0.00	0.00%	0
1986	1,742,738	1,583,587	101.1	0.285	451,111	12.00	5.00	0.50	10.00%	45,111
1987	1,126,340	1,023,108	98.9	0.291	297,932	11.00	5.00	0.51	10.17%	30,300
1988	1,110,877	1,005,838	100.0	0.288	289,681	10.00	5.00	0.53	10.69%	30,967
1989	34,236,773	30,632,637	99.9	0.288	8,831,031	9.00	5.00	0.60	12.04%	1,063,256
1990	2,780,097	2,431,762	95.8	0.301	731,052	8.00	5.00	0.73	14.52%	106,149

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: General Purpose Computer
Plant Sub-Account: General Purpose Computer
Index Number: 2124
Field Code: GCZ
Survivor Curve: 11
Probable Life: 5

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1991	1,660,577	1,417,966	79.4	0.363	514,325	7.00	5.00	0.92	18.35%	94,379
1992	7,094,416	5,982,780	66.6	0.432	2,587,148	6.00	5.00	1.19	23.74%	614,189
1993	13,689,817	11,587,971	58.4	0.493	5,714,616	5.00	5.00	1.54	30.90%	1,765,816
1994	20,770,436	17,850,277	53.7	0.536	9,573,333	4.00	5.00	2.00	40.02%	3,831,248
1995	14,396,199	12,611,211	48.1	0.599	7,550,995	3.00	5.00	2.57	51.32%	3,875,171
1996	10,060,675	8,971,416	40.4	0.713	6,395,465	2.00	5.00	3.25	64.97%	4,155,133
1997	7,378,346	6,673,039	32.6	0.883	5,895,200	1.00	5.00	4.06	81.15%	4,783,955
1998	0	38,058	28.8	1.000	38,058	0.25	5.00	5.00	99.99%	38,054
	118,318,230	103,873,230		0.476	49,449,629				41.32%	20,433,728

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account:	Analog Switching Equipment
Plant Sub-Account:	Analog Switching Equipment
Index Number:	2211
Field Code:	AEZ
Survivor Curve:	12
Probable Life:	33.34

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1925	1,686	1,690	55.3	1.667	2,817	73.00	33.34	0.00	0.00%	0
1926	0	0	55.3	1.667	0	72.00	33.34	0.00	0.00%	0
1927	0	0	55.3	1.667	0	71.00	33.34	0.00	0.00%	0
1928	0	0	55.3	1.667	0	70.00	33.34	0.00	0.00%	0
1929	0	0	55.3	1.667	0	69.00	33.34	0.00	0.00%	0
1930	0	0	55.3	1.667	0	68.00	33.34	0.00	0.00%	0
1931	0	0	55.3	1.667	0	67.00	33.34	0.00	0.00%	0
1932	0	0	55.3	1.667	0	66.00	33.34	0.50	1.50%	0
1933	0	0	55.3	1.667	0	65.00	33.34	0.90	2.70%	0
1934	0	0	55.3	1.667	0	64.00	33.34	1.38	4.12%	0
1935	0	0	55.3	1.667	0	63.00	33.34	1.86	5.59%	0
1936	0	0	55.3	1.667	0	62.00	33.34	2.36	7.07%	0
1937	0	0	55.3	1.667	0	61.00	33.34	2.85	8.56%	0
1938	0	0	55.3	1.667	0	60.00	33.34	3.35	10.05%	0
1939	0	0	55.3	1.667	0	59.00	33.34	3.85	11.54%	0
1940	0	0	55.3	1.667	0	58.00	33.34	4.35	13.04%	0
1941	0	0	55.3	1.667	0	57.00	33.34	4.84	14.53%	0
1942	0	0	55.3	1.667	0	56.00	33.34	5.34	16.03%	0
1943	0	0	55.3	1.667	0	55.00	33.34	5.84	17.53%	0
1944	0	0	55.3	1.667	0	54.00	33.34	6.34	19.02%	0
1945	0	0	55.3	1.667	0	53.00	33.34	6.84	20.52%	0
1946	0	0	55.3	1.667	0	52.00	33.34	7.34	22.02%	0
1947	0	0	63.7	1.447	0	51.00	33.34	7.84	23.52%	0
1948	248	247	64.6	1.427	353	50.00	33.34	8.34	25.01%	88
1949	245	244	63.5	1.452	354	49.00	33.34	8.84	26.51%	94
1950	2,387	2,378	65.8	1.401	3,332	48.00	33.34	9.34	28.01%	933
1951	0	0	67.7	1.362	0	47.00	33.34	9.84	29.51%	0
1952	0	0	63.2	1.459	0	46.00	33.34	10.34	31.01%	0
1953	0	0	59.2	1.557	0	45.00	33.34	10.84	32.51%	0
1954	0	0	59.6	1.547	0	44.00	33.34	11.34	34.01%	0
1955	314,794	313,579	60.6	1.521	477,096	43.00	33.34	11.84	35.51%	169,417
1956	2,087	2,079	62.1	1.485	3,087	42.00	33.34	12.34	37.01%	1,142
1957	788	785	65.0	1.418	1,113	41.00	33.34	12.84	38.51%	429
1958	0	0	66.4	1.389	0	40.00	33.34	13.34	40.00%	0
1959	2,456	2,447	65.6	1.405	3,439	39.00	33.34	13.84	41.50%	1,427
1960	0	0	64.8	1.423	0	38.00	33.34	14.34	43.00%	0
1961	4,585	4,567	64.1	1.438	6,570	37.00	33.34	14.84	44.50%	2,923
1962	4,773	4,755	63.7	1.447	6,882	36.00	33.34	15.34	46.00%	3,166
1963	0	0	64.6	1.427	0	35.00	33.34	15.84	47.50%	0
1964	358	357	65.1	1.416	505	34.00	33.34	16.34	49.00%	247
1965	1,320	1,315	64.3	1.434	1,885	33.00	33.34	16.84	50.50%	952
1966	6,615	6,589	65.0	1.418	9,347	32.00	33.34	17.34	52.00%	4,860
1967	0	0	67.4	1.368	0	31.00	33.34	17.84	53.50%	0
1968	609	607	70.9	1.300	789	30.00	33.34	18.34	55.00%	434
1969	982	978	74.0	1.246	1,219	29.00	33.34	18.84	56.50%	689
1970	1,483	1,477	76.3	1.208	1,785	28.00	33.34	19.34	58.00%	1,035
1971	1,043,183	1,039,158	79.3	1.163	1,208,201	27.00	33.34	19.84	59.50%	718,880
1972	2,852,236	2,841,231	81.2	1.135	3,226,127	26.00	33.34	20.34	61.00%	1,967,938

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Analog Switching Equipment
Plant Sub-Account: Analog Switching Equipment
Index Number: 2211
Field Code: AEZ
Survivor Curve: 12
Probable Life: 33.34

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1973	3,600,248	3,586,357	81.1	1.137	4,077,215	25.00	33.34	20.84	62.50%	2,548,259
1974	706,098	703,374	85.1	1.083	762,057	24.00	33.34	21.34	63.99%	487,640
1975	2,100,060	2,091,957	91.4	1.009	2,110,268	23.00	33.34	21.84	65.49%	1,382,014
1976	403,439	401,882	94.7	0.974	391,273	22.00	33.34	22.34	66.99%	262,114
1977	1,008,310	1,004,420	92.4	0.998	1,002,246	21.00	33.34	22.84	68.49%	686,438
1978	1,099,639	1,095,396	87.4	1.055	1,155,555	20.00	33.34	23.34	69.99%	808,773
1979	2,796,920	2,786,129	86.2	1.070	2,980,059	19.00	33.34	23.84	71.49%	2,130,444
1980	7,335,848	7,307,544	87.8	1.050	7,673,754	18.00	33.34	24.34	72.99%	5,601,073
1981	13,265,301	13,214,120	95.4	0.966	12,770,879	17.00	33.34	24.84	74.49%	9,513,028
1982	36,531,944	36,390,994	106.9	0.862	31,386,806	16.00	33.34	25.34	75.99%	23,850,834
1983	8,947,870	8,913,347	118.3	0.779	6,946,835	15.00	33.34	25.84	77.49%	5,383,102
1984	12,457,326	12,409,262	129.8	0.710	8,814,591	14.00	33.34	26.34	78.99%	6,962,646
1985	6,421,185	6,396,410	118.1	0.781	4,993,641	13.00	33.34	26.84	80.49%	4,019,382
1986	9,302,272	9,266,381	109.6	0.841	7,795,259	12.00	33.34	27.34	81.99%	6,391,333
1987	9,178,044	9,142,633	105.9	0.871	7,959,875	11.00	33.34	27.84	83.49%	6,645,699
1988	8,512,890	8,480,045	100.0	0.922	7,818,601	10.00	33.34	28.34	84.99%	6,645,029
1989	10,465,338	10,424,960	98.9	0.932	9,718,719	9.00	33.34	28.84	86.49%	8,405,720
1990	6,356,164	6,331,640	95.4	0.966	6,119,258	8.00	33.34	29.34	87.99%	5,384,335
1991	13,140,704	13,090,003	92.3	0.999	13,075,821	7.00	33.34	29.84	89.49%	11,701,553
1992	7,076,834	7,049,530	92.0	1.002	7,064,855	6.00	33.34	30.34	90.99%	6,428,311
1993	6,455,457	6,430,550	96.0	0.960	6,176,007	5.00	33.34	30.84	92.49%	5,712,189
1994	6,774,844	6,748,705	93.5	0.986	6,654,872	4.00	33.34	31.34	93.99%	6,254,915
1995	4,729,352	4,711,105	102.7	0.898	4,229,444	3.00	33.34	31.84	95.49%	4,038,696
1996	5,568,855	5,547,369	105.3	0.876	4,857,240	2.00	33.34	32.34	96.99%	4,711,037
1997	4,499,334	4,481,974	109.6	0.841	3,770,420	1.00	33.34	32.84	98.49%	3,713,487
1998	0	994,898	92.2	1.000	994,898	0.25	33.34	33.34	99.99%	994,799
	192,975,111	193,225,467		0.912	176,255,349				81.44%	143,537,505

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Digital Switching Equipment
Plant Sub-Account: Digital Switching Equipment
Index Number: 2212
Field Code: DEZ
Survivor Curve: 13
Probable Life: 10

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1947	45	45	38.7	2.152	97	51.00	10.00	0.00	0.00%	0
1948	0	0	44.4	1.876	0	50.00	10.00	0.00	0.00%	0
1949	0	0	43.4	1.919	0	49.00	10.00	0.00	0.00%	0
1950	6,243	6,245	44.6	1.868	11,663	48.00	10.00	0.00	0.00%	0
1951	0	0	46.3	1.799	0	47.00	10.00	0.00	0.00%	0
1952	0	0	42.4	1.965	0	46.00	10.00	0.00	0.00%	0
1953	0	0	38.9	2.141	0	45.00	10.00	0.00	0.00%	0
1954	0	0	39.3	2.120	0	44.00	10.00	0.00	0.00%	0
1955	80,649	80,670	39.2	2.125	171,424	43.00	10.00	0.00	0.00%	0
1956	582	582	39.8	2.093	1,218	42.00	10.00	0.00	0.00%	0
1957	23,977	23,983	41.4	2.012	48,256	41.00	10.00	0.00	0.00%	0
1958	6,215	6,217	42.3	1.969	12,242	40.00	10.00	0.00	0.00%	0
1959	22,347	22,353	41.5	2.007	44,867	39.00	10.00	0.00	0.00%	0
1960	42,310	42,321	40.6	2.052	86,831	38.00	10.00	0.00	0.00%	0
1961	39,666	39,676	40.4	2.062	81,808	37.00	10.00	0.00	0.00%	0
1962	4,520	4,521	39.6	2.104	9,510	36.00	10.00	0.00	0.00%	0
1963	75	75	39.8	2.093	157	35.00	10.00	0.00	0.00%	0
1964	14,327	14,331	39.8	2.093	29,994	34.00	10.00	0.00	0.00%	0
1965	6,245	6,247	38.7	2.152	13,446	33.00	10.00	0.00	0.00%	0
1966	195,044	195,095	38.3	2.175	424,320	32.00	10.00	0.00	0.00%	0
1967	1,152	1,152	39.0	2.136	2,461	31.00	10.00	0.00	0.00%	0
1968	16,689	16,693	40.4	2.062	34,420	30.00	10.00	0.00	0.00%	0
1969	8,736	8,738	41.5	2.007	17,540	29.00	10.00	0.00	0.00%	0
1970	50,909	50,922	42.6	1.955	99,574	28.00	10.00	0.00	0.00%	0
1971	289,847	289,923	44.4	1.876	543,933	27.00	10.00	0.00	0.00%	0
1972	145,823	145,861	45.6	1.827	266,453	26.00	10.00	0.00	0.00%	0
1973	220,336	220,394	47.7	1.746	384,881	25.00	10.00	0.00	0.00%	0
1974	347,307	347,398	53.0	1.572	546,005	24.00	10.00	0.50	5.00%	27,300
1975	107,111	107,138	57.5	1.449	155,211	23.00	10.00	0.56	5.56%	8,630
1976	51,526	51,537	59.8	1.393	71,790	22.00	10.00	0.61	6.07%	4,358
1977	977,116	977,160	61.1	1.363	1,332,200	21.00	10.00	0.67	6.71%	89,391
1978	1,071,541	1,071,088	61.3	1.359	1,455,492	20.00	10.00	0.76	7.55%	109,890
1979	1,704,665	1,702,241	62.8	1.326	2,257,909	19.00	10.00	0.86	8.63%	194,858
1980	1,250,263	1,246,365	64.2	1.298	1,617,168	18.00	10.00	1.00	9.96%	161,070
1981	2,332,558	2,319,779	69.9	1.192	2,764,486	17.00	10.00	1.16	11.57%	319,851
1982	4,967,011	4,926,083	75.4	1.105	5,442,212	16.00	10.00	1.35	13.49%	734,154
1983	1,082,363	1,070,470	83.4	0.999	1,069,187	15.00	10.00	1.57	15.74%	168,290
1984	6,755,388	6,665,500	87.6	0.951	6,338,312	14.00	10.00	1.83	18.34%	1,162,447
1985	10,369,634	10,215,138	97.0	0.859	8,772,381	13.00	10.00	2.13	21.31%	1,869,394
1986	31,135,021	30,647,997	101.8	0.818	25,078,371	12.00	10.00	2.47	24.69%	6,191,850
1987	35,799,534	35,242,146	100.2	0.831	29,298,111	11.00	10.00	2.85	28.49%	8,347,032
1988	44,869,627	44,204,644	100.0	0.833	36,822,468	10.00	10.00	3.27	32.73%	12,051,994
1989	44,196,643	43,596,383	99.1	0.840	36,642,206	9.00	10.00	3.74	37.41%	13,707,849
1990	35,879,706	35,447,611	98.2	0.848	30,068,123	8.00	10.00	4.26	42.56%	12,796,993

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Digital Switching Equipment
Plant Sub-Account: Digital Switching Equipment
Index Number: 2212
Field Code: DEZ
Survivor Curve: 13
Probable Life: 10

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1991	42,753,331	42,310,063	99.6	0.837	35,398,264	7.00	10.00	4.82	48.17%	17,051,344
1992	52,566,860	52,110,408	94.7	0.879	45,829,662	6.00	10.00	5.42	54.24%	24,858,009
1993	51,195,739	50,833,478	91.2	0.913	46,429,169	5.00	10.00	6.08	60.77%	28,215,006
1994	63,924,561	63,566,579	88.8	0.938	59,630,991	4.00	10.00	6.78	67.75%	40,399,996
1995	99,607,985	99,181,365	86.2	0.967	95,873,482	3.00	10.00	7.52	75.18%	72,077,684
1996	67,483,310	67,271,859	86.9	0.959	64,484,993	2.00	10.00	8.30	83.05%	53,554,787
1997	75,532,997	75,370,800	84.5	0.986	74,300,445	1.00	10.00	9.13	91.33%	67,858,596
1998	0	10,500,614	83.3	1.000	10,500,614	0.25	10.00	10.00	100.01%	10,501,664
	677,137,534	682,159,890		0.915	624,464,347				59.65%	372,462,435

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Operator Systems
Plant Sub-Account: Operator Systems
Index Number: 2220
Field Code: OSZ
Survivor Curve: 14
Probable Life: 8

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1974	399	409	59.9	1.796	735	24.00	8.00	0.00	0.00%	0
1975	0	0	65.6	1.640	0	23.00	8.00	0.00	0.00%	0
1976	0	0	69.1	1.557	0	22.00	8.00	0.00	0.00%	0
1977	732	751	70.9	1.518	1,140	21.00	8.00	0.00	0.00%	0
1978	0	0	70.8	1.520	0	20.00	8.00	0.00	0.00%	0
1979	27,514	28,228	71.3	1.509	42,599	19.00	8.00	0.00	0.00%	0
1980	0	0	73.0	1.474	0	18.00	8.00	0.00	0.00%	0
1981	2,232	2,290	79.2	1.359	3,111	17.00	8.00	0.00	0.00%	0
1982	80,926	83,026	87.3	1.233	102,332	16.00	8.00	0.00	0.00%	0
1983	6,288	6,451	96.5	1.115	7,193	15.00	8.00	0.00	0.00%	0
1984	2,825	2,898	103.3	1.042	3,019	14.00	8.00	0.00	0.00%	0
1985	1,241	1,273	105.6	1.019	1,297	13.00	8.00	0.00	0.00%	0
1986	1,467,973	1,506,062	104.7	1.028	1,547,777	12.00	8.00	0.00	0.00%	0
1987	868,219	890,746	102.2	1.053	937,811	11.00	8.00	0.00	0.00%	0
1988	354,255	363,446	100.0	1.076	391,068	10.00	8.00	0.50	6.25%	24,442
1989	24,315	24,946	101.3	1.062	26,497	9.00	8.00	0.50	6.28%	1,664
1990	2,296,069	2,355,637	104.4	1.031	2,427,840	8.00	8.00	0.71	8.83%	214,378
1991	2,518,440	2,583,782	104.2	1.033	2,668,090	7.00	8.00	1.30	16.26%	433,831
1992	180,644	185,331	104.0	1.035	191,746	6.00	8.00	2.12	26.49%	50,794
1993	560,872	575,425	102.9	1.046	601,707	5.00	8.00	3.05	38.10%	229,251
1994	8,707	8,933	106.7	1.008	9,008	4.00	8.00	4.02	50.27%	4,528
1995	0	0	105.1	1.024	0	3.00	8.00	5.01	62.64%	0
1996	0	0	107.5	1.001	0	2.00	8.00	6.01	75.08%	0
1997	0	0	107.4	1.002	0	1.00	8.00	7.00	87.54%	0
1998	0	0	107.6	1.000	0	0.25	8.00	8.00	100.00%	0
	8,401,651	8,619,634		1.040	8,962,972				10.70%	958,888

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Radio Systems
Plant Sub-Account: Radio Systems
Index Number: 2231
Field Code: RDZ
Survivor Curve: 15
Probable Life: 15

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1950	2,365	2,360	39.9	2.358	5,566	48.00	15.00	1.10	7.33%	408
1951	0	0	41.3	2.278	0	47.00	15.00	1.17	7.78%	0
1952	0	0	38.0	2.476	0	46.00	15.00	1.24	8.27%	0
1953	0	0	35.2	2.673	0	45.00	15.00	1.28	8.56%	0
1954	0	0	35.4	2.658	0	44.00	15.00	1.32	8.82%	0
1955	3,610	3,603	34.4	2.735	9,855	43.00	15.00	1.38	9.21%	908
1956	2,362	2,357	33.0	2.852	6,722	42.00	15.00	1.45	9.64%	648
1957	4,362	4,353	33.1	2.843	12,376	41.00	15.00	1.51	10.09%	1,249
1958	2,000	1,996	33.4	2.817	5,623	40.00	15.00	1.58	10.56%	594
1959	2,236	2,231	33.3	2.826	6,306	39.00	15.00	1.66	11.06%	697
1960	3,521	3,514	33.2	2.834	9,959	38.00	15.00	1.74	11.60%	1,155
1961	15,856	15,823	32.9	2.860	45,255	37.00	15.00	1.82	12.16%	5,503
1962	8,394	8,376	32.7	2.878	24,103	36.00	15.00	1.91	12.76%	3,076
1963	4,820	4,809	33.1	2.843	13,672	35.00	15.00	2.01	13.40%	1,832
1964	29,920	29,850	33.1	2.843	84,860	34.00	15.00	2.11	14.07%	11,940
1965	8,890	8,868	32.2	2.922	25,915	33.00	15.00	2.22	14.78%	3,830
1966	22,830	22,769	31.8	2.959	67,377	32.00	15.00	2.33	15.54%	10,470
1967	42,018	41,896	33.5	2.809	117,685	31.00	15.00	2.45	16.34%	19,230
1968	68,858	68,639	35.8	2.628	180,418	30.00	15.00	2.58	17.19%	31,014
1969	12,237	12,194	36.7	2.564	31,266	29.00	15.00	2.71	18.09%	5,656
1970	66,183	65,924	37.5	2.509	165,424	28.00	15.00	2.86	19.05%	31,513
1971	285,569	284,317	39.0	2.413	686,006	27.00	15.00	3.01	20.07%	137,681
1972	304,413	302,920	40.3	2.335	707,315	26.00	15.00	3.17	21.15%	149,597
1973	339,829	337,969	42.5	2.214	748,304	25.00	15.00	3.34	22.30%	166,872
1974	105,654	105,011	46.9	2.006	210,695	24.00	15.00	3.53	23.52%	49,555
1975	108,049	107,323	51.1	1.841	197,635	23.00	15.00	3.72	24.82%	49,053
1976	306,139	303,886	54.1	1.739	528,571	22.00	15.00	3.93	26.20%	138,486
1977	407,817	404,558	58.4	1.611	651,865	21.00	15.00	4.15	27.68%	180,436
1978	405,118	401,637	63.4	1.484	596,120	20.00	15.00	4.39	29.25%	174,365
1979	259,414	257,042	69.2	1.360	349,532	19.00	15.00	4.64	30.93%	108,110
1980	189,063	187,243	73.5	1.280	239,722	18.00	15.00	4.91	32.72%	78,437
1981	260,247	257,640	81.0	1.162	299,308	17.00	15.00	5.19	34.63%	103,650
1982	295,671	292,624	86.1	1.093	319,814	16.00	15.00	5.50	36.67%	117,276
1983	1,795,069	1,776,269	90.1	1.044	1,855,127	15.00	15.00	5.83	38.86%	720,902
1984	933,833	924,013	97.7	0.963	889,965	14.00	15.00	6.18	41.20%	366,666
1985	6,212,820	6,148,038	99.3	0.948	5,826,087	13.00	15.00	6.56	43.70%	2,546,000
1986	1,089,411	1,078,292	98.8	0.952	1,026,997	12.00	15.00	6.96	46.39%	476,424
1987	4,834,762	4,787,102	97.3	0.967	4,629,664	11.00	15.00	7.39	49.27%	2,281,035
1988	5,070,788	5,023,182	100.0	0.941	4,726,814	10.00	15.00	7.85	52.36%	2,474,960
1989	3,839,193	3,805,373	101.4	0.928	3,531,417	9.00	15.00	8.35	55.68%	1,966,293
1990	2,429,706	2,409,944	103.6	0.908	2,188,955	8.00	15.00	8.89	59.25%	1,296,956
1991	950,627	943,614	106.1	0.887	836,890	7.00	15.00	9.46	63.10%	528,078
1992	2,113,668	2,099,805	105.6	0.891	1,871,133	6.00	15.00	10.09	67.24%	1,258,150
1993	1,318,784	1,311,274	107.5	0.875	1,147,822	5.00	15.00	10.76	71.70%	822,988

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account:	Radio Systems
Plant Sub-Account:	Radio Systems
Index Number:	2231
Field Code:	RDZ
Survivor Curve:	15
Probable Life:	15

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1994	3,084,511	3,069,692	106.4	0.884	2,714,831	4.00	15.00	11.48	76.52%	2,077,389
1995	172,892	172,217	101.2	0.930	160,135	3.00	15.00	12.26	81.72%	130,862
1996	561,793	560,101	100.2	0.939	526,003	2.00	15.00	13.10	87.34%	459,411
1997	647,225	645,839	94.7	0.994	641,747	1.00	15.00	14.01	93.42%	599,520
1998	0	3,186	94.1	1.000	3,186	0.25	15.00	15.00	100.00%	3,186
	38,622,527	38,299,675		1.016	38,924,041				50.33%	19,592,061

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account:	Circuit DDS
Plant Sub-Account:	Circuit DDS
Index Number:	2232
Field Code:	CRDA
Survivor Curve:	16
Probable Life:	8

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1974	7,958	7,971	53.0	1.643	13,100	24.00	8.00	4.16	51.95%	6,805
1975	326	326	57.5	1.515	495	23.00	8.00	4.16	51.95%	257
1976	4,287	4,293	59.8	1.457	6,252	22.00	8.00	4.16	51.95%	3,248
1977	96	96	61.1	1.426	137	21.00	8.00	4.16	51.95%	71
1978	7,186	7,191	61.3	1.421	10,218	20.00	8.00	4.16	51.95%	5,308
1979	126,758	126,805	62.8	1.387	175,871	19.00	8.00	4.16	51.96%	91,382
1980	26,771	26,768	64.2	1.357	36,315	18.00	8.00	4.16	51.97%	18,873
1981	34,582	34,556	69.9	1.246	43,059	17.00	8.00	4.16	51.98%	22,382
1982	274,999	274,569	75.4	1.155	317,175	16.00	8.00	4.16	51.99%	164,899
1983	262,798	262,121	83.4	1.044	273,749	15.00	8.00	4.16	52.02%	142,404
1984	190,489	189,754	87.6	0.994	188,671	14.00	8.00	4.16	52.05%	98,203
1985	442,262	439,843	97.0	0.898	394,952	13.00	8.00	4.17	52.11%	205,809
1986	207,923	206,367	101.8	0.856	176,568	12.00	8.00	4.18	52.19%	92,151
1987	421,626	417,423	100.2	0.869	362,850	11.00	8.00	4.19	52.32%	189,843
1988	748,069	738,351	100.0	0.871	643,104	10.00	8.00	4.20	52.50%	337,630
1989	517,380	508,806	98.8	0.882	448,553	9.00	8.00	4.22	52.79%	236,791
1990	471,992	462,253	99.0	0.880	406,689	8.00	8.00	4.26	53.22%	216,440
1991	522,150	509,150	100.3	0.868	442,143	7.00	8.00	4.31	53.87%	238,183
1992	1,057,048	1,026,709	92.2	0.945	969,917	6.00	8.00	4.39	54.88%	532,290
1993	1,185,088	1,148,626	90.6	0.961	1,104,253	5.00	8.00	4.52	56.44%	623,241
1994	1,210,547	1,175,528	89.4	0.974	1,145,286	4.00	8.00	4.71	58.89%	674,459
1995	1,359,123	1,361,247	86.9	1.002	1,364,380	3.00	8.00	5.03	62.82%	857,104
1996	1,444,501	1,447,666	87.2	0.999	1,446,005	2.00	8.00	6.01	75.14%	1,086,528
1997	771,035	772,724	87.1	1.000	772,724	1.00	8.00	7.01	87.64%	677,215
1998	0	91,899	87.1	1.000	91,899	0.25	8.00	8.01	100.14%	92,028
	11,294,994	11,241,043		0.964	10,834,365				61.04%	6,613,545

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Circuit Digital
Plant Sub-Account: Circuit Digital
Index Number: 2232
Field Code: CRD
Survivor Curve: 17
Probable Life: 10

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1925	1,665	1,664	38.7	2.152	3,581	73.00	10.00	0.00	0.00%	0
1926	0	0	38.7	2.152	0	72.00	10.00	0.00	0.00%	0
1927	0	0	38.7	2.152	0	71.00	10.00	0.00	0.00%	0
1928	0	0	38.7	2.152	0	70.00	10.00	0.00	0.00%	0
1929	0	0	38.7	2.152	0	69.00	10.00	0.00	0.00%	0
1930	206	206	38.7	2.152	443	68.00	10.00	0.00	0.00%	0
1931	0	0	38.7	2.152	0	67.00	10.00	0.00	0.00%	0
1932	0	0	38.7	2.152	0	66.00	10.00	0.00	0.00%	0
1933	0	0	38.7	2.152	0	65.00	10.00	0.00	0.00%	0
1934	0	0	38.7	2.152	0	64.00	10.00	0.00	0.00%	0
1935	0	0	38.7	2.152	0	63.00	10.00	0.00	0.00%	0
1936	0	0	38.7	2.152	0	62.00	10.00	0.00	0.00%	0
1937	0	0	38.7	2.152	0	61.00	10.00	0.00	0.00%	0
1938	0	0	38.7	2.152	0	60.00	10.00	0.00	0.00%	0
1939	0	0	38.7	2.152	0	59.00	10.00	0.00	0.00%	0
1940	1,381	1,380	38.7	2.152	2,971	58.00	10.00	0.50	5.00%	149
1941	113	113	38.7	2.152	243	57.00	10.00	1.50	15.00%	36
1942	2,753	2,751	38.7	2.152	5,922	56.00	10.00	1.50	15.00%	888
1943	0	0	38.7	2.152	0	55.00	10.00	2.50	25.00%	0
1944	0	0	38.7	2.152	0	54.00	10.00	2.50	25.00%	0
1945	0	0	38.7	2.152	0	53.00	10.00	2.30	23.00%	0
1946	0	0	38.7	2.152	0	52.00	10.00	2.50	25.00%	0
1947	0	0	43.8	1.902	0	51.00	10.00	2.41	24.09%	0
1948	0	0	44.4	1.876	0	50.00	10.00	2.50	25.00%	0
1949	568	568	43.4	1.919	1,089	49.00	10.00	2.50	25.00%	272
1950	135,372	135,280	44.6	1.868	252,664	48.00	10.00	2.56	25.57%	64,606
1951	0	0	46.3	1.799	0	47.00	10.00	2.56	25.58%	0
1952	3,600	3,598	42.4	1.965	7,068	46.00	10.00	2.59	25.92%	1,832
1953	0	0	38.9	2.141	0	45.00	10.00	2.60	25.98%	0
1954	747	746	39.3	2.120	1,582	44.00	10.00	2.63	26.29%	416
1955	551,276	550,900	39.2	2.125	1,170,663	43.00	10.00	2.64	26.43%	309,406
1956	1,037	1,036	39.8	2.093	2,169	42.00	10.00	2.66	26.62%	577
1957	2,341	2,339	41.4	2.012	4,707	41.00	10.00	2.68	26.79%	1,261
1958	1,519	1,518	42.3	1.969	2,989	40.00	10.00	2.70	26.95%	806
1959	664	664	41.5	2.007	1,332	39.00	10.00	2.72	27.17%	362
1960	2,015	2,014	40.6	2.052	4,131	38.00	10.00	2.74	27.35%	1,130
1961	27,143	27,124	40.4	2.062	55,927	37.00	10.00	2.76	27.57%	15,419
1962	1,394	1,393	39.6	2.104	2,930	36.00	10.00	2.78	27.79%	814
1963	7,017	7,012	39.8	2.093	14,676	35.00	10.00	2.80	28.03%	4,114
1964	42,994	42,963	39.8	2.093	89,920	34.00	10.00	2.83	28.29%	25,438
1965	23,001	22,984	38.7	2.152	49,472	33.00	10.00	2.86	28.56%	14,129
1966	59,893	59,848	38.3	2.175	130,165	32.00	10.00	2.89	28.85%	37,553
1967	95,453	95,378	39.0	2.136	203,718	31.00	10.00	2.92	29.17%	59,425
1968	11,811	11,801	40.4	2.062	24,333	30.00	10.00	2.95	29.50%	7,178

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account:	Circuit Digital
Plant Sub-Account:	Circuit Digital
Index Number:	2232
Field Code:	CRD
Survivor Curve:	17
Probable Life:	10

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1969	330,697	330,409	41.5	2.007	663,207	29.00	10.00	2.99	29.86%	198,034
1970	148,455	148,316	42.6	1.955	290,017	28.00	10.00	3.03	30.25%	87,730
1971	505,209	504,691	44.4	1.876	946,863	27.00	10.00	3.07	30.67%	290,403
1972	525,468	524,868	45.6	1.827	958,805	26.00	10.00	3.11	31.12%	298,380
1973	973,888	972,629	47.7	1.746	1,698,533	25.00	10.00	3.16	31.61%	536,906
1974	1,274,370	1,272,477	53.0	1.572	1,999,950	24.00	10.00	3.21	32.14%	642,784
1975	1,036,033	1,034,241	57.5	1.449	1,498,300	23.00	10.00	3.27	32.71%	490,094
1976	1,248,779	1,246,236	59.8	1.393	1,735,977	22.00	10.00	3.33	33.34%	578,775
1977	743,803	742,006	61.1	1.363	1,011,605	21.00	10.00	3.40	34.01%	344,047
1978	1,209,921	1,206,437	61.3	1.359	1,639,416	20.00	10.00	3.48	34.75%	569,697
1979	2,304,254	2,296,336	62.8	1.326	3,045,936	19.00	10.00	3.56	35.56%	1,083,135
1980	4,158,530	4,141,503	64.2	1.298	5,373,632	18.00	10.00	3.65	36.45%	1,958,689
1981	6,751,302	6,718,508	69.9	1.192	8,006,462	17.00	10.00	3.74	37.43%	2,996,819
1982	14,356,005	14,273,845	75.4	1.105	15,769,380	16.00	10.00	3.85	38.50%	6,071,211
1983	24,273,189	24,111,024	83.4	0.999	24,082,114	15.00	10.00	3.97	39.70%	9,560,599
1984	32,269,953	32,021,154	87.6	0.951	30,449,339	14.00	10.00	4.10	41.02%	12,490,319
1985	55,466,887	54,980,072	97.0	0.859	47,214,845	13.00	10.00	4.25	42.49%	20,061,588
1986	59,018,517	58,438,180	101.8	0.818	47,818,275	12.00	10.00	4.41	44.14%	21,106,987
1987	47,290,272	46,778,761	100.2	0.831	38,888,930	11.00	10.00	4.60	45.99%	17,885,019
1988	50,206,123	49,621,240	100.0	0.833	41,334,493	10.00	10.00	4.81	48.07%	19,869,491
1989	46,871,990	46,298,042	99.1	0.840	38,912,916	9.00	10.00	5.04	50.44%	19,627,675
1990	58,936,728	58,199,481	98.2	0.848	49,367,196	8.00	10.00	5.31	53.15%	26,238,664
1991	57,999,681	57,283,329	99.6	0.837	47,925,488	7.00	10.00	5.62	56.25%	26,958,087
1992	50,304,804	49,716,632	94.7	0.879	43,724,403	6.00	10.00	5.98	59.83%	26,160,310
1993	46,231,198	45,746,759	91.2	0.913	41,783,173	5.00	10.00	6.40	63.99%	26,737,052
1994	66,103,681	65,529,075	88.8	0.938	61,471,983	4.00	10.00	6.89	68.88%	42,341,902
1995	84,211,378	83,675,594	86.2	0.967	80,884,858	3.00	10.00	7.47	74.65%	60,380,546
1996	128,004,745	127,577,363	86.9	0.959	122,292,225	2.00	10.00	8.16	81.55%	99,729,309
1997	85,017,783	84,959,953	84.5	0.986	83,753,421	1.00	10.00	9.00	90.00%	75,378,079
1998	0	60,098,685	83.3	1.000	60,098,685	0.25	10.00	10.00	100.00%	60,098,685
	928,747,606	981,421,124		0.924	906,673,123				64.12%	581,316,828

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Circuit Analog
Plant Sub-Account: Circuit Analog
Index Number: 2232
Field Code: CRA
Survivor Curve: 18
Probable Life: 7

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1949	3,653	3,648	43.4	2.613	9,533	49.00	7.00	0.00	0.00%	0
1950	12,346	12,331	44.6	2.543	31,352	48.00	7.00	0.00	0.00%	0
1951	1,971	1,969	46.3	2.449	4,821	47.00	7.00	0.00	0.00%	0
1952	733	732	42.4	2.675	1,958	46.00	7.00	0.00	0.00%	0
1953	228	228	38.9	2.915	664	45.00	7.00	0.00	0.00%	0
1954	3,796	3,791	39.3	2.885	10,940	44.00	7.00	0.00	0.00%	0
1955	39,354	39,305	39.2	2.893	113,704	43.00	7.00	0.00	0.00%	0
1956	14,870	14,851	39.8	2.849	42,315	42.00	7.00	0.00	0.00%	0
1957	7,787	7,777	41.4	2.739	21,303	41.00	7.00	0.00	0.00%	0
1958	43,651	43,597	42.3	2.681	116,876	40.00	7.00	0.00	0.00%	0
1959	29,234	29,198	41.5	2.733	79,783	39.00	7.00	0.00	0.00%	0
1960	28,150	28,115	40.6	2.793	78,528	38.00	7.00	0.00	0.00%	0
1961	14,044	14,026	40.4	2.807	39,371	37.00	7.00	0.00	0.00%	0
1962	32,848	32,807	39.6	2.864	93,947	36.00	7.00	0.00	0.00%	0
1963	437,990	437,444	39.8	2.849	1,246,386	35.00	7.00	0.00	0.00%	0
1964	17,568	17,546	39.8	2.849	49,993	34.00	7.00	0.00	0.00%	0
1965	30,470	30,432	38.7	2.930	89,173	33.00	7.00	0.00	0.00%	0
1966	43,941	43,886	38.3	2.961	129,940	32.00	7.00	0.00	0.00%	0
1967	52,459	52,394	39.0	2.908	152,345	31.00	7.00	0.00	0.00%	0
1968	51,075	51,011	40.4	2.807	143,185	30.00	7.00	0.00	0.00%	0
1969	130,059	129,897	41.5	2.733	354,947	29.00	7.00	0.00	0.00%	0
1970	253,882	253,566	42.6	2.662	674,984	28.00	7.00	0.00	0.00%	0
1971	499,904	499,281	44.4	2.554	1,275,190	27.00	7.00	0.50	7.14%	91,049
1972	272,663	272,322	45.6	2.487	677,223	26.00	7.00	0.72	10.32%	69,889
1973	431,515	430,973	47.7	2.377	1,024,577	25.00	7.00	0.82	11.76%	120,490
1974	352,140	351,690	53.0	2.140	752,485	24.00	7.00	0.88	12.55%	94,437
1975	562,582	561,833	57.5	1.972	1,108,033	23.00	7.00	0.93	13.31%	147,479
1976	417,154	416,544	59.8	1.896	789,901	22.00	7.00	0.99	14.14%	111,692
1977	552,955	551,983	61.1	1.856	1,024,466	21.00	7.00	1.06	15.07%	154,387
1978	775,713	773,880	61.3	1.850	1,431,614	20.00	7.00	1.13	16.10%	230,490
1979	1,471,473	1,466,302	62.8	1.806	2,647,749	19.00	7.00	1.21	17.23%	456,207
1980	1,906,041	1,895,475	64.2	1.766	3,348,082	18.00	7.00	1.29	18.48%	618,726
1981	2,372,863	2,351,813	69.9	1.622	3,815,388	17.00	7.00	1.39	19.87%	758,118
1982	3,877,358	3,823,230	75.4	1.504	5,750,057	16.00	7.00	1.50	21.41%	1,231,087
1983	4,166,131	4,077,687	83.4	1.360	5,544,481	15.00	7.00	1.62	23.13%	1,282,438
1984	4,214,239	4,083,866	87.6	1.295	5,286,649	14.00	7.00	1.75	25.03%	1,323,248
1985	5,058,360	4,840,600	97.0	1.169	5,659,011	13.00	7.00	1.90	27.16%	1,536,987
1986	5,545,157	5,228,271	101.8	1.114	5,824,027	12.00	7.00	2.07	29.53%	1,719,835
1987	6,447,044	5,980,473	100.2	1.132	6,768,320	11.00	7.00	2.25	32.18%	2,178,045
1988	4,024,210	3,672,212	100.0	1.134	4,164,288	10.00	7.00	2.46	35.16%	1,464,164
1989	3,813,888	3,428,930	103.7	1.094	3,749,669	9.00	7.00	2.70	38.51%	1,443,997
1990	1,917,782	1,704,534	103.3	1.098	1,871,192	8.00	7.00	2.96	42.30%	791,514
1991	1,144,756	1,010,993	106.5	1.065	1,076,494	7.00	7.00	3.26	46.57%	501,323
1992	1,934,749	1,708,605	108.2	1.048	1,790,719	6.00	7.00	3.60	51.44%	921,146

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account:	Circuit Analog
Plant Sub-Account:	Circuit Analog
Index Number:	2232
Field Code:	CRA
Survivor Curve:	18
Probable Life:	7

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1993	1,314,814	1,169,073	109.7	1.034	1,208,504	5.00	7.00	3.99	56.97%	688,484
1994	1,103,878	994,723	111.8	1.014	1,008,959	4.00	7.00	4.43	63.31%	638,772
1995	855,719	785,770	111.8	1.014	797,016	3.00	7.00	4.94	70.59%	562,613
1996	796,848	748,525	111.6	1.016	760,598	2.00	7.00	5.53	78.99%	600,796
1997	963,388	927,638	111.9	1.013	940,073	1.00	7.00	6.21	88.71%	833,939
1998	0	86,518	113.4	1.000	86,518	0.25	7.00	7.00	100.03%	86,544
	58,043,433	55,092,296		1.337	73,667,331				28.04%	20,657,898

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Other Term Equipment
Plant Sub-Account: Other Term Equipment
Index Number: 2362
Field Code: OTO
Survivor Curve: 20
Probable Life: 6

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1946	9,634	9,657	28.3	3.855	37,227	52.00	6.00	4.24	70.66%	26,305
1947	0	0	32.0	3.409	0	51.00	6.00	4.22	70.34%	0
1948	0	0	31.8	3.431	0	50.00	6.00	4.22	70.34%	0
1949	0	0	31.7	3.442	0	49.00	6.00	4.24	70.64%	0
1950	0	0	32.2	3.388	0	48.00	6.00	4.24	70.59%	0
1951	367	368	34.7	3.144	1,157	47.00	6.00	4.23	70.49%	815
1952	2,295	2,300	34.0	3.209	7,381	46.00	6.00	4.23	70.56%	5,208
1953	646	648	33.1	3.296	2,134	45.00	6.00	4.24	70.63%	1,507
1954	0	0	33.6	3.247	0	44.00	6.00	4.23	70.50%	0
1955	86,222	86,424	33.2	3.286	284,001	43.00	6.00	4.24	70.61%	200,533
1956	8,840	8,861	33.9	3.218	28,516	42.00	6.00	4.24	70.58%	20,127
1957	1,271	1,274	34.8	3.135	3,994	41.00	6.00	4.23	70.53%	2,817
1958	0	0	35.6	3.065	0	40.00	6.00	4.23	70.58%	0
1959	0	0	36.0	3.031	0	39.00	6.00	4.23	70.57%	0
1960	1,485	1,488	35.8	3.047	4,536	38.00	6.00	4.23	70.56%	3,201
1961	55,484	55,614	35.9	3.039	169,011	37.00	6.00	4.23	70.57%	119,271
1962	4,553	4,564	36.0	3.031	13,830	36.00	6.00	4.23	70.56%	9,759
1963	19,311	19,356	36.3	3.006	58,175	35.00	6.00	4.23	70.56%	41,049
1964	5,753	5,766	37.4	2.917	16,822	34.00	6.00	4.23	70.56%	11,869
1965	10,401	10,425	37.8	2.886	30,090	33.00	6.00	4.23	70.56%	21,232
1966	123,061	123,350	38.7	2.819	347,739	32.00	6.00	4.23	70.56%	245,364
1967	15,280	15,316	40.0	2.728	41,774	31.00	6.00	4.23	70.56%	29,476
1968	30,133	30,204	41.6	2.623	79,213	30.00	6.00	4.23	70.56%	55,892
1969	14,444	14,478	44.5	2.452	35,496	29.00	6.00	4.23	70.56%	25,046
1970	53,122	53,247	46.4	2.351	125,200	28.00	6.00	4.23	70.56%	88,341
1971	125,671	125,969	49.2	2.217	279,333	27.00	6.00	4.23	70.56%	197,097
1972	12,292	12,321	52.4	2.082	25,653	26.00	6.00	4.23	70.56%	18,101
1973	63,021	63,171	53.8	2.028	128,104	25.00	6.00	4.23	70.56%	90,390
1974	94,321	94,547	57.6	1.894	179,081	24.00	6.00	4.23	70.56%	126,360
1975	84,953	85,158	63.2	1.726	147,005	23.00	6.00	4.23	70.56%	103,727
1976	154,853	155,229	67.6	1.614	250,525	22.00	6.00	4.23	70.56%	176,771
1977	166,500	166,908	71.4	1.528	255,038	21.00	6.00	4.23	70.56%	179,955
1978	269,061	269,729	74.1	1.472	397,132	20.00	6.00	4.23	70.56%	280,216
1979	290,512	291,245	77.7	1.404	408,942	19.00	6.00	4.23	70.56%	288,549
1980	231,832	232,428	83.2	1.311	304,782	18.00	6.00	4.23	70.57%	215,085
1981	145,522	145,905	89.8	1.215	177,263	17.00	6.00	4.23	70.57%	125,095
1982	121,872	122,202	97.7	1.117	136,461	16.00	6.00	4.23	70.57%	96,301
1983	303,874	304,727	99.7	1.094	333,458	15.00	6.00	4.23	70.58%	235,355
1984	283,927	284,760	96.5	1.131	321,941	14.00	6.00	4.24	70.59%	227,258
1985	11,360	11,395	91.9	1.187	13,528	13.00	6.00	4.24	70.61%	9,552
1986	3,925,467	3,938,377	95.5	1.142	4,499,235	12.00	6.00	4.24	70.65%	3,178,709
1987	2,335,789	2,344,052	96.6	1.129	2,647,372	11.00	6.00	4.24	70.70%	1,871,692
1988	1,968,273	1,975,847	100.0	1.091	2,155,649	10.00	6.00	4.25	70.78%	1,525,768
1989	1,927,728	1,935,884	98.7	1.105	2,139,867	9.00	6.00	4.25	70.91%	1,517,380

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Other Term Equipment
Plant Sub-Account: Other Term Equipment
Index Number: 2362
Field Code: OTO
Survivor Curve: 20
Probable Life: 6

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1990	3,169,647	3,184,529	99.0	1.102	3,509,415	8.00	6.00	4.27	71.12%	2,495,896
1991	3,590,134	3,608,953	99.8	1.093	3,945,258	7.00	6.00	4.29	71.46%	2,819,282
1992	2,918,111	2,935,189	102.4	1.065	3,127,238	6.00	6.00	4.32	72.00%	2,251,611
1993	3,133,880	3,154,147	106.7	1.022	3,225,093	5.00	6.00	4.37	72.88%	2,350,448
1994	3,441,974	3,465,880	110.3	0.989	3,428,173	4.00	6.00	4.46	74.31%	2,547,476
1995	4,579,873	4,611,994	111.0	0.983	4,533,050	3.00	6.00	4.60	76.67%	3,475,489
1996	5,142,200	5,174,140	110.4	0.988	5,113,213	2.00	6.00	4.84	80.64%	4,123,295
1997	5,247,784	5,268,469	109.3	0.998	5,258,829	1.00	6.00	5.25	87.50%	4,601,475
1998	0	2,501,883	109.1	1.000	2,501,883	0.25	6.00	6.00	100.00%	2,501,883
	44,182,733	46,908,379		1.081	50,728,818				75.97%	38,538,027

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Pole Lines
Plant Sub-Account: Pole Lines
Index Number: 2411
Field Code: PLZA
Survivor Curve: 21
Probable Life: 25

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1925	45,413	45,413	12.1	13.719	623,021	73.00	25.00	0.00	0.00%	0
1926	29,782	29,782	12.1	13.719	408,580	72.00	25.00	0.00	0.00%	0
1927	73,199	73,199	12.1	13.719	1,004,218	71.00	25.00	0.00	0.00%	0
1928	84,141	84,141	12.1	13.719	1,154,331	70.00	25.00	0.00	0.00%	0
1929	85,532	85,532	12.1	13.719	1,173,414	69.00	25.00	0.00	0.00%	0
1930	90,207	90,207	12.1	13.719	1,237,551	68.00	25.00	0.00	0.00%	0
1931	21,055	21,055	12.1	13.719	288,854	67.00	25.00	0.00	0.00%	0
1932	26,699	26,699	12.1	13.719	366,284	66.00	25.00	0.00	0.00%	0
1933	26,707	26,707	12.1	13.719	366,394	65.00	25.00	0.00	0.00%	0
1934	21,872	21,872	12.1	13.719	300,062	64.00	25.00	0.00	0.00%	0
1935	57,283	57,283	12.1	13.719	785,866	63.00	25.00	0.00	0.00%	0
1936	42,632	42,632	12.1	13.719	584,869	62.00	25.00	0.00	0.00%	0
1937	63,646	63,646	12.1	13.719	873,160	61.00	25.00	0.00	0.00%	0
1938	43,386	43,386	12.1	13.719	595,213	60.00	25.00	0.00	0.00%	0
1939	50,873	50,873	12.1	13.719	697,927	59.00	25.00	0.00	0.00%	0
1940	127,365	127,365	12.1	13.719	1,747,321	58.00	25.00	0.00	0.00%	0
1941	137,784	137,784	12.1	13.719	1,890,260	57.00	25.00	0.00	0.00%	0
1942	80,443	80,443	12.1	13.719	1,103,598	56.00	25.00	0.00	0.00%	0
1943	41,140	41,140	12.1	13.719	564,400	55.00	25.00	0.00	0.00%	0
1944	52,816	52,816	12.1	13.719	724,583	54.00	25.00	0.00	0.00%	0
1945	137,169	137,169	12.1	13.719	1,881,823	53.00	25.00	0.00	0.00%	0
1946	181,285	181,285	12.1	13.719	2,487,050	52.00	25.00	0.00	0.00%	0
1947	236,217	236,217	14.3	11.608	2,742,099	51.00	25.00	0.00	0.00%	0
1948	243,486	243,486	14.7	11.293	2,749,570	50.00	25.00	0.00	0.00%	0
1949	256,963	256,963	14.5	11.448	2,941,783	49.00	25.00	0.00	0.00%	0
1950	349,090	349,090	14.7	11.293	3,942,105	48.00	25.00	0.00	0.00%	0
1951	383,715	383,715	15.7	10.573	4,057,114	47.00	25.00	0.00	0.00%	0
1952	447,626	447,626	16.6	10.000	4,476,260	46.00	25.00	0.00	0.00%	0
1953	588,012	588,012	17.2	9.651	5,675,000	45.00	25.00	0.00	0.00%	0
1954	811,550	811,550	17.0	9.765	7,924,547	44.00	25.00	0.00	0.00%	0
1955	681,817	681,817	16.8	9.881	6,737,001	43.00	25.00	0.00	0.00%	0
1956	718,932	718,932	17.9	9.274	6,667,191	42.00	25.00	0.00	0.00%	0
1957	949,167	949,167	19.1	8.691	8,249,305	41.00	25.00	0.00	0.00%	0
1958	1,231,817	1,231,817	19.3	8.601	10,594,903	40.00	25.00	0.00	0.00%	0
1959	1,668,314	1,668,314	19.8	8.384	13,986,875	39.00	25.00	0.00	0.00%	0
1960	1,623,567	1,623,556	20.2	8.218	13,342,091	38.00	25.00	0.00	0.00%	0
1961	906,239	905,953	20.3	8.177	7,408,284	37.00	25.00	0.50	2.00%	148,166
1962	657,924	655,800	20.4	8.137	5,336,411	36.00	25.00	0.52	2.09%	111,531
1963	780,562	770,892	20.8	7.981	6,152,313	35.00	25.00	0.59	2.37%	145,810
1964	663,511	646,954	21.5	7.721	4,995,089	34.00	25.00	0.74	2.97%	148,354
1965	533,417	515,756	22.2	7.477	3,856,553	33.00	25.00	0.98	3.94%	151,948
1966	351,075	339,240	23.4	7.094	2,406,573	32.00	25.00	1.32	5.28%	127,067
1967	253,187	245,807	24.6	6.748	1,658,696	31.00	25.00	1.75	7.00%	116,109
1968	309,349	302,264	25.9	6.409	1,937,290	30.00	25.00	2.27	9.09%	176,100

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Pole Lines
Plant Sub-Account: Pole Lines
Index Number: 2411
Field Code: PLZA
Survivor Curve: 21
Probable Life: 25

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1969	344,432	338,533	27.4	6.058	2,050,966	29.00	25.00	2.87	11.50%	235,861
1970	359,702	355,168	29.4	5.646	2,005,372	28.00	25.00	3.55	14.19%	284,562
1971	275,944	273,360	32.9	5.046	1,379,263	27.00	25.00	4.28	17.11%	235,992
1972	225,469	223,854	34.9	4.756	1,064,749	26.00	25.00	5.05	20.21%	215,186
1973	391,115	388,879	37.9	4.380	1,703,270	25.00	25.00	5.86	23.44%	399,246
1974	282,111	280,760	48.9	3.395	953,090	24.00	25.00	6.69	26.75%	254,952
1975	179,398	178,643	52.4	3.168	565,930	23.00	25.00	7.53	30.12%	170,458
1976	1,258,714	1,253,865	55.7	2.980	3,736,834	22.00	25.00	8.38	33.51%	1,252,213
1977	336,676	335,450	59.2	2.804	940,620	21.00	25.00	9.22	36.90%	347,089
1978	372,324	371,012	62.7	2.648	982,263	20.00	25.00	10.07	40.28%	395,656
1979	192,358	191,691	69.8	2.378	455,884	19.00	25.00	10.91	43.63%	198,902
1980	201,271	200,577	78.3	2.120	425,233	18.00	25.00	11.74	46.96%	199,689
1981	228,079	227,291	85.6	1.939	440,774	17.00	25.00	12.56	50.25%	221,489
1982	1,064,249	1,060,548	91.3	1.818	1,928,269	16.00	25.00	13.38	53.51%	1,031,817
1983	1,159,778	1,155,708	95.3	1.742	2,013,090	15.00	25.00	14.18	56.72%	1,141,825
1984	896,010	892,831	100.0	1.660	1,482,099	14.00	25.00	14.97	59.89%	887,629
1985	1,197,865	1,193,563	99.7	1.665	1,987,276	13.00	25.00	15.76	63.02%	1,252,381
1986	1,619,358	1,613,466	99.8	1.663	2,683,722	12.00	25.00	16.53	66.11%	1,774,208
1987	979,344	975,733	98.4	1.687	1,646,054	11.00	25.00	17.29	69.16%	1,138,411
1988	1,315,222	1,310,306	100.0	1.660	2,175,108	10.00	25.00	18.04	72.16%	1,569,558
1989	2,359,475	2,350,534	103.5	1.604	3,769,938	9.00	25.00	18.78	75.13%	2,832,355
1990	1,703,255	1,696,710	110.5	1.502	2,548,904	8.00	25.00	19.51	78.05%	1,989,420
1991	1,665,266	1,658,777	116.3	1.427	2,367,644	7.00	25.00	20.23	80.93%	1,916,135
1992	1,433,073	1,427,410	121.7	1.364	1,947,002	6.00	25.00	20.94	83.77%	1,631,004
1993	1,743,793	1,736,805	128.5	1.292	2,243,655	5.00	25.00	21.64	86.57%	1,942,332
1994	1,824,713	1,817,298	139.2	1.193	2,167,180	4.00	25.00	22.33	89.34%	1,936,158
1995	1,421,157	1,415,300	146.0	1.137	1,609,177	3.00	25.00	23.01	92.06%	1,481,408
1996	753,701	750,551	151.2	1.098	824,017	2.00	25.00	23.69	94.75%	780,756
1997	1,868,693	1,860,772	158.8	1.045	1,945,139	1.00	25.00	24.35	97.39%	1,894,371
1998	0	520,019	166.0	1.000	520,019	0.25	25.00	25.00	100.01%	520,071
	43,818,511	44,148,770		4.513	199,258,373				15.69%	31,256,219

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Aerial Cable Metal
Plant Sub-Account: Aerial Cable Metal
Index Number: 2421
Field Code: ACM
Survivor Curve: 22
Probable Life: 15

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1926	5,778	5,778	20.5	6.571	37,966	72.00	15.00	0.00	0.00%	0
1927	4,458	4,458	20.5	6.571	29,293	71.00	15.00	0.00	0.00%	0
1928	10,542	10,542	20.5	6.571	69,269	70.00	15.00	0.00	0.00%	0
1929	15,879	15,879	20.5	6.571	104,338	69.00	15.00	0.00	0.00%	0
1930	163,800	163,801	20.5	6.571	1,076,295	68.00	15.00	0.00	0.00%	0
1931	1,777	1,777	20.5	6.571	11,676	67.00	15.00	0.00	0.00%	0
1932	1,032	1,032	20.5	6.571	6,781	66.00	15.00	0.00	0.00%	0
1933	1,626	1,626	20.5	6.571	10,684	65.00	15.00	0.00	0.00%	0
1934	2,178	2,178	20.5	6.571	14,311	64.00	15.00	0.00	0.00%	0
1935	4,103	4,103	20.5	6.571	26,960	63.00	15.00	0.00	0.00%	0
1936	5,377	5,377	20.5	6.571	35,331	62.00	15.00	0.00	0.00%	0
1937	2,697	2,697	20.5	6.571	17,721	61.00	15.00	0.00	0.00%	0
1938	3,586	3,586	20.5	6.571	23,563	60.00	15.00	0.00	0.00%	0
1939	8,858	8,858	20.5	6.571	58,204	59.00	15.00	0.00	0.00%	0
1940	7,732	7,732	20.5	6.571	50,805	58.00	15.00	0.00	0.00%	0
1941	18,777	18,777	20.5	6.571	123,380	57.00	15.00	0.00	0.00%	0
1942	17,989	17,989	20.5	6.571	118,202	56.00	15.00	0.50	3.33%	3,936
1943	1,458	1,458	20.5	6.571	9,580	55.00	15.00	0.96	6.41%	614
1944	1,919	1,919	20.5	6.571	12,609	54.00	15.00	1.18	7.86%	991
1945	588	588	20.5	6.571	3,864	53.00	15.00	1.28	8.56%	331
1946	11,397	11,397	20.5	6.571	74,887	52.00	15.00	1.47	9.82%	7,354
1947	9,193	9,193	22.0	6.123	56,287	51.00	15.00	1.49	9.91%	5,578
1948	25,121	25,121	23.6	5.708	143,382	50.00	15.00	1.52	10.11%	14,496
1949	52,463	52,463	25.1	5.367	281,546	49.00	15.00	1.58	10.56%	29,731
1950	66,171	66,171	24.5	5.498	363,807	48.00	15.00	1.64	10.95%	39,837
1951	237,420	237,421	25.8	5.221	1,239,558	47.00	15.00	1.69	11.29%	139,946
1952	171,738	171,738	26.0	5.181	889,735	46.00	15.00	1.76	11.72%	104,277
1953	0	0	26.0	5.181	0	45.00	15.00	1.82	12.12%	0
1954	592,944	592,937	26.3	5.122	3,036,829	44.00	15.00	1.88	12.54%	380,818
1955	689,692	689,676	26.0	5.181	3,573,052	43.00	15.00	1.95	12.99%	464,139
1956	532,466	532,445	27.4	4.916	2,617,529	42.00	15.00	2.02	13.45%	352,058
1957	703,924	703,879	27.2	4.952	3,485,752	41.00	15.00	2.09	13.94%	485,914
1958	1,201,200	1,201,081	27.3	4.934	5,926,212	40.00	15.00	2.17	14.45%	856,338
1959	2,111,589	2,111,277	28.1	4.794	10,120,607	39.00	15.00	2.25	14.98%	1,516,067
1960	3,391,103	3,390,378	27.8	4.845	16,427,478	38.00	15.00	2.33	15.54%	2,552,830
1961	1,558,608	1,558,136	27.6	4.880	7,604,381	37.00	15.00	2.42	16.13%	1,226,587
1962	1,670,336	1,669,634	27.8	4.845	8,089,918	36.00	15.00	2.51	16.75%	1,355,061
1963	1,858,572	1,857,509	27.9	4.828	8,967,972	35.00	15.00	2.61	17.39%	1,559,530
1964	1,512,091	1,510,934	28.2	4.777	7,217,119	34.00	15.00	2.71	18.08%	1,304,855
1965	1,491,201	1,489,700	28.5	4.726	7,040,790	33.00	15.00	2.82	18.79%	1,322,964
1966	1,286,166	1,284,490	30.2	4.460	5,729,164	32.00	15.00	2.93	19.55%	1,120,052
1967	1,220,718	1,218,690	31.1	4.331	5,278,378	31.00	15.00	3.05	20.34%	1,073,622
1968	1,445,127	1,442,113	32.8	4.107	5,922,336	30.00	15.00	3.18	21.18%	1,254,351
1969	1,622,956	1,618,768	34.3	3.927	6,357,088	29.00	15.00	3.31	22.06%	1,402,374

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Aerial Cable Metal
Plant Sub-Account: Aerial Cable Metal
Index Number: 2421
Field Code: ACM
Survivor Curve: 22
Probable Life: 15

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1970	2,092,142	2,085,559	38.1	3.535	7,373,354	28.00	15.00	3.45	22.99%	1,695,134
1971	1,334,918	1,329,867	40.2	3.351	4,456,047	27.00	15.00	3.60	23.98%	1,068,560
1972	1,686,273	1,678,706	43.1	3.125	5,246,442	26.00	15.00	3.75	25.02%	1,312,660
1973	1,537,885	1,529,809	44.9	3.000	4,589,428	25.00	15.00	3.92	26.12%	1,198,759
1974	1,519,776	1,510,561	50.8	2.652	4,005,367	24.00	15.00	4.09	27.29%	1,093,065
1975	1,102,482	1,094,864	54.5	2.472	2,706,023	23.00	15.00	4.28	28.52%	771,758
1976	922,660	915,489	58.8	2.291	2,097,217	22.00	15.00	4.48	29.84%	625,810
1977	1,204,720	1,194,322	62.0	2.173	2,594,761	21.00	15.00	4.68	31.23%	810,344
1978	1,422,683	1,409,220	64.6	2.085	2,938,421	20.00	15.00	4.91	32.71%	961,158
1979	1,593,787	1,577,462	72.5	1.858	2,930,815	19.00	15.00	5.14	34.28%	1,004,683
1980	1,970,218	1,948,650	80.9	1.665	3,244,539	18.00	15.00	5.39	35.96%	1,166,736
1981	1,946,566	1,924,084	86.6	1.555	2,992,773	17.00	15.00	5.66	37.75%	1,129,772
1982	5,303,064	5,239,282	91.5	1.472	7,712,910	16.00	15.00	5.95	39.66%	3,058,940
1983	3,806,278	3,759,233	95.5	1.410	5,302,290	15.00	15.00	6.26	41.70%	2,211,055
1984	4,334,174	4,279,870	97.6	1.380	5,906,746	14.00	15.00	6.58	43.88%	2,591,880
1985	4,841,446	4,780,819	96.0	1.403	6,708,087	13.00	15.00	6.93	46.22%	3,100,478
1986	5,087,638	5,024,904	97.1	1.387	6,970,695	12.00	15.00	7.31	48.73%	3,396,820
1987	6,418,389	6,341,684	97.8	1.377	8,734,406	11.00	15.00	7.71	51.42%	4,491,231
1988	7,274,734	7,191,914	100.0	1.347	9,687,509	10.00	15.00	8.15	54.31%	5,261,286
1989	6,903,614	6,830,163	106.7	1.262	8,622,521	9.00	15.00	8.61	57.43%	4,951,914
1990	7,703,184	7,628,247	109.7	1.228	9,366,681	8.00	15.00	9.12	60.79%	5,694,005
1991	7,245,074	7,182,281	111.5	1.208	8,676,710	7.00	15.00	9.66	64.42%	5,589,537
1992	6,412,456	6,364,507	113.9	1.183	7,526,769	6.00	15.00	10.25	68.34%	5,143,794
1993	6,557,571	6,517,023	116.3	1.158	7,548,091	5.00	15.00	10.89	72.58%	5,478,404
1994	6,575,264	6,543,631	119.9	1.123	7,351,352	4.00	15.00	11.58	77.18%	5,673,774
1995	8,651,846	8,622,539	129.9	1.037	8,941,155	3.00	15.00	12.33	82.18%	7,347,841
1996	11,066,635	11,045,157	129.8	1.038	11,462,116	2.00	15.00	13.14	87.62%	10,043,106
1997	9,923,754	9,918,809	132.5	1.017	10,083,498	1.00	15.00	14.03	93.54%	9,432,104
1998	0	4,918,258	134.7	1.000	4,918,258	0.25	15.00	15.00	100.00%	4,918,258
	150,181,581	154,112,222		1.901	292,979,623				40.89%	119,797,516

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Aerial Cable Non Metal
Plant Sub-Account: Aerial Cable Non Metal
Index Number: 2421
Field Code: ACN
Survivor Curve: 23
Probable Life: 20

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1985	734	727	116.3	0.589	428	13.00	20.00	11.01	55.06%	236
1986	0	0	111.6	0.614	0	12.00	20.00	11.48	57.42%	0
1987	3,883	3,851	106.4	0.644	2,479	11.00	20.00	11.98	59.91%	1,485
1988	0	0	100.0	0.685	0	10.00	20.00	12.51	62.56%	0
1989	0	0	96.0	0.714	0	9.00	20.00	13.07	65.36%	0
1990	6,079	6,042	95.3	0.719	4,343	8.00	20.00	13.67	68.33%	2,967
1991	151,181	150,365	96.6	0.709	106,625	7.00	20.00	14.30	71.48%	76,216
1992	140,160	139,517	97.3	0.704	98,221	6.00	20.00	14.97	74.83%	73,499
1993	267,983	266,979	81.6	0.839	224,118	5.00	20.00	15.68	78.39%	175,686
1994	1,219,199	1,215,682	75.0	0.913	1,110,323	4.00	20.00	16.44	82.18%	912,463
1995	1,880,207	1,876,426	75.2	0.911	1,709,245	3.00	20.00	17.24	86.21%	1,473,540
1996	1,807,206	1,805,156	75.3	0.910	1,642,141	2.00	20.00	18.10	90.51%	1,486,302
1997	247,777	247,712	71.9	0.953	235,998	1.00	20.00	19.02	95.10%	224,434
1998	0	58,690	68.5	1.000	58,690	0.25	20.00	20.00	100.00%	58,690
	5,724,409	5,771,148		0.900	5,192,612				86.38%	4,485,519

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Underground Cable Metal
Plant Sub-Account: Underground Cable Metal
Index Number: 2422
Field Code: UGM
Survivor Curve: 24
Probable Life: 15

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1925	16,371	16,371	18.2	7.165	117,296	73.00	15.00	0.00	0.00%	0
1926	32,885	32,885	18.2	7.165	235,616	72.00	15.00	0.00	0.00%	0
1927	24,674	24,674	18.2	7.165	176,785	71.00	15.00	0.00	0.00%	0
1928	80,481	80,481	18.2	7.165	576,633	70.00	15.00	0.00	0.00%	0
1929	175,241	175,241	18.2	7.165	1,255,573	69.00	15.00	0.00	0.00%	0
1930	33,298	33,298	18.2	7.165	238,575	68.00	15.00	0.00	0.00%	0
1931	375	375	18.2	7.165	2,687	67.00	15.00	0.00	0.00%	0
1932	1,105	1,105	18.2	7.165	7,917	66.00	15.00	0.00	0.00%	0
1933	13,387	13,387	18.2	7.165	95,916	65.00	15.00	0.00	0.00%	0
1934	37,234	37,234	18.2	7.165	266,775	64.00	15.00	0.00	0.00%	0
1935	11	11	18.2	7.165	79	63.00	15.00	0.00	0.00%	0
1936	6,986	6,986	18.2	7.165	50,054	62.00	15.00	0.00	0.00%	0
1937	64,674	64,674	18.2	7.165	463,379	61.00	15.00	0.00	0.00%	0
1938	15,140	15,140	18.2	7.165	108,476	60.00	15.00	0.00	0.00%	0
1939	20,026	20,026	18.2	7.165	143,483	59.00	15.00	0.00	0.00%	0
1940	75,452	75,452	18.2	7.165	540,601	58.00	15.00	0.00	0.00%	0
1941	117,505	117,505	18.2	7.165	841,904	57.00	15.00	0.00	0.00%	0
1942	29,252	29,252	18.2	7.165	209,586	56.00	15.00	0.00	0.00%	0
1943	61,892	61,892	18.2	7.165	443,446	55.00	15.00	0.00	0.00%	0
1944	0	0	18.2	7.165	0	54.00	15.00	0.00	0.00%	0
1945	4,049	4,049	18.2	7.165	29,010	53.00	15.00	0.00	0.00%	0
1946	10,613	10,613	18.2	7.165	76,040	52.00	15.00	0.00	0.00%	0
1947	321,816	321,816	24.1	5.411	1,741,278	51.00	15.00	0.00	0.00%	0
1948	87,485	87,485	25.5	5.114	447,374	50.00	15.00	0.00	0.00%	0
1949	48,593	48,593	26.0	5.015	243,713	49.00	15.00	0.00	0.00%	0
1950	45,084	45,084	24.5	5.322	239,957	48.00	15.00	0.00	0.00%	0
1951	210,711	210,711	28.0	4.657	981,311	47.00	15.00	0.00	0.00%	0
1952	201,006	201,006	28.2	4.624	929,475	46.00	15.00	0.00	0.00%	0
1953	541,626	541,626	28.1	4.641	2,513,453	45.00	15.00	0.00	0.00%	0
1954	711,776	711,776	28.3	4.608	3,279,703	44.00	15.00	0.00	0.00%	0
1955	1,390,317	1,390,317	31.1	4.193	5,829,496	43.00	15.00	0.00	0.00%	0
1956	1,434,736	1,434,736	33.7	3.869	5,551,619	42.00	15.00	0.00	0.00%	0
1957	2,055,383	2,055,383	32.5	4.012	8,246,829	41.00	15.00	0.00	0.00%	0
1958	1,687,083	1,687,083	30.7	4.248	7,165,981	40.00	15.00	0.00	0.00%	0
1959	1,639,513	1,639,513	31.4	4.153	6,808,678	39.00	15.00	0.00	0.00%	0
1960	3,238,129	3,238,129	32.7	3.988	12,912,906	38.00	15.00	0.00	0.00%	0
1961	1,890,017	1,890,017	31.5	4.140	7,824,070	37.00	15.00	0.00	0.00%	0
1962	1,667,643	1,667,643	31.4	4.153	6,925,498	36.00	15.00	0.00	0.00%	0
1963	1,677,155	1,677,155	32.1	4.062	6,813,116	35.00	15.00	0.00	0.00%	0
1964	2,203,681	2,203,681	33.5	3.893	8,577,911	34.00	15.00	0.00	0.00%	0
1965	2,568,529	2,568,529	36.2	3.602	9,252,381	33.00	15.00	0.00	0.00%	0
1966	2,153,923	2,153,923	38.6	3.378	7,276,465	32.00	15.00	0.00	0.00%	0
1967	2,641,604	2,641,604	40.2	3.244	8,568,785	31.00	15.00	0.00	0.00%	0
1968	2,462,461	2,462,459	43.0	3.033	7,467,549	30.00	15.00	0.50	3.33%	248,669

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account:	Underground Cable Metal
Plant Sub-Account:	Underground Cable Metal
Index Number:	2422
Field Code:	UGM
Survivor Curve:	24
Probable Life:	15

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1969	4,907,502	4,907,460	45.9	2.841	13,941,890	29.00	15.00	0.56	3.76%	524,215
1970	7,687,335	7,686,958	52.4	2.489	19,129,377	28.00	15.00	0.61	4.08%	780,479
1971	8,452,671	8,451,064	52.4	2.489	21,030,892	27.00	15.00	0.68	4.55%	956,906
1972	9,283,779	9,278,741	55.8	2.337	21,683,652	26.00	15.00	0.78	5.19%	1,125,382
1973	12,624,927	12,609,664	59.9	2.177	27,450,754	25.00	15.00	0.90	6.01%	1,649,790
1974	9,692,523	9,671,145	69.4	1.879	18,171,719	24.00	15.00	1.05	7.03%	1,277,472
1975	4,244,740	4,230,196	70.0	1.863	7,880,250	23.00	15.00	1.24	8.26%	650,909
1976	2,407,485	2,396,221	76.3	1.709	4,095,246	22.00	15.00	1.46	9.72%	398,058
1977	5,496,392	5,464,730	76.0	1.716	9,376,326	21.00	15.00	1.71	11.43%	1,071,714
1978	8,433,724	8,378,656	76.5	1.705	14,282,050	20.00	15.00	2.01	13.39%	1,912,366
1979	10,165,494	10,095,063	84.6	1.541	15,560,239	19.00	15.00	2.34	15.62%	2,430,509
1980	10,320,158	10,248,162	96.3	1.354	13,877,055	18.00	15.00	2.72	18.12%	2,514,522
1981	7,556,711	7,505,785	101.9	1.280	9,605,047	17.00	15.00	3.14	20.90%	2,007,455
1982	18,863,118	18,744,239	104.5	1.248	23,389,941	16.00	15.00	3.59	23.96%	5,604,230
1983	14,535,414	14,451,878	104.7	1.245	17,999,283	15.00	15.00	4.09	27.29%	4,912,004
1984	16,565,065	16,479,891	103.4	1.261	20,783,151	14.00	15.00	4.63	30.88%	6,417,837
1985	19,234,124	19,146,877	99.1	1.316	25,194,277	13.00	15.00	5.21	34.73%	8,749,972
1986	13,851,117	13,796,228	100.0	1.304	17,990,281	12.00	15.00	5.82	38.82%	6,983,827
1987	11,697,277	11,657,026	97.8	1.333	15,542,702	11.00	15.00	6.47	43.13%	6,703,567
1988	10,959,071	10,926,420	100.0	1.304	14,248,052	10.00	15.00	7.15	47.65%	6,789,197
1989	10,277,709	10,251,198	113.7	1.147	11,756,871	9.00	15.00	7.85	52.35%	6,154,722
1990	13,183,785	13,154,270	114.1	1.143	15,033,451	8.00	15.00	8.58	57.22%	8,602,141
1991	7,874,737	7,859,364	114.1	1.143	8,982,130	7.00	15.00	9.34	62.24%	5,590,478
1992	3,375,547	3,369,763	114.2	1.142	3,847,785	6.00	15.00	10.11	67.38%	2,592,638
1993	9,758,430	9,743,631	112.7	1.157	11,273,909	5.00	15.00	10.90	72.64%	8,189,367
1994	10,836,910	10,822,227	112.8	1.156	12,510,801	4.00	15.00	11.70	77.99%	9,757,174
1995	8,655,021	8,644,434	129.9	1.004	8,677,708	3.00	15.00	12.51	83.41%	7,238,076
1996	12,151,804	12,138,238	127.3	1.024	12,433,828	2.00	15.00	13.33	88.90%	11,053,673
1997	10,666,184	10,655,196	129.2	1.009	10,754,161	1.00	15.00	14.17	94.43%	10,155,154
1998	0	7,240,324	130.4	1.000	7,240,324	0.25	15.00	15.00	100.01%	7,241,048
	325,457,676	331,703,971		1.686	559,220,530				25.09%	140,283,551

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account:	Underground Cable Non Metal
Plant Sub-Account:	Underground Cable Non Metal
Index Number:	2422
Field Code:	UGN
Survivor Curve:	25
Probable Life:	20

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1984	150,106	148,362	152.1	0.410	60,866	14.00	20.00	9.07	45.35%	27,603
1985	6,259,159	6,193,903	148.7	0.420	2,599,190	13.00	20.00	9.76	48.80%	1,268,405
1986	5,318,469	5,268,704	134.3	0.465	2,448,005	12.00	20.00	10.47	52.34%	1,281,286
1987	2,661,373	2,638,996	120.2	0.519	1,369,994	11.00	20.00	11.20	55.98%	766,923
1988	4,048,806	4,018,148	100.0	0.624	2,507,324	10.00	20.00	11.94	59.71%	1,497,123
1989	5,869,770	5,829,619	93.8	0.665	3,878,126	9.00	20.00	12.70	63.51%	2,462,998
1990	4,286,573	4,259,984	91.0	0.686	2,921,132	8.00	20.00	13.48	67.38%	1,968,258
1991	9,289,257	9,236,767	90.4	0.690	6,375,822	7.00	20.00	14.26	71.31%	4,546,598
1992	5,232,667	5,205,594	89.3	0.699	3,637,504	6.00	20.00	15.06	75.30%	2,739,040
1993	7,508,395	7,472,628	74.2	0.841	6,284,259	5.00	20.00	15.87	79.33%	4,985,302
1994	6,578,544	6,549,520	67.8	0.920	6,027,877	4.00	20.00	16.68	83.41%	5,027,852
1995	7,603,136	7,571,877	67.9	0.919	6,958,544	3.00	20.00	17.50	87.52%	6,090,118
1996	9,553,231	9,516,404	68.0	0.918	8,732,700	2.00	20.00	18.33	91.66%	8,004,393
1997	4,392,205	4,376,230	65.2	0.957	4,188,294	1.00	20.00	19.16	95.82%	4,013,223
1998	0	3,337,533	62.4	1.000	3,337,533	0.25	20.00	20.00	100.00%	3,337,533
	78,751,691	81,624,268		0.751	61,327,170				78.30%	48,016,656

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Buried Cable Metal
Plant Sub-Account: Buried Cable Metal
Index Number: 2423
Field Code: BCM
Survivor Curve: 26
Probable Life: 20

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1925	1,885	1,885	26.2	5.183	9,770	73.00	20.00	0.00	0.00%	0
1926	0	0	26.2	5.183	0	72.00	20.00	0.00	0.00%	0
1927	0	0	26.2	5.183	0	71.00	20.00	0.00	0.00%	0
1928	0	0	26.2	5.183	0	70.00	20.00	0.00	0.00%	0
1929	0	0	26.2	5.183	0	69.00	20.00	0.00	0.00%	0
1930	0	0	26.2	5.183	0	68.00	20.00	0.00	0.00%	0
1931	0	0	26.2	5.183	0	67.00	20.00	0.00	0.00%	0
1932	0	0	26.2	5.183	0	66.00	20.00	0.00	0.00%	0
1933	0	0	26.2	5.183	0	65.00	20.00	0.00	0.00%	0
1934	0	0	26.2	5.183	0	64.00	20.00	0.00	0.00%	0
1935	0	0	26.2	5.183	0	63.00	20.00	0.00	0.00%	0
1936	5,380	5,380	26.2	5.183	27,886	62.00	20.00	0.00	0.00%	0
1937	27	27	26.2	5.183	140	61.00	20.00	0.00	0.00%	0
1938	555	555	26.2	5.183	2,877	60.00	20.00	0.00	0.00%	0
1939	0	0	26.2	5.183	0	59.00	20.00	0.00	0.00%	0
1940	995	995	26.2	5.183	5,157	58.00	20.00	0.00	0.00%	0
1941	70,882	70,882	26.2	5.183	367,396	57.00	20.00	0.00	0.00%	0
1942	0	0	26.2	5.183	0	56.00	20.00	0.00	0.00%	0
1943	0	0	26.2	5.183	0	55.00	20.00	0.00	0.00%	0
1944	0	0	26.2	5.183	0	54.00	20.00	0.00	0.00%	0
1945	0	0	26.2	5.183	0	53.00	20.00	0.00	0.00%	0
1946	1,108	1,108	26.2	5.183	5,743	52.00	20.00	0.00	0.00%	0
1947	459	459	27.9	4.867	2,234	51.00	20.00	0.00	0.00%	0
1948	3,324	3,324	29.8	4.557	15,148	50.00	20.00	0.00	0.00%	0
1949	13,249	13,249	31.8	4.270	56,579	49.00	20.00	0.00	0.00%	0
1950	1,877	1,877	31.0	4.381	8,222	48.00	20.00	0.00	0.00%	0
1951	3,392	3,392	32.4	4.191	14,217	47.00	20.00	0.00	0.00%	0
1952	61,014	61,014	32.9	4.128	251,845	46.00	20.00	0.00	0.00%	0
1953	57,667	57,667	33.2	4.090	235,879	45.00	20.00	0.00	0.00%	0
1954	325,977	325,977	33.7	4.030	1,313,579	44.00	20.00	0.50	2.50%	32,839
1955	208,298	208,298	33.3	4.078	849,454	43.00	20.00	0.67	3.33%	28,287
1956	462,504	462,503	35.1	3.869	1,789,398	42.00	20.00	0.71	3.56%	63,703
1957	237,709	237,707	34.6	3.925	932,967	41.00	20.00	0.78	3.89%	36,292
1958	189,778	189,775	34.7	3.914	742,691	40.00	20.00	0.85	4.24%	31,490
1959	318,172	318,158	35.7	3.804	1,210,247	39.00	20.00	0.93	4.63%	56,034
1960	915,123	915,030	34.6	3.925	3,591,361	38.00	20.00	1.01	5.07%	182,082
1961	1,398,722	1,398,430	33.7	4.030	5,635,216	37.00	20.00	1.11	5.56%	313,318
1962	1,679,346	1,678,688	33.5	4.054	6,804,951	36.00	20.00	1.22	6.11%	415,783
1963	2,882,802	2,880,855	33.4	4.066	11,713,176	35.00	20.00	1.34	6.72%	787,125
1964	3,275,256	3,271,717	33.0	4.115	13,463,611	34.00	20.00	1.48	7.41%	997,654
1965	3,097,645	3,092,638	33.3	4.078	12,612,020	33.00	20.00	1.63	8.16%	1,029,141
1966	3,809,050	3,800,376	35.5	3.825	14,537,777	32.00	20.00	1.80	9.00%	1,308,400
1967	2,788,688	2,780,207	36.6	3.710	10,315,630	31.00	20.00	1.98	9.92%	1,023,310
1968	4,573,184	4,555,470	38.6	3.518	16,026,758	30.00	20.00	2.18	10.92%	1,750,122
1969	9,238,763	9,195,080	40.3	3.370	30,984,908	29.00	20.00	2.40	12.02%	3,724,386
1970	8,248,563	8,202,719	45.4	2.991	24,535,887	28.00	20.00	2.64	13.22%	3,243,644
1971	19,309,979	19,188,013	46.8	2.902	55,678,039	27.00	20.00	2.90	14.52%	8,084,451
1972	15,052,253	14,947,413	49.9	2.721	40,678,529	26.00	20.00	3.19	15.93%	6,480,090

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account:	Buried Cable Metal
Plant Sub-Account:	Buried Cable Metal
Index Number:	2423
Field Code:	BCM
Survivor Curve:	26
Probable Life:	20

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1973	22,261,033	22,094,598	52.0	2.612	57,700,892	25.00	20.00	3.49	17.45%	10,068,806
1974	15,296,676	15,176,840	59.9	2.267	34,407,594	24.00	20.00	3.82	19.09%	6,568,410
1975	8,586,821	8,517,845	62.7	2.166	18,448,537	23.00	20.00	4.17	20.85%	3,846,520
1976	9,518,036	9,441,156	67.7	2.006	18,938,094	22.00	20.00	4.55	22.73%	4,304,629
1977	13,597,969	13,489,459	69.4	1.957	26,395,800	21.00	20.00	4.95	24.75%	6,532,960
1978	19,950,921	19,796,138	70.3	1.932	38,240,620	20.00	20.00	5.38	26.90%	10,286,727
1979	22,186,427	22,021,521	78.5	1.730	38,095,829	19.00	20.00	5.84	29.19%	11,120,173
1980	22,242,686	22,086,426	88.1	1.541	34,044,684	18.00	20.00	6.32	31.61%	10,761,524
1981	22,944,916	22,794,468	95.0	1.429	32,584,092	17.00	20.00	6.84	34.18%	11,137,243
1982	52,179,212	51,863,662	98.5	1.379	71,503,404	16.00	20.00	7.38	36.89%	26,377,606
1983	39,957,010	39,736,676	99.9	1.359	54,016,422	15.00	20.00	7.95	39.75%	21,471,528
1984	55,712,676	55,435,647	100.8	1.347	74,684,136	14.00	20.00	8.55	42.75%	31,927,468
1985	62,308,354	62,032,068	98.9	1.373	85,176,490	13.00	20.00	9.18	45.90%	39,096,009
1986	53,630,025	53,420,374	100.5	1.351	72,183,948	12.00	20.00	9.84	49.20%	35,514,502
1987	60,262,101	60,056,912	98.8	1.374	82,547,861	11.00	20.00	10.53	52.64%	43,453,194
1988	48,732,642	48,590,017	100.0	1.358	65,985,243	10.00	20.00	11.25	56.23%	37,103,502
1989	42,040,178	41,936,004	106.7	1.273	53,373,096	9.00	20.00	11.99	59.97%	32,007,846
1990	35,248,929	35,176,286	107.1	1.268	44,602,611	8.00	20.00	12.77	63.86%	28,483,227
1991	35,746,250	35,686,329	109.1	1.245	44,419,830	7.00	20.00	13.58	67.89%	30,156,623
1992	36,888,484	36,839,636	112.2	1.210	44,588,437	6.00	20.00	14.41	72.06%	32,130,427
1993	34,289,823	34,255,399	112.9	1.203	41,203,572	5.00	20.00	15.27	76.37%	31,467,168
1994	45,516,825	45,484,320	117.3	1.158	52,657,891	4.00	20.00	16.17	80.83%	42,563,373
1995	71,605,888	71,573,426	132.2	1.027	73,522,475	3.00	20.00	17.08	85.42%	62,802,898
1996	93,348,546	93,328,033	131.2	1.035	96,600,205	2.00	20.00	18.03	90.15%	87,085,085
1997	94,510,964	94,509,889	134.0	1.013	95,779,424	1.00	20.00	19.00	95.01%	91,000,031
1998	0	31,598,043	135.8	1.000	31,598,043	0.25	20.00	20.00	100.00%	31,598,043
	1,096,797,018	1,124,812,038		1.456	1,637,718,524				49.36%	808,453,673

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Buried Cable Non Metal
Plant Sub-Account: Buried Cable Non Metal
Index Number: 2423
Field Code: BCN
Survivor Curve: 26
Probable Life: 20

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1985	572,771	572,151	127.9	0.610	348,927	13.00	20.00	9.18	45.90%	160,157
1986	144,757	144,619	120.6	0.647	93,535	12.00	20.00	9.84	49.20%	46,019
1987	1,201,640	1,200,641	113.0	0.690	828,761	11.00	20.00	10.53	52.64%	436,260
1988	1,509,741	1,508,662	100.0	0.780	1,176,756	10.00	20.00	11.25	56.23%	661,690
1989	240,696	240,550	96.4	0.809	194,636	9.00	20.00	11.99	59.97%	116,723
1990	1,871,907	1,870,965	95.1	0.820	1,534,545	8.00	20.00	12.77	63.86%	979,961
1991	3,910,865	3,909,264	95.3	0.818	3,199,608	7.00	20.00	13.58	67.89%	2,172,214
1992	990,542	990,222	95.2	0.819	811,316	6.00	20.00	14.41	72.06%	584,634
1993	1,176,352	1,176,064	83.1	0.939	1,103,887	5.00	20.00	15.27	76.37%	843,038
1994	1,228,277	1,228,063	78.1	0.999	1,226,491	4.00	20.00	16.17	80.83%	991,372
1995	2,359,378	2,359,117	79.1	0.986	2,326,310	3.00	20.00	17.08	85.42%	1,987,134
1996	1,337,436	1,337,365	80.1	0.974	1,302,303	2.00	20.00	18.03	90.15%	1,174,026
1997	252,948	252,947	79.3	0.984	248,801	1.00	20.00	19.00	95.01%	236,386
1998	0	76,189	78.0	1.000	76,189	0.25	20.00	20.00	100.00%	76,189
	16,797,310	16,866,818		0.858	14,472,063				72.32%	10,465,803

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Submarine Cable Metal
Plant Sub-Account: Submarine Cable Metal
Index Number: 2424
Field Code: SBM
Survivor Curve: 27
Probable Life: 20

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1981	1,906	1,906	101.5	1.287	2,452	17.00	20.00	11.58	57.91%	1,420
1982	0	0	104.6	1.249	0	16.00	20.00	12.03	60.16%	0
1983	438	438	104.6	1.249	547	15.00	20.00	12.49	62.45%	342
1984	0	0	105.2	1.241	0	14.00	20.00	12.96	64.78%	0
1985	0	0	102.3	1.277	0	13.00	20.00	13.43	67.14%	0
1986	0	0	103.3	1.264	0	12.00	20.00	13.91	69.53%	0
1987	0	0	99.3	1.315	0	11.00	20.00	14.39	71.95%	0
1988	0	0	100.0	1.306	0	10.00	20.00	14.88	74.40%	0
1989	0	0	106.2	1.230	0	9.00	20.00	15.38	76.88%	0
1990	228	228	106.5	1.226	280	8.00	20.00	15.88	79.38%	222
1991	0	0	109.3	1.195	0	7.00	20.00	16.38	81.90%	0
1992	0	0	112.4	1.162	0	6.00	20.00	16.89	84.44%	0
1993	0	0	117.0	1.116	0	5.00	20.00	17.40	87.00%	0
1994	0	0	122.2	1.069	0	4.00	20.00	17.92	89.58%	0
1995	0	0	127.1	1.028	0	3.00	20.00	18.43	92.17%	0
1996	0	0	126.1	1.036	0	2.00	20.00	18.96	94.78%	0
1997	0	0	128.8	1.014	0	1.00	20.00	19.48	97.39%	0
1998	0	0	130.6	1.000	0	0.25	20.00	20.00	100.01%	0
	2,572	2,572		1.275	3,279				60.50%	1,984

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Intra Building Cable Metal
Plant Sub-Account: Intra Building Cable Metal
Index Number: 2426
Field Code: IBM
Survivor Curve: 28
Probable Life: 20

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1925	1,658	1,658	20.5	6.317	10,474	73.00	20.00	0.00	0.00%	0
1926	88	88	20.5	6.317	556	72.00	20.00	0.00	0.00%	0
1927	0	0	20.5	6.317	0	71.00	20.00	0.00	0.00%	0
1928	997	997	20.5	6.317	6,298	70.00	20.00	0.00	0.00%	0
1929	1,224	1,224	20.5	6.317	7,732	69.00	20.00	0.00	0.00%	0
1930	1,445	1,445	20.5	6.317	9,128	68.00	20.00	0.00	0.00%	0
1931	581	581	20.5	6.317	3,670	67.00	20.00	0.00	0.00%	0
1932	164	164	20.5	6.317	1,036	66.00	20.00	0.00	0.00%	0
1933	270	270	20.5	6.317	1,706	65.00	20.00	0.00	0.00%	0
1934	219	219	20.5	6.317	1,383	64.00	20.00	0.00	0.00%	0
1935	155	155	20.5	6.317	979	63.00	20.00	0.00	0.00%	0
1936	2,123	2,123	20.5	6.317	13,411	62.00	20.00	0.00	0.00%	0
1937	570,627	570,627	20.5	6.317	3,604,693	61.00	20.00	0.00	0.00%	0
1938	636	636	20.5	6.317	4,018	60.00	20.00	0.00	0.00%	0
1939	453	453	20.5	6.317	2,862	59.00	20.00	0.00	0.00%	0
1940	26,666	26,666	20.5	6.317	168,451	58.00	20.00	0.00	0.00%	0
1941	248	248	20.5	6.317	1,567	57.00	20.00	0.00	0.00%	0
1942	1,303	1,303	20.5	6.317	8,231	56.00	20.00	0.00	0.00%	0
1943	945	945	20.5	6.317	5,970	55.00	20.00	0.00	0.00%	0
1944	595	595	20.5	6.317	3,759	54.00	20.00	0.00	0.00%	0
1945	589	589	20.5	6.317	3,721	53.00	20.00	0.00	0.00%	0
1946	1,724	1,724	20.5	6.317	10,891	52.00	20.00	0.00	0.00%	0
1947	403	403	22.0	5.886	2,372	51.00	20.00	0.00	0.00%	0
1948	4,019	4,019	23.6	5.487	22,053	50.00	20.00	0.00	0.00%	0
1949	1,613	1,613	25.1	5.159	8,322	49.00	20.00	0.00	0.00%	0
1950	1,540	1,540	24.5	5.286	8,140	48.00	20.00	0.00	0.00%	0
1951	7,013	7,013	25.8	5.019	35,201	47.00	20.00	0.50	2.50%	880
1952	8,797	8,797	26.0	4.981	43,816	46.00	20.00	0.67	3.33%	1,459
1953	6,763	6,763	26.0	4.981	33,685	45.00	20.00	0.66	3.30%	1,112
1954	18,337	18,337	26.3	4.924	90,290	44.00	20.00	0.71	3.54%	3,196
1955	22,512	22,512	26.0	4.981	112,125	43.00	20.00	0.78	3.91%	4,384
1956	24,284	24,283	27.4	4.726	114,768	42.00	20.00	0.87	4.34%	4,981
1957	33,788	33,785	27.2	4.761	160,849	41.00	20.00	0.97	4.86%	7,817
1958	31,393	31,387	27.3	4.744	148,885	40.00	20.00	1.09	5.46%	8,129
1959	726,673	726,414	28.1	4.609	3,347,710	39.00	20.00	1.23	6.16%	206,219
1960	610,112	609,768	27.8	4.658	2,840,467	38.00	20.00	1.39	6.95%	197,412
1961	557,294	556,838	27.6	4.692	2,612,702	37.00	20.00	1.57	7.84%	204,836
1962	534,220	533,631	27.8	4.658	2,485,799	36.00	20.00	1.77	8.84%	219,745
1963	120,030	119,862	27.9	4.642	556,350	35.00	20.00	1.99	9.95%	55,357
1964	574,180	573,216	28.2	4.592	2,632,321	34.00	20.00	2.24	11.18%	294,293
1965	617,582	616,390	28.5	4.544	2,800,789	33.00	20.00	2.51	12.53%	350,939
1966	525,534	524,411	30.2	4.288	2,248,715	32.00	20.00	2.80	14.00%	314,820
1967	1,313,988	1,310,975	31.1	4.164	5,458,883	31.00	20.00	3.12	15.60%	851,586
1968	120,268	119,980	32.8	3.948	473,701	30.00	20.00	3.46	17.32%	82,045

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Intra Building Cable Metal
Plant Sub-Account: Intra Building Cable Metal
Index Number: 2426
Field Code: IBM
Survivor Curve: 28
Probable Life: 20

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1969	1,024,579	1,022,069	34.3	3.776	3,858,830	29.00	20.00	3.83	19.16%	739,352
1970	324,812	324,013	38.1	3.399	1,101,302	28.00	20.00	4.23	21.13%	232,705
1971	304,398	303,656	40.2	3.221	978,196	27.00	20.00	4.64	23.22%	227,137
1972	873,628	871,543	43.1	3.005	2,618,674	26.00	20.00	5.08	25.42%	665,667
1973	1,687,846	1,683,936	44.9	2.884	4,856,788	25.00	20.00	5.55	27.73%	1,346,787
1974	503,212	502,088	50.8	2.549	1,279,929	24.00	20.00	6.03	30.15%	385,899
1975	457,982	457,000	54.5	2.376	1,085,898	23.00	20.00	6.53	32.66%	354,654
1976	1,489,259	1,486,200	58.5	2.214	3,289,964	22.00	20.00	7.05	35.26%	1,160,041
1977	704,926	703,541	62.0	2.089	1,469,493	21.00	20.00	7.59	37.95%	557,672
1978	409,126	408,357	64.5	2.008	819,879	20.00	20.00	8.14	40.71%	333,773
1979	810,948	809,488	72.5	1.786	1,445,913	19.00	20.00	8.71	43.54%	629,550
1980	1,039,331	1,037,534	80.9	1.601	1,660,825	18.00	20.00	9.28	46.42%	770,955
1981	619,110	618,080	86.6	1.495	924,265	17.00	20.00	9.87	49.36%	456,217
1982	2,219,147	2,215,581	91.5	1.415	3,135,712	16.00	20.00	10.47	52.33%	1,640,918
1983	1,979,619	1,976,535	95.5	1.356	2,680,222	15.00	20.00	11.07	55.33%	1,482,967
1984	2,202,424	2,199,084	97.6	1.327	2,917,842	14.00	20.00	11.67	58.36%	1,702,853
1985	1,939,607	1,936,733	96.0	1.349	2,612,572	13.00	20.00	12.28	61.41%	1,604,381
1986	2,637,981	2,634,146	97.1	1.334	3,513,099	12.00	20.00	12.89	64.47%	2,264,895
1987	2,116,436	2,113,406	97.8	1.324	2,798,426	11.00	20.00	13.51	67.53%	1,889,777
1988	1,406,112	1,404,122	100.0	1.295	1,818,337	10.00	20.00	14.12	70.59%	1,283,564
1989	1,195,100	1,193,422	105.8	1.224	1,460,757	9.00	20.00	14.73	73.63%	1,075,555
1990	1,044,385	1,042,925	107.9	1.200	1,251,703	8.00	20.00	15.33	76.67%	959,681
1991	837,912	836,742	109.0	1.188	994,111	7.00	20.00	15.94	79.69%	792,207
1992	624,685	623,812	111.5	1.161	724,517	6.00	20.00	16.54	82.68%	599,031
1993	480,052	479,379	111.1	1.166	558,772	5.00	20.00	17.13	85.65%	478,588
1994	511,786	511,064	115.0	1.126	575,502	4.00	20.00	17.72	88.59%	509,838
1995	798,812	797,676	123.1	1.052	839,148	3.00	20.00	18.30	91.50%	767,820
1996	995,102	993,673	123.6	1.048	1,041,106	2.00	20.00	18.88	94.38%	982,596
1997	1,314,086	1,312,178	127.2	1.018	1,335,905	1.00	20.00	19.44	97.21%	1,298,633
1998	0	570,105	129.5	1.000	570,105	0.25	20.00	20.00	100.01%	570,162
	39,025,456	39,532,732		2.133	84,326,269				36.26%	30,573,086

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account:	Intra Building Cable Non Metal
Plant Sub-Account:	Intra Building Cable Non Metal
Index Number:	2426
Field Code:	IBN
Survivor Curve:	28
Probable Life:	20

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1985	13,709	13,681	116.3	0.726	9,928	13.00	20.00	12.28	61.41%	6,097
1986	17,020	16,985	111.6	0.756	12,846	12.00	20.00	12.89	64.47%	8,282
1987	4,417	4,408	106.4	0.793	3,497	11.00	20.00	13.51	67.53%	2,361
1988	21,088	21,046	100.0	0.844	17,763	10.00	20.00	14.12	70.59%	12,539
1989	6,347	6,335	95.8	0.881	5,581	9.00	20.00	14.73	73.63%	4,109
1990	14,010	13,983	93.9	0.899	12,568	8.00	20.00	15.33	76.67%	9,636
1991	22,676	22,632	95.4	0.885	20,022	7.00	20.00	15.94	79.69%	15,956
1992	17,812	17,777	95.7	0.882	15,678	6.00	20.00	16.54	82.68%	12,963
1993	30,377	30,317	88.3	0.956	28,978	5.00	20.00	17.13	85.65%	24,820
1994	39,320	39,242	85.9	0.983	38,557	4.00	20.00	17.72	88.59%	34,158
1995	70,539	70,399	85.5	0.987	69,493	3.00	20.00	18.30	91.50%	63,586
1996	90,078	89,897	86.6	0.975	87,613	2.00	20.00	18.88	94.38%	82,689
1997	49,653	49,552	85.5	0.987	48,915	1.00	20.00	19.44	97.21%	47,550
1998	0	27,128	84.4	1.000	27,128	0.25	20.00	20.00	100.01%	27,131
	397,046	423,382		0.941	398,567				88.29%	351,876

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Aerial Wire
Plant Sub-Account: Aerial Wire
Index Number: 2431
Field Code: AWZ
Survivor Curve: 29
Probable Life: 9

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1952	4	4	24.1	5.485	22	46.00	9.00	3.73	41.49%	9
1953	11	11	25.6	5.164	57	45.00	9.00	3.76	41.74%	24
1954	150	150	26.4	5.008	751	44.00	9.00	3.78	42.00%	315
1955	774	774	26.8	4.933	3,818	43.00	9.00	3.81	42.28%	1,614
1956	1,416	1,416	27.9	4.738	6,709	42.00	9.00	3.83	42.56%	2,856
1957	2,936	2,936	27.5	4.807	14,114	41.00	9.00	3.86	42.86%	6,049
1958	4,484	4,484	28.1	4.705	21,095	40.00	9.00	3.89	43.17%	9,107
1959	7,495	7,495	28.5	4.639	34,765	39.00	9.00	3.91	43.50%	15,123
1960	11,067	11,066	29.0	4.559	50,448	38.00	9.00	3.95	43.84%	22,116
1961	15,670	15,669	29.1	4.543	71,184	37.00	9.00	3.98	44.20%	31,463
1962	23,829	23,827	27.9	4.738	112,901	36.00	9.00	4.01	44.58%	50,331
1963	9,311	9,310	27.4	4.825	44,919	35.00	9.00	4.05	44.98%	20,205
1964	10,872	10,871	27.7	4.773	51,881	34.00	9.00	4.09	45.40%	23,554
1965	12,354	12,352	28.0	4.721	58,320	33.00	9.00	4.13	45.84%	26,734
1966	18,355	18,352	29.2	4.527	83,085	32.00	9.00	4.17	46.30%	38,468
1967	17,755	17,751	30.7	4.306	76,438	31.00	9.00	4.21	46.79%	35,766
1968	15,050	15,046	32.9	4.018	60,457	30.00	9.00	4.26	47.31%	28,602
1969	16,065	16,059	35.8	3.693	59,303	29.00	9.00	4.31	47.85%	28,376
1970	26,779	26,767	39.0	3.390	90,734	28.00	9.00	4.36	48.42%	43,934
1971	54,524	54,495	40.4	3.272	178,322	27.00	9.00	4.41	49.03%	87,432
1972	63,847	63,806	42.1	3.140	200,359	26.00	9.00	4.47	49.67%	99,518
1973	79,355	79,293	43.5	3.039	240,977	25.00	9.00	4.53	50.35%	121,332
1974	107,922	107,820	52.6	2.513	270,986	24.00	9.00	4.60	51.07%	138,392
1975	87,186	87,088	56.2	2.352	204,858	23.00	9.00	4.67	51.84%	106,198
1976	68,540	68,448	59.4	2.226	152,337	22.00	9.00	4.74	52.65%	80,206
1977	71,550	71,436	63.6	2.079	148,489	21.00	9.00	4.82	53.52%	79,471
1978	86,945	86,782	66.0	2.003	173,828	20.00	9.00	4.90	54.44%	94,632
1979	151,177	150,846	70.7	1.870	282,063	19.00	9.00	4.99	55.42%	156,319
1980	299,327	298,564	80.1	1.650	492,762	18.00	9.00	5.08	56.47%	278,263
1981	191,616	191,052	84.1	1.572	300,322	17.00	9.00	5.18	57.59%	172,955
1982	148,131	147,630	89.0	1.485	219,289	16.00	9.00	5.29	58.80%	128,942
1983	231,182	230,292	92.1	1.435	330,560	15.00	9.00	5.41	60.08%	198,600
1984	132,970	132,391	96.1	1.376	182,123	14.00	9.00	5.53	61.47%	111,951
1985	194,711	193,759	95.2	1.389	269,065	13.00	9.00	5.67	62.96%	169,403
1986	236,914	235,626	92.8	1.425	335,665	12.00	9.00	5.81	64.57%	216,739
1987	286,979	285,258	95.9	1.379	393,234	11.00	9.00	5.97	66.30%	260,714
1988	269,744	267,978	100.0	1.322	354,266	10.00	9.00	6.14	68.18%	241,539
1989	249,384	247,619	107.0	1.236	305,937	9.00	9.00	6.32	70.22%	214,829
1990	329,639	327,145	109.8	1.204	393,885	8.00	9.00	6.52	72.44%	285,331
1991	439,464	435,953	109.4	1.208	526,810	7.00	9.00	6.74	74.85%	394,317
1992	308,201	305,635	111.5	1.186	362,376	6.00	9.00	6.97	77.50%	280,841
1993	476,028	471,956	114.0	1.160	547,303	5.00	9.00	7.24	80.39%	439,977
1994	501,477	497,141	117.5	1.125	559,336	4.00	9.00	7.52	83.57%	467,437
1995	477,945	473,844	126.5	1.045	495,195	3.00	9.00	7.84	87.08%	431,216

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account:	Aerial Wire
Plant Sub-Account:	Aerial Wire
Index Number:	2431
Field Code:	AWZ
Survivor Curve:	29
Probable Life:	9

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1996	606,284	601,230	127.2	1.039	624,863	2.00	9.00	8.19	90.97%	568,438
1997	1,015,182	1,007,166	130.1	1.016	1,023,424	1.00	9.00	8.57	95.28%	975,118
1998	0	414,029	132.2	1.000	414,029	0.25	9.00	9.01	100.08%	414,360
	7,360,601	7,728,621		1.400	10,823,662				70.21%	7,599,116

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account: Conduit Systems
Plant Sub-Account: Conduit Systems
Index Number: 2441
Field Code: UCZ
Survivor Curve: 30
Probable Life: 60

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1925	417,529	414,398	10.4	10.625	4,402,978	73.00	60.00	4.21	7.02%	309,089
1926	230,343	228,500	10.4	10.625	2,427,808	72.00	60.00	4.51	7.51%	182,328
1927	97,699	96,876	10.4	10.625	1,029,304	71.00	60.00	4.82	8.03%	82,653
1928	353,800	350,699	10.4	10.625	3,726,174	70.00	60.00	5.14	8.57%	319,333
1929	367,005	363,696	10.4	10.625	3,864,267	69.00	60.00	5.49	9.14%	353,194
1930	200,903	199,058	10.4	10.625	2,114,996	68.00	60.00	5.85	9.74%	206,001
1931	3,934	3,898	10.4	10.625	41,412	67.00	60.00	6.22	10.37%	4,294
1932	8,275	8,198	10.4	10.625	87,107	66.00	60.00	6.62	11.03%	9,608
1933	124,463	123,319	10.4	10.625	1,310,262	65.00	60.00	7.03	11.71%	153,432
1934	957	948	10.4	10.625	10,076	64.00	60.00	7.46	12.43%	1,252
1935	3,906	3,871	10.4	10.625	41,133	63.00	60.00	7.90	13.17%	5,417
1936	100,662	99,793	10.4	10.625	1,060,304	62.00	60.00	8.37	13.95%	147,912
1937	8,638	8,566	10.4	10.625	91,012	61.00	60.00	8.85	14.75%	13,424
1938	1,310	1,299	10.4	10.625	13,807	60.00	60.00	9.35	15.58%	2,151
1939	14,005	13,897	10.4	10.625	147,656	59.00	60.00	9.87	16.44%	24,275
1940	4,885	4,849	10.4	10.625	51,521	58.00	60.00	10.40	17.33%	8,929
1941	68,833	68,351	10.4	10.625	726,231	57.00	60.00	10.95	18.26%	132,610
1942	326	324	10.4	10.625	3,441	56.00	60.00	11.52	19.20%	661
1943	51,919	51,594	10.4	10.625	548,182	55.00	60.00	12.11	20.18%	110,623
1944	73	73	10.4	10.625	771	54.00	60.00	12.71	21.19%	163
1945	40,135	39,912	10.4	10.625	424,070	53.00	60.00	13.33	22.22%	94,228
1946	61,972	61,650	10.4	10.625	655,031	52.00	60.00	13.97	23.28%	152,491
1947	993,548	988,722	11.8	9.364	9,258,793	51.00	60.00	14.62	24.37%	2,256,368
1948	540,497	538,047	12.7	8.701	4,681,436	50.00	60.00	15.29	25.48%	1,192,830
1949	154,809	154,156	13.3	8.308	1,280,767	49.00	60.00	15.97	26.61%	340,812
1950	159,461	158,835	13.6	8.125	1,290,538	48.00	60.00	16.67	27.78%	358,511
1951	247,444	246,543	14.3	7.727	1,905,105	47.00	60.00	17.38	28.96%	551,718
1952	1,773,318	1,767,334	15.0	7.367	13,019,362	46.00	60.00	18.10	30.17%	3,927,942
1953	583,207	581,386	15.7	7.038	4,091,919	45.00	60.00	18.84	31.40%	1,284,863
1954	392,260	391,128	16.2	6.821	2,667,878	44.00	60.00	19.59	32.65%	871,062
1955	1,792,836	1,788,059	16.5	6.697	11,974,576	43.00	60.00	20.36	33.93%	4,062,974
1956	1,329,022	1,325,756	17.5	6.314	8,371,204	42.00	60.00	21.13	35.22%	2,948,338
1957	1,407,201	1,404,016	18.1	6.105	8,571,476	41.00	60.00	21.92	36.54%	3,132,017
1958	1,386,689	1,383,800	18.8	5.878	8,133,506	40.00	60.00	22.72	37.87%	3,080,159
1959	1,668,833	1,665,636	19.1	5.785	9,636,271	39.00	60.00	23.53	39.22%	3,779,346
1960	6,236,128	6,225,152	19.3	5.725	35,641,415	38.00	60.00	24.35	40.59%	14,466,850
1961	1,055,739	1,054,033	19.5	5.667	5,972,855	37.00	60.00	25.19	41.98%	2,507,404
1962	1,374,598	1,372,561	19.9	5.553	7,621,505	36.00	60.00	26.03	43.38%	3,306,209
1963	1,242,168	1,240,480	20.1	5.498	6,819,557	35.00	60.00	26.88	44.80%	3,055,161
1964	1,936,506	1,934,096	20.7	5.338	10,324,523	34.00	60.00	27.74	46.23%	4,773,027
1965	1,618,467	1,616,624	21.2	5.212	8,426,269	33.00	60.00	28.60	47.67%	4,016,802
1966	1,677,857	1,676,109	21.9	5.046	8,457,079	32.00	60.00	29.48	49.13%	4,154,963
1967	1,180,191	1,179,067	23.5	4.702	5,544,124	31.00	60.00	30.36	50.60%	2,805,327
1968	1,523,335	1,522,010	24.8	4.456	6,781,536	30.00	60.00	31.25	52.09%	3,532,502

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Proposed Survivor Curves

Plant Account:	Conduit Systems
Plant Sub-Account:	Conduit Systems
Index Number:	2441
Field Code:	UCZ
Survivor Curve:	30
Probable Life:	60

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1969	2,675,497	2,673,372	26.5	4.170	11,147,459	29.00	60.00	32.15	53.58%	5,972,808
1970	6,667,439	6,662,609	28.3	3.905	26,014,782	28.00	60.00	33.05	55.09%	14,331,543
1971	5,200,035	5,196,602	31.1	3.553	18,463,810	27.00	60.00	33.96	56.61%	10,452,363
1972	2,422,039	2,420,582	33.5	3.299	7,984,309	26.00	60.00	34.88	58.13%	4,641,279
1973	6,866,367	6,862,609	36.0	3.069	21,064,396	25.00	60.00	35.80	59.67%	12,569,125
1974	6,598,761	6,595,476	41.0	2.695	17,775,613	24.00	60.00	36.73	61.22%	10,882,230
1975	2,154,193	2,153,219	45.9	2.407	5,183,675	23.00	60.00	37.66	62.77%	3,253,793
1976	1,150,587	1,150,115	50.0	2.210	2,541,753	22.00	60.00	38.60	64.33%	1,635,110
1977	1,579,611	1,579,023	53.0	2.085	3,292,114	21.00	60.00	39.54	65.90%	2,169,503
1978	2,798,575	2,797,631	56.6	1.952	5,461,807	20.00	60.00	40.49	67.48%	3,685,627
1979	4,571,234	4,569,840	63.6	1.737	7,939,737	19.00	60.00	41.43	69.06%	5,483,182
1980	2,855,603	2,854,816	69.3	1.595	4,552,051	18.00	60.00	42.39	70.65%	3,216,024
1981	1,546,247	1,545,863	74.6	1.481	2,289,783	17.00	60.00	43.35	72.24%	1,654,139
1982	10,721,271	10,718,870	79.3	1.393	14,936,130	16.00	60.00	44.31	73.84%	11,028,838
1983	7,567,337	7,565,813	81.3	1.359	10,283,178	15.00	60.00	45.27	75.45%	7,758,658
1984	7,318,527	7,317,205	83.8	1.319	9,648,581	14.00	60.00	46.24	77.06%	7,435,197
1985	9,719,510	9,717,938	84.9	1.302	12,648,199	13.00	60.00	47.21	78.68%	9,951,603
1986	10,029,069	10,027,621	94.9	1.164	11,675,997	12.00	60.00	48.18	80.30%	9,375,825
1987	10,276,394	10,275,073	95.3	1.159	11,913,909	11.00	60.00	49.15	81.92%	9,759,874
1988	14,955,495	14,953,789	100.0	1.105	16,523,937	10.00	60.00	50.13	83.55%	13,805,750
1989	18,445,210	18,443,351	102.4	1.079	19,902,249	9.00	60.00	51.11	85.18%	16,952,735
1990	24,324,507	24,322,350	97.9	1.129	27,452,704	8.00	60.00	52.09	86.82%	23,834,438
1991	14,699,400	14,698,260	98.9	1.117	16,422,222	7.00	60.00	53.07	88.45%	14,525,455
1992	8,198,244	8,197,691	99.5	1.111	9,103,969	6.00	60.00	54.06	90.10%	8,202,676
1993	12,525,255	12,524,527	100.1	1.104	13,825,777	5.00	60.00	55.04	91.74%	12,683,768
1994	10,672,008	10,671,478	100.5	1.100	11,733,317	4.00	60.00	56.03	93.39%	10,957,745
1995	13,581,348	13,580,779	108.6	1.017	13,818,381	3.00	60.00	57.02	95.04%	13,132,989
1996	19,208,244	19,207,576	106.0	1.042	20,022,991	2.00	60.00	58.01	96.69%	19,360,230
1997	11,904,252	11,903,915	109.4	1.010	12,023,607	1.00	60.00	59.01	98.34%	11,824,015
1998	0	5,345,213	110.5	1.000	5,345,213	0.25	60.00	60.00	100.00%	5,345,213
	283,667,945	288,890,525		1.988	574,240,889				62.45%	358,600,993

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Summary - Proposed Survivor Curves

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1925	520,133	516,812			5,529,893					371,901
1926	301,495	299,668			3,138,641					184,474
1927	206,453	205,669			2,308,552					88,121
1928	592,821	589,366			6,199,666					442,935
1929	647,377	644,083			6,432,118					355,490
1930	499,459	497,554			4,778,761					226,447
1931	27,722	27,686			348,299					4,294
1932	38,359	38,275			480,614					12,048
1933	166,453	165,309			1,784,961					153,432
1934	62,460	62,451			592,608					1,252
1935	65,458	65,423			855,017					5,417
1936	170,851	170,001			1,854,121					159,793
1937	739,339	739,055			5,357,608					88,332
1938	71,604	71,578			822,389					16,914
1939	94,215	94,107			1,050,132					24,275
1940	245,553	245,522			2,578,384					10,591
1941	414,142	413,660			3,950,980					132,646
1942	186,125	185,772			2,022,088					158,178
1943	166,174	165,782			1,664,977					137,940
1944	62,935	62,973			822,501					13,489
1945	182,530	182,307			2,342,487					94,559
1946	343,237	342,482			4,040,963					395,497
1947	1,701,264	1,691,416			14,680,514					2,534,818
1948	1,195,737	1,191,084			10,543,810					2,016,365
1949	1,250,921	1,245,516			10,746,274					2,280,630
1950	856,401	855,290			6,765,097					652,258
1951	1,266,522	1,264,371			9,579,326					1,159,952
1952	2,944,329	2,936,415			21,655,622					4,763,425
1953	2,086,428	2,082,355			14,770,613					2,100,335
1954	3,112,667	3,110,548			20,122,433					1,880,170
1955	6,342,104	6,333,489			34,586,625					6,410,750
1956	5,043,346	5,037,023			28,491,075					4,647,316
1957	6,555,865	6,545,042			36,810,999					6,445,314
1958	6,495,941	6,489,243			37,220,849					5,675,228
1959	8,966,587	8,957,702			49,906,869					7,526,657
1960	18,464,386	18,439,684			99,096,157					23,269,055
1961	9,736,556	9,723,028			50,626,117					10,050,772
1962	8,109,857	8,102,435			40,160,005					6,503,062
1963	9,942,266	9,922,597			47,593,535					7,975,963
1964	11,295,666	11,264,977			53,170,786					10,233,091
1965	10,258,990	10,230,624			45,557,048					7,524,237
1966	10,631,014	10,604,389			43,711,461					8,235,470
1967	10,099,070	10,073,311			39,775,804					7,185,402
1968	11,561,993	11,527,418			43,549,150					9,394,207
1969	21,298,484	21,233,995			73,819,044					15,065,315
1970	28,508,608	28,428,449			91,901,556					26,283,792
1971	41,056,390	40,895,956			119,749,565					29,523,299
1972	38,968,479	38,803,264			103,465,618					27,259,876
1973	58,053,160	57,796,005			148,085,405					43,687,789
1974	39,149,327	38,937,364			87,572,740					25,512,614
1975	23,848,270	23,727,239			48,851,217					15,578,121
1976	20,075,314	19,951,605			40,168,557					11,581,394
1977	28,977,400	28,776,917			54,087,458					16,048,535
1978	40,537,591	40,186,875			73,843,392					22,411,385
1979	52,959,937	52,565,568			86,517,535					30,450,174
1980	57,240,488	56,788,308			82,135,164					30,921,151
1981	67,428,888	66,771,168			87,601,914					36,857,041
1982	159,976,566	158,820,074			194,486,671					89,013,064
1983	118,711,158	117,150,394			142,465,167					61,627,515
1984	155,212,308	152,963,007			180,328,438					80,161,711

U S West Communications - Arizona
Reproduction Cost New Less Depreciation
Telephone Plant in Service as of June 30, 1998
Summary - Proposed Survivor Curves

Year of Placing	Original Cost as of 12/31/97	Original Cost as of 6/30/98	Telephone Plant Index	Telephone Plant Translator	Reproduction Cost New	Age as of 6/30/98	Life Expectancy When New	Life Expectancy 6/30/98	Condition Percent	Reproduction Cost New Less Depreciation
(A)	(B)	(C)	(D)	(E)	(F)	(G)	(H)	(I)	(J)	(K)
1985	209,019,532	206,436,433			233,822,069					112,637,566
1986	216,602,896	213,633,649			224,471,705					108,696,808
1987	214,081,370	210,806,181			228,761,549					115,925,833
1988	227,368,836	223,187,224			235,067,036					126,145,092
1989	254,608,431	247,031,131			230,018,060					127,482,821
1990	219,404,429	216,119,597			218,285,571					132,003,547
1991	220,043,389	217,201,246			212,476,600					134,701,938
1992	204,995,269	200,541,279			195,727,607					128,444,838
1993	215,136,402	206,250,022			202,389,112					140,501,889
1994	262,644,001	255,364,724			249,571,562					183,944,415
1995	336,016,407	332,173,687			322,706,256					255,875,693
1996	383,554,111	380,232,097			372,769,559					319,604,181
1997	326,267,901	324,152,581			321,979,955					297,935,691
1998	0	132,424,687			132,424,687					132,426,985
	4,395,468,147	4,462,764,221			5,813,626,702					3,019,852,578

Appendix B

REDACTED

Appendix C
DEPRECIATION PARAMETERS

R·W·BECK

U S WEST Communications, Inc.
1998 RCNLD Study

Index to Survivor Curves - Company Proposal

Curve #	Account	Category
C1	2112	Motor Vehicles - Passenger Cars
C2	2112	Motor Vehicles - Light Trucks
C3	2112	Motor Vehicles - Heavy Trucks
C4	2114	Special Purpose Vehicles
C4	2115	Garage Work Equipment
C4	2116	Other Work Equipment
C5	2121	Buildings - Large Buildings
C6	2121	Buildings - Other Buildings
C7	2122	Furniture
C8	2123.1	Office Equipment
C9	2123.2	Company Communications Equipment - Stand Alone
C10	2123.2	Company Communications Equipment - PBX & Key Intrasystems
C11	2124	General Purpose Computer
C12	2211	Analog Switching Equipment
C13	2212	Digital Switching Equipment
C14	2220	Operator Systems
C15	2231	Radio Systems
C16	2232	Circuit DDS
C17	2232	Circuit Digital
C18	2232	Circuit Analog
C19	2351	Public Telephone Terminal Equipment
C20	2362	Other Terminal Equipment
C21	2411	Pole Lines
C22	2421	Aerial Cable Metallic
C23	2421	Aerial Cable Non-Metallic
C24	2422	Underground Cable Metallic
C25	2422	Underground Cable Non-Metallic
C26	2423	Buried Cable Metallic
C26	2423	Buried Cable Non-Metallic
C27	2424	Submarine Cable Metallic
C27	2424	Submarine Cable Non-Metallic
C28	2426	Intrabuilding Cable Metallic
C28	2426	Intrabuilding Cable Non-Metallic
C29	2431	Aerial Wire
C30	2441	Conduit Systems

10/28/97
09:55 AM
XREF: 03
PRES: 1991,SF,02
PROP: 1997,SG,04
COMPANY PROPOSAL - SR

COMPANY: U S WEST COMMUNICATIONS
STATE: ARIZONA
PAGE 1 OF 1

PARAMETER REPORT

COMPANY PROPOSAL - SR

CATEGORY	FIRST ELG YEAR	P.L. OR AYFR	AVG. NET SALV.	FUTURE NET SALV.	CURVE SHAPE PARAMETERS c	G	S	COMMENTS
2112 MOTOR VEHICLES			15	16				
2112 PASSENGER CARS	1983	7.0	15.4	16.0	1.6400000E+000	-1.0237949E-003	+7.1895511E-003	
2112 LIGHT TRUCKS	1983	8.5	15.4	16.0	1.1900000E+000	-7.2193521E-002	+2.2835267E-002	
2112 HEAVY TRUCKS	1983	10.0	15.4	16.0	1.4000000E+000	-1.3553290E-003	+4.6628920E-004	
2114 SPEC PURPOSE VEHICLES	0	15.0	0	0	1.0707877E+000	-4.1693200E-002	-1.4042788E-002	
2115 GARAGE WORK EQUIP	0	15.0	-24	-4	1.0707877E+000	-4.1693200E-002	-1.4042788E-002	
2116 OTHER WORK EQUIP	0	15.0	9	7	1.0707877E+000	-4.1693200E-002	-1.4042788E-002	
2121 BUILDINGS			2	-6				
2121 LARGE BUILDINGS	1983	50.0	2.0	-6.0	BELL CURVE GM	3.0		
2121 OTHER BUILDINGS	1983	30.0	2.0	-6.0	BELL CURVE GM	2.5		
2122 FURNITURE	1983	15.0	3	0	8.7000000E-001	-1.2853924E-001	-1.7497867E-002	
2123.1 OFFICE EQUIPMENT	1983	10.0	0	0	1.0200000E+000	-1.5163714E+000	+2.9173914E-002	
2123.2 COMPANY COMM EQUIP			0	0				
2123.2 STAND ALONE	0	7.0	-0.1	0.0	1.3685913E+000	-3.1717800E-002	+9.9439780E-003	
2123.2 PBX & KEY INTRASYSTEMS	0	7.0	-0.1	0.0	5.2600000E+000	-3.8844032E-006	-3.5662734E-002	
2124 GEN PURPOSE CMPTR	1983	5.0	6	5	1.2100000E+000	-8.8522478E-002	+1.7463501E-002	
2211 ANALOG SW EQUIP	0	1999.8	6	0	CONSTANT RETIREMENT RATE	1.5		
2212 DIGITAL SW EQUIP	1983	10.0	3	3	1.1400000E+000	-5.1034240E-002	+3.5574240E-003	
2220 OPERATOR SYSTEMS	1983	8.0	-3	-2	1.4400000E+000	-4.8100604E-006	-4.6772590E-005	
2231 RADIO SYSTEMS	1983	15.0	-1	-2	1.0400000E+000	-1.1530509E+000	+4.5933023E-002	
2232 CIRCUIT DDS	1983	8.0	8	3	7.3000000E-001	-4.4457536E-001	-8.0978133E-002	
2232 CIRCUIT DIGITAL	1983	10.0	2	2	9.8000000E-001	-3.7370833E+000	-7.3343077E-002	
2232 CIRCUIT ANALOG	1983	7.0	-1	0	1.0200000E+000	-2.4613326E+000	+4.5886627E-002	
2351 PUB TEL TERM EQUIP	0	7.0	19	5	1.2144679E+000	-1.2765361E-001	+6.8596935E-004	
2362 OTHER TERM EQUIP	0	6.0	8	2	5.1000000E-001	-2.2369447E-001	-1.4803500E-001	
2411 POLE LINES	1982	25.0	-86	-138	1.2100000E+000	-1.1617159E-007	-2.4692053E-003	
2421 AERIAL CABLE MET	1982	15.0	-21	-27	1.0100000E+000	-3.4025369E+000	+3.3992431E-002	
2421 AERIAL CABLE NON MET	1982	20.0	-27	-27	1.0100000E+000	-3.4025369E+000	+3.3992431E-002	
2422 UNDGRD CABLE MET	1982	15.0	-6	-6	1.0700000E+000	-7.5445040E-003	-9.0943550E-004	
2422 UNDGRD CABLE NON MET	1982	20.0	-6	-6	1.0700000E+000	-7.5445040E-003	-9.0943550E-004	
2423 BURIED CABLE MET	1982	20.0	-7	-7	1.0500000E+000	-3.8926474E-002	+2.0041675E-003	
2423 BURIED CABLE NON MET	1982	20.0	-7	-7	1.0500000E+000	-3.8926474E-002	+2.0041675E-003	
2424 SUB CABLE MET	1982	20.0	0	0	1.0519094E+000	-5.2187960E-002	-4.2294038E-003	
2424 SUB CABLE NON MET	1982	20.0	0	0	1.0519094E+000	-5.2187960E-002	-4.2294038E-003	
2426 INTRA BLDG CA MET	1982	20.0	-4	-7	1.1300000E+000	-3.6613400E-003	-6.9112203E-003	
2426 INTRA BLDG CABLE NON MET	1982	20.0	-5	-7	1.1300000E+000	-3.6613400E-003	-6.9112203E-003	
2431 AERIAL WIRE	0	9.0	-25	-30	9.6975669E-001	-3.2648516E+000	-1.2382832E-001	
2441 CONDUIT SYSTEMS	1982	60.0	-19	-19	BELL CURVE GM	5.0		

ANALOG SW ADJUSTED FOR SSA & XBA

WITNESS QUALIFICATION STATEMENT

NAME:	Nancy Heller Hughes
EMPLOYED BY:	R. W. Beck, Inc.
ADDRESS:	1001 Fourth Avenue, Suite 2500 Seattle, WA 98154-1004
EDUCATION:	University of Chicago, B.A. in Business and Statistics University of Chicago, M.B.A. in Finance and Accounting
PROFESSIONAL ACTIVITIES:	Accredited Senior Appraiser (ASA), Public Utility Discipline, American Society of Appraisers

WORK EXPERIENCE:

Ms. Hughes has worked in the telecommunications and energy industries since 1977 specializing in rates and regulation, depreciation, and valuation. She has testified as an expert witness on these issues before federal and state regulatory commissions, city councils, and courts of law. In the area of rates and regulation, Ms. Hughes is responsible for conducting and analyzing revenue requirement, cost-of-service, and rate design studies for electric, gas, telephone, and solid waste utilities. She has also participated in utility merger and acquisition cases before federal and state regulatory agencies.

Ms. Hughes has performed valuation and appraisal studies to determine the value of utility property including electric, telephone, railroad, and solid waste landfill property. These studies have been performed in connection with the sale and acquisition of property, eminent domain cases, property tax issues, and utility rate cases. In conjunction with her appraisal work, Ms. Hughes has testified as an expert witness on the valuation of utility property in condemnation proceedings and utility rate cases.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN	)	DOCKET NO. _____ AFFIDAVIT OF NANCY HELLER HUGHES
STATE OF WASHINGTON	)	
COUNTY OF KING	)	
	)	SS

Nancy Heller Hughes, of lawful age being first duly sworn, deposes and states:

1. My name is Nancy Heller Hughes. I am an Executive Consultant of R. W. Beck, Inc., Seattle, Washington.

2. Attached hereto and made a part hereof for all purposes is my testimony consisting of pages 1 through 8, and my exhibits numbered NHH-1 through NHH-3.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Nancy Heller Hughes

Nancy Heller Hughes

SUBSCRIBED AND SWORN to before me this Seventh day of December 1998.

Jeanette M. Rund

Notary Public

My Commission Expires:

June 19, 2001

JEANETTE M. RUND
NOTARY PUBLIC
STATE OF WASHINGTON

EXHIBIT
Q-11
Admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN	))))))))))	DOCKET NO. _____

TESTIMONY OF

ANN KOEHLER-CHRISTENSEN

U S WEST COMMUNICATIONS

JANUARY 8, 1999

TESTIMONY INDEX

	Page
Executive Summary	i
Identification of Witness	1
Services	2
Fees	5
Conclusion	14

EXECUTIVE SUMMARY

1. Current Responsibilities:

I am responsible for the contractual relationships between U S WEST Communications and U S WEST Dex. This involves all issues including Yellow Pages imputation.

2. Purpose of Testimony:

The purpose of my testimony is to demonstrate the value of the services provided to U S WEST Communications by U S WEST Dex and the current amount of fees booked to Account 5230, Directory Revenue in this test period. DEX continues to provide directory services to U S WEST at no cost to U S WEST or to U S WEST customers. In fact, the value of the services DEX provided to U S WEST in this test period exceeded the value provided in the 1984 test year referenced in the Settlement Agreement. I will also explain the reason fees paid by DEX have been reduced. In large measure, the fees have been reduced because U S WEST provides commensurately less to DEX than it has in the past. I demonstrate that the current booked fees and the value of services U S WEST receives from DEX are already reflected in the financial filings included in this rate case. Consequently, there is no need for any further adjustment to U S WEST's revenue requirement to reflect additional directory imputation.

3. Summary of Testimony:

DEX incurs all the costs of publishing and delivering directories to U S WEST customers. At the time of the Settlement Agreement DEX incurred these costs and DEX continues to incur these costs. The cost to DEX to publish and deliver directories has increased over the years from approximately $3.3 million to $15 million. However, the cost to U S WEST and to U S WEST customers was low in 1984 and is zero today.

The fees have decreased because the services provided under the Publishing Agreement are fewer and have less value today than previously. Both court decisions and federal legislation have contributed to the availability of listings and the ability of any publisher to publish directories in any market. This is a change in the publishing environment has drastically lowered the market value of publishing rights. U S WEST charges DEX market price for its listings and the Publishing Agreement between U S WEST and DEX reflects market conditions and values, since DEX has the same agreements with competitive Local Exchange Carriers as well as with independent Local Exchange Carriers.

U S WEST is receiving fees at a fair market rate for the full value of the services U S WEST provides to DEX. DEX continues to provide both White and Yellow Pages directories ("the services") at no cost to U S WEST or to U S WEST customers.

Q. PLEASE STATE YOUR NAME, OCCUPATION AND BUSINESS ADDRESS.

A. My name is Ann Koehler-Christensen. I am employed by U S WEST Communications as a manager in the Regulatory Finance organization. My business address is 1600 7th Avenue, Room 3008, Seattle, Washington 98191.

Q. BRIEFLY OUTLINE YOUR EMPLOYMENT BACKGROUND.

A. My employment and educational background are shown on the WITNESS QUALIFICATION STATEMENT, Exhibit AKC-1.

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to demonstrate the value of the services provided to U S WEST Communications ("U S WEST") by U S WEST Dex ("DEX") and the current amount of fees booked to Account 5230, Directory Revenue in this test period. DEX continues to provide directory services to U S WEST at no cost to U S WEST or to U S WEST customers. In fact, the value of the services DEX provided to U S WEST in this test period exceeded the value provided in the 1984 test year referenced in the Settlement Agreement. I will also explain the reason fees paid by DEX have been reduced. In large measure, the fees have been reduced because U S WEST provides commensurately less to DEX than it has in the past. I demonstrate that the current booked fees and the value of services U S WEST receives from DEX are already reflected in the financial filings included in this rate case. Consequently, there is no need for any further adjustment to U S WEST's revenue requirement to reflect additional directory imputation.

I. SERVICES

Q. WHAT SERVICES DID DEX PROVIDE UNDER THE TERMS OF THE PUBLISHING AGREEMENT IN 1984?

A. Under the terms of the Publishing Agreement in effect in 1984, DEX was obligated to publish and deliver White Pages directories to U S WEST customers at no charge to U S WEST or it's customers.

Q. ARE THESE THE SAME SERVICES PROVIDED IN THE CURRENT PUBLISHING AGREEMENT?

A. Yes. However, the current agreement also obligates DEX to deliver Yellow Pages directories at no charge to U S WEST or it's customers and also to offer complimentary Yellow Pages listings to each of U S WEST's business customers.

Q. WHAT IS THE APPROXIMATE VALUE OF THE SERVICES PROVIDED BY DEX TO U S WEST?

A. The cost of publishing the White Pages and of delivering the White and Yellow Pages to U S WEST customers between July 1997 and June 1998 was approximately $14.6 million.

Q. WHO INCURRED THESE COSTS DURING THE TEST YEAR?

A. All the costs were incurred by DEX and were not passed on to U S WEST.

Q. HOW IS THE BENEFIT REFLECTED IN U S WEST'S FINANCIAL STATEMENTS?

A. If DEX had not published and distributed Arizona directories to U S WEST's customers under the terms of the Publishing Agreement, U S WEST would have had to incur these costs. U S WEST would have incurred an additional $14.6 million in order to meet this obligation. This means that not only would U S WEST's expenses have been $14.6 million higher, the revenue requirement would have been approximately $14.6 million higher as well.

Q. HOW DID YOU DETERMINE DEX'S COST OF PUBLISHING AND DELIVERING ARIZONA DIRECTORIES?

A. First, I obtained manufacturing (paper and printing) and distribution (delivery) expense for each Arizona directory from DEX for the test period, July 1, 1997 through June 30, 1998.

Q. WERE DEX'S TOTAL MANUFACTURING AND DISTRIBUTION COSTS $14.6 MILLION FOR THE TEST PERIOD?

A. No, DEX's Arizona manufacturing and distribution costs for the test period were $35.4 million. To arrive at the $14.6 million, I went through several steps. Of DEX's Arizona directories published in the test period, three were separately bound White Pages books and four were separately bound Yellow Pages books. The remaining twenty directories were co-bound White and Yellow Pages directories. I obtained a count of the number of white pages and the number of yellow pages in each of these directories and I allocated

the manufacturing expenses for each based on the proportion of white and yellow pages to arrive at White Pages manufacturing expense.

Q. DID YOU PERFORM ANY OTHER ALLOCATIONS?

A. Yes, because DEX directories include listings of customers of competitive and independent Local Exchange Carriers as well as of U S WEST customers, I further allocated the manufacturing costs as well as the distribution costs. I obtained the number of U S WEST listings and the number of non-U S WEST listings included in each of DEX's Arizona directories. I allocated the White Pages manufacturing costs to U S WEST based on the percentage of U S WEST customers published in each directory. I allocated the distribution costs in the same way. After performing these two allocations, I arrived at $14.4 million for White Pages manufacturing and White and Yellow Pages distribution costs for U S WEST customers.

Q. WHAT OTHER COSTS DID YOU INCLUDE?

A. Manufacturing expense includes only printing and paper costs. DEX has a work group responsible for preparing the White Pages for printing. DEX's costs for this work group were $920,000. Arizona's portion of this is approximately $200,000.

Q. HOW DOES THE VALUE OF THE SERVICES PROVIDED BY DEX TO U S WEST IN THIS TEST YEAR COMPARE TO THE VALUE OF THE SERVICES PROVIDED IN 1984?

A. I estimate the 1984 value at approximately $3.2 million. The level of detail is no longer available to allow me to restate the 1984 expenses as I have done for the test year. I've estimated the 1984 expenses by taking the same percentage of 1984 manufacturing and distribution expense as the $14.4 million is of the test year manufacturing and distribution expense. In 1984, as now, the cost to U S WEST was zero for manufacturing and distribution, although U S WEST did incur the costs to prepare camera-ready White Pages for printing. All the costs are now incurred by DEX and these costs have increased over fourfold. In this way, both U S WEST and U S WEST's customers receive the full value of high quality DEX directories without incurring any expense or risk. Under the terms of the Publishing Agreement, DEX continues to provide U S WEST customers with directories and DEX incurs all the risk of increased costs.

II. FEES

Q. THE DIRECTORY SETTLEMENT AGREEMENT USED THE 1984 RATE CASE DIRECTORY AMOUNT AS ITS BASIS. PLEASE EXPLAIN THE SOURCES OF THE $43 MILLION IN THAT CASE.

A. The $43 million in the 1984 test year consisted of $49.2 million of booked directory revenue [1] less $11.1 million of booked directory expense [2] plus a $4.9 million pro forma adjustment. The sum of these three equals $43 million.

Q. PLEASE DESCRIBE THE VARIOUS SOURCES OF THESE REVENUES.

---

[1] Booked to Account 523, Directory Revenue. The equivalent account is now Account 5230.

[2] Booked to Account 630, Directory Expense. There is no equivalent account today.

A. The $49.2 million of directory revenues on U S WEST's 1984 Arizona books included revenues from several sources. These were:

- $28.3 million of the revenues from Publishing Fees paid by DEX
- $16 million of Yellow Pages advertising revenues sold to advertisers in 1983, but paid to U S WEST in 1984
- $4.9 million in revenues that were received from U S WEST customers for non-standard listings as well as from U S WEST listings sold to other publishers.

The $11.1 million in directory expenses on the books related to the 1983 directories for which U S WEST booked $16 million in revenues. In other words, there was a net revenue impact of $5 million that occurred in the transition year of 1984 that did not continue past that year. Finally, there was a pro forma adjustment made to reflect the increase in the Publishing Fees for 1985 that had already been negotiated.

Q. HOW DO THESE AMOUNTS COMPARE TO REVENUES RECEIVED IN THE TEST YEAR USED IN THIS CASE?

A. The total Account 5230, Directory Revenue, included in this test year is $18,462,936. There are no Yellow Pages revenues or expenses on U S WEST's books. 1984 was the last year that Yellow Pages advertising and Yellow Pages expense appeared on U S WEST's books. After the 1984 transition year, all Yellow Pages revenues and expenses, along with any risk, were incurred by DEX rather than by U S WEST. Regulated revenues paid by DEX have gone from $28.3 million in 1984 to $816,540 in the current test period. The revenues on U S WEST's books from non-standard listings and from listings sold to other directory publishers have grown from $4.9 million in 1984 to over $17 million in the current test year.

Q. WILL YOU PLEASE EXPLAIN THE REVENUES U S WEST RECEIVES FROM NON-STANDARD LISTINGS AND FROM OTHER DIRECTORY PUBLISHERS?

A. U S WEST sells non-standard White Pages listings to customers. These include listings such as additional listings, e-mail address listings, and privacy listings. U S WEST receives the revenue for these listings and DEX incurs the expense of publishing the extra listings and any special handling required of privacy listings, for example. U S WEST also makes its subscriber listings available to all other publishers in addition to DEX. The revenues from the licensing of U S WEST's subscriber listings are included in these directory revenues and the benefit derived from this revenue is already reflected on U S WEST's books.

Q. WHAT DID U S WEST PROVIDE TO DEX IN RETURN FOR THE $28.2 MILLION IN PUBLISHING FEES IN 1984?

A. In 1984, the following services were provided by U S WEST to DEX under the Publishing Agreement:

- Negotiation of Yellow Pages heading information for DEX
- Access to U S WEST's Listings database
- Advanced List Service orders taken and provided to DEX to meet DEX directory closes
- Negotiation of directory delivery quantities
- Maintenance and provision of delivery routing information
- White Pages composition services and delivery of camera-ready White Pages to DEX
- Community Service Pages composition services and delivery of camera-ready pages to DEX
- Government Pages composition services and delivery of camera-ready pages to DEX
- Generic Phone Service Pages composition services and delivery of camera-ready pages to DEX
- Premium Phone Service Pages composition services and delivery of camera-ready pages to DEX
- Foreign Directory ordering services
- Use of Mountain Bell's name on Dex's directory covers (now U S WEST)

- Placement of DEX directories in U S WEST's Public Pay Stations
- Subscriber Lists
- U S WEST granted DEX the right to publish directories for U S WEST

Q. DOES U S WEST CONTINUE TO PROVIDE ALL THESE SERVICES TO DEX?

A. No, U S WEST only provides the last three items on the preceding list for DEX.

- Placement of DEX directories in U S WEST's Public Pay Stations
- Subscriber Lists
- U S WEST granted DEX the right to publish directories for U S WEST

Q. PLEASE EXPLAIN THE CURRENT PUBLIC PAY STATIONS ARRANGEMENT.

A. Public Pay Stations were deregulated in 1997. As a result, all revenues and expenses associated with Public Pay Stations have been removed from regulated tariffs. This removal of Public Pay Station is not related to the directory publishing agreements between U S WEST and DEX, but is simply another change that was necessary as a result of legal, regulatory and competitive changes in this industry.

Q. WHAT IS THE VALUE OF THE SUBSCRIBER LISTS U S WEST PROVIDES TO DEX?

A. DEX pays U S WEST market value for the subscriber lists. The test year revenues from DEX for Arizona subscriber lists are $816,540.

Q. HOW HAS A MARKET VALUE BEEN ESTABLISHED?

A. U S WEST has the same listings agreements with DEX as it has with approximately fifty publishers throughout its fourteen-state territory. U S WEST licenses Arizona listings to

three independent publishers as well as to DEX. U S WEST charges all publishers the same licensing fees and provides the lists on the same terms and conditions.

Q. DOES DEX CONTINUE TO PAY U S WEST PUBLISHING FEES FOR THE RIGHT TO PUBLISH DIRECTORIES FOR U S WEST?

A. No, DEX compensates U S WEST by providing high quality White and Yellow Pages directories to U S WEST customers at no cost. DEX does not pay any additional fees to U S WEST for the right to publish directories that include U S WEST subscriber listings.

Q. PLEASE EXPLAIN WHY DEX NO LONGER PAYS U S WEST.

A. U S WEST can not grant exclusive publishing rights to any publisher because all publishers have the right to obtain and publish the listings of any local exchange carrier ("LEC"). In 1984, U S WEST was under no obligation to make its subscriber lists available to other publishers. In 1991, however, the Feist Decision [3] established that neither White nor Yellow Pages listings, nor Yellow Pages Headings could be copyrighted. This decision effected the publishing business in two ways. First, it meant that any publisher could obtain listings in order to publish directories, if not directly from the LEC, then by copying the listings from directories published by another publisher. This also had the effect of lowering the value of listings licensed from LECs. The Federal Telecom Act of 1996 now requires LECs to make their listings available to all publishers desiring access to the listings. These decisions have led to lower prices associated with the sale or licensing of subscriber listings and the right to publish directories.

[3] Feist Publications, Inc. v. Rural Tel. Serv. Co., 499 U.S. 340 (1991)

1 **Q. IS THERE ANY EVIDENCE OF A MARKET PRICE FOR THE RIGHT TO PUBLISH**
2 **DIRECTORIES?**
3
4 A. Yes, the market price is zero. DEX currently has publishing agreements with eleven
5 competitive LECs and approximately one hundred independent LECs. Five of these
6 eleven competitive LECs are certified to provide service in Arizona and eight of the
7 independent LECs are Arizona LECs. Most of these publishing agreements are virtually
8 the same as the publishing agreement between DEX and U S WEST. In other words,
9 DEX does not pay publishing fees.
10
11 **Q. ARE ALL THE PUBLISHNG AGREEMENTS WITH INDEPENDENT LECS THE SAME**
12 **BASIC AGREEMENT?**
13
14 A. Although DEX is in the process of updating its publishing agreements with independent
15 LECs, DEX still has a few long-standing agreements that have not yet been replaced with
16 the current format. DEX is in the process of updating contracts with all LECs so that the
17 arrangements are all basically the same.
18
19 **Q. DO OTHER PUBLISHERS PAY U S WEST FOR THE RIGHT TO PUBLISH**
20 **U S WEST'S SUBSCRIBER LISTINGS?**
21
22 A. No, U S WEST licenses its subscriber listings to fifty independent publishers. These
23 publishers pay U S WEST the same licensing fees as DEX pays U S WEST for the
24 subscriber lists, but they do not pay U S WEST publishing fees. Three independent
25 publishers license Arizona listings, although at least eight publishers include U S WEST
26 subscriber listings in directories they publish in Arizona. Basically, DEX does not pay

publishing fees to publish their directories and other publishers do not pay publishing fees to U S WEST.

Q. DOES DEX PLACE U S WEST'S NAME ON THE FRONT OF ITS DIRECTORY COVERS?

A. Although DEX is under no obligation to place U S WEST's name on their directory covers, DEX has a relatively new policy to include on their covers the names of up to five LECs [4] with listings in the directory. U S WEST is one of the top five LECs for a majority of DEX directories.

Q. WHY DID DEX INSTITUTE THIS NEW POLICY?

A. Since mid-1988 DEX's policy has been to place only their own name on the covers of their directories. With the advent of local exchange competition, several competitive LECs attempted to have DEX include their names on the directory covers. When DEX declined, these LECs turned to regulators. The Montana Commission ordered DEX to place the names of local exchange carriers on the covers of their directories. To my knowledge, at least one other state commission had issued similar order that was under appeal. About the same time, DEX was also negotiating publishing agreements with several different competitive LECs. DEX revised their policy and committed to printing the names of up to five LECs on their directory covers.

[4] DEX includes up to the top five local exchange carriers that have publishing agreements with DEX. The top five are selected by directory on the basis of the percentage of primary listings appearing in the directory.

Q. IS THERE VALUE TO DEX TO PLACE THE NAMES OF SEVERAL LOCAL EXCHANGE CARRIERS ON THEIR COVERS?

A. I suppose a case could be made that there is some value to DEX, but I believe a stronger case can be made that the value is greater for the LECs, including U S WEST, than it is to DEX.

Q. IF DEX ONLY RECENTLY STARTED INCLUDING LEC NAMES ON THEIR COVERS, WHAT DID DEX DO PREVIOUSLY?

A. From 1984 through mid-1988, DEX published their Arizona directories with Mountain Bell's name on the cover. U S WEST DIRECT (now DEX) was created in 1984 and their name was new and an unknown. The three telephone companies, Mountain Bell, Northwestern Bell and Pacific Northwest Bell, had name recognition. Although at divestiture these three companies combined to make up the new U S WEST RBOC, they retained their individual names and continued to do business with their established names and reputations. In this way, DEX was able to capitalize on both the name recognition and the business relationship that Mountain Bell had had with its Yellow Pages advertisers. Exhibit AKC-2 is a copy of a 1985 Phoenix Metro directory cover to illustrate the cover appearance between 1984 and mid-1988.

In mid-1988 DEX made the decision to publish its directories without Mountain Bell's name on the cover. By 1988, however, the U S WEST DIRECT name was well known and the publisher had established its own relationship with advertisers. Mountain Bell was still doing business as Mountain Bell, not U S WEST, however the directories were published with only the U S WEST DIRECT name on the cover. The Bell logo still

appeared on the covers, but it should be understood that the Bell logo was owned by the parent company, U S WEST, Inc., not by Mountain Bell, nor the other two telephone companies. This style directory cover was used by DEX from mid-1988 into early 1997. Exhibit AKC-3 is a copy of a 1997 Prescott directory cover in this style.

In the fall of 1996, U S WEST DIRECT became U S WEST DEX. The name U S WEST DEX and it's new logo, the "your directory expert" detective with the magnifying glass were first used on the directory covers starting in 1997. At that time the Bell logo was dropped. In 1998 DEX began including LEC names on the cover in many locations, as I previously described. Exhibit AKC-4 is a copy of a current East Valley directory cover.

Q. SHOULD DEX COMPENSATE U S WEST FOR ITS U S WEST NAME ASSOCIATION?

A. No, DEX has established its own name recognition and no longer relies on its former or current relationship with U S WEST. This becomes apparent by viewing the changes in the cover formats from 1984 -1988 (AKC-2) to 1988 - 1997 (AKC-3) to the current cover format (AKC-4).

Q. WHAT ABOUT THE FACT THAT DEX HAS U S WEST IN ITS NAME?

A. DEX has as much right and ownership to the U S WEST part of their name as U S WEST Communications does. Over the last fifteen year, in fact, DEX has contributed greatly to the name recognition of U S WEST. There is no need for DEX to compensate U S WEST for a name that belongs to both companies as well as to other U S WEST companies.

1 **Q. PLEASE SUMMARIZE WHY THE FEES PAID BY DEX ARE LOWER NOW THAN**
2 **THEY WERE IN 1984.**
3
4 A. Fees paid by DEX are lower now than they were in 1984 for two reasons. First, DEX
5 receives fewer services from U S WEST under the current publishing agreement than in
6 1984, so the fees have been reduced. Second, changes in market and legal conditions
7 have reduced the value of services provided by U S WEST under the Publishing
8 Agreement.
9
10 **Q. DOES U S WEST RECEIVE FULL VALUE IN FEES FOR THE SERVICES PROVIDED**
11 **UNDER PUBLISHING AGREEMENTS TODAY?**
12
13 A. Yes. DEX provides the same quality White and Yellow Pages directories to U S WEST's
14 customers at no cost to U S WEST or its customers under the terms of a publishing
15 agreement that is virtually the same as DEX has with many competitive and independent
16 LECs. DEX pays U S WEST market rates for subscriber listings, as do many
17 independent directory publishers. Mr. Redding has reflected all the fees and the benefit
18 of the cost savings in the financials filed in this case.
19
20 **III. CONCLUSION**
21
22 **Q. WHO INCURS THE COSTS OF PUBLISHING AND DELIVERING DIRECTORIES TO**
23 **U S WEST CUSTOMERS?**
24
25 A. DEX incurs all the costs of publishing and delivering directories to U S WEST customers.
26 At the time of the Settlement Agreement DEX incurred these costs and DEX continues to

1 incur these costs. The cost to DEX to publish and deliver directories has increased over
2 the years from approximately $3 million to $15 million. However, the cost to U S WEST
3 and to U S WEST customers was low in 1984 and is zero today.
4
5 **Q. WHY HAVE THE FEES PAID BY DEX TO U S WEST DECREASED?**
6
7 A. The fees have decreased because the services provided under the Publishing Agreement
8 are fewer and have less value today than previously. Both court decisions and federal
9 legislation have contributed to the availability of listings and the ability of any publisher to
10 publish directories in any market. This change in the publishing environment has
11 drastically lowered the market value of publishing rights. U S WEST charges DEX
12 market price for its listings and the Publishing Agreement between U S WEST and DEX
13 reflects market conditions and values, since DEX has the same agreements with
14 competitive Local Exchange Carriers as well as with independent Local Exchange
15 Carriers.
16
17 **Q. IS AN ADDITIONAL IMPUTATION APPROPRIATE?**
18
19 A. No. U S WEST is receiving fees at a fair market rate for the full value of the services
20 U S WEST provides to DEX. DEX continues to provide both White and Yellow Pages
21 directories ("the services") at no cost to U S WEST or to U S WEST customers.
22
23 **Q. DOES THIS CONCLUDE YOUR TESTIMONY?**
24
25 A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN	)	DOCKET NO. _____

EXHIBITS OF

ANN KOEHLER-CHRISTENSEN

U S WEST COMMUNICATIONS

JANUARY 8, 1999

INDEX OF EXHIBITS

DESCRIPTION	EXHIBIT
WITNESS QUALIFICATION STATEMENT	AKC-1
1985 PHOENIX METRO DIRECTORY COVER	AKC-2
1997 PRESCOTT DIRECTORY COVER	AKC-3
1998 EAST VALLEY DIRECTORY COVER	AKC-4

WITNESS QUALIFICATION STATEMENT

NAME: Ann Koehler-Christensen

EMPLOYED BY: U S WEST Communications, Inc.

ADDRESS: 1600 7th Avenue, Room 3008, Seattle, Washington 98191

EDUCATION: Bachelor of Arts degree in German, University of Puget Sound, 1969

Master of Arts degree in Economics, New Mexico State University, 1994

WORK EXPERIENCE:

1970-1972	Service Representative, Business Office
1972-1988	Various Management positions in Accounting
1988-1996	Manager-Affiliated Interests, Public Policy
1996-Current	Manager-Regulatory Finance, Finance

PRINCIPLE DUTIES: Responsible for the analysis of information and contractual agreements concerning U S WEST's affiliated relationship with U S WEST Dex, Inc., including the imputation of revenues by regulatory commissions.

WITNESS EXPERIENCE: Issue: Directory

Arizona
Docket E-1051-93-183, Rebuttal Testimony filed 4/22/94

Idaho
Docket USW-S-96-5, Rebuttal Testimony filed 1/23/97

Iowa
Docket No. RPU-93-9, Direct Testimony filed 12/6/93
Docket No. RPU-93-9, Surrebuttal Testimony filed 2/23/94

Montana
Docket No. 90.12.86, Direct Testimony filed 1/15/92

New Mexico
Docket No. 92-227-TC, Rebuttal Testimony filed 1/26/93

Oregon
Docket UT 125, Direct Testimony filed 12/18/95
Docket UT 125, Reply Testimony filed 10/7/96

Utah

Docket 94-049-08, Direct Testimony filed 3/10/95
Docket 94-049-08, Rebuttal Testimony filed 8/25/95
Docket 97-049-08, Direct Testimony filed 3/18/97
Docket 97-049-08, Rebuttal Testimony filed 8/22/97
Docket 97-049-08, Surrebuttal Testimony filed 9/3/97

Washington

Docket UT-950200, Rebuttal Testimony filed 10/3/95
Docket UT-980948, Direct Testimony filed 10/16/98

Metro
Phoenix
Area Code 602

Mountain Bell

September 1985

The White Pages

Published by
U S WEST DIRECT®

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April 1997/1998

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September 1998/1999

Area Codes 520/602

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http://uswestdex.com
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WEST Dex, Inc. 1997

The U S WEST Dex White Pages are printed with a minimum of 40% postconsumer material

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN	)	DOCKET NO. AFFIDAVIT OF ANN KOEHLER-CHRISTENSEN
STATE OF WASHINGTON	)	
COUNTY OF KING	)	
	) :)	SS

Ann Koehler-Christensen, of lawful age being first duly sworn, deposes and states:

1. My name is Ann Koehler-Christensen. I am a Regulatory Manager in the Finance Department of U S WEST Communications in Seattle, Washington.

2. Attached hereto and made a part hereof for all purposes is my testimony.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Ann Koehler-Christensen

SUBSCRIBED AND SWORN to before me this 7th day of December, 1998.

Notary Public

JOYCE A. MORRIS
COMMISSION EXPIRES
NOTARY
PUBLIC
APRIL 11, 2002
STATE OF WASHINGTON

My Commission Expires:
April 11, 2002
jm

EXHIBIT

Q-12

Admitted

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN	)	DOCKET NO. _____

TESTIMONY OF

DAVID L. TEITZEL

U S WEST COMMUNICATIONS

JANUARY 8, 1999

TESTIMONY INDEX

			Page
Executive Summary			i
Identification of Witness			1
I.	Competition		2
	A.	Competitive Landscape – Phoenix	6
	B.	Competitive Landscape – Tucson	13
	C.	Regulatory Flexibility	16
	D.	Competitive Zones	17
	E.	New Service Introductions	23
	F.	Promotions	24
II.	Pricing Proposals		25
	A.	Residence Basic Exchange Service	27
		1. Access Line, Exchange Zone Increment Increases	27
		2. Rationale for Price Increases	29
		3. Customer Assistance Programs	35
		4. Commission Response	37
		5. Low Use Option	38
		6. Nonrecurring Charge	39
		7. Zone Connection Charge	39
		8. Multi-Party Service	40
		9. Base Rate Areas	41
		10. Conclusion	42
	B.	Business Basic Exchange Service	43
	C.	Market Expansion Line	46
	D.	Long Distance Service	46
	E.	Directory Assistance	54
	F.	Listing Services	57
	G.	Custom Calling Services	61
	H.	SingleNumber Service	63
	I.	Screening Services	64
III.	Conclusion		67

EXECUTIVE SUMMARY

1. Current Responsibilities: My current responsibilities include advocating the strategic initiatives of U S WEST's marketing organizations before state regulatory commissions throughout the 14-state U S WEST region. I am also responsible for providing expert testimony to support these marketing initiatives.

2. Purpose of Testimony: This testimony supports pricing initiatives for Residence and Business Basic Exchange, Market Expansion Line, IntraLATA Long Distance, Directory Assistance, Complete-A-Call, Listings, Custom Calling, SingleNumber[sm] Service, and Screening Services included as part of U S WEST's application for a general rate case. In addition, I am proposing that the Commission extend pricing flexibility to U S WEST in the form of competitive zones, expedited competitive classification of new services, and greater promotional flexibility. Such actions will allow U S WEST to compete on equal terms with its competitors and will establish a framework in which competition will thrive.

3. Summary of Testimony: The telecommunications landscape in Arizona is changing rapidly. To date, a total of 35 companies have filed applications with the Arizona Corporation Commission for classification as Competitive Local Exchange Carriers (CLECs). In addition, U S WEST has obtained approval for contracts with 50 companies in Arizona to interconnect with U S WEST's facilities and/or resell its services. Clearly, the intent of Congress in enacting the Telecommunications Act of 1996 is being fulfilled in the state. Competitive impacts are being felt in all U S WEST product lines, but a major competitive focus has been upon the business market in the Phoenix and Tucson metropolitan areas. My testimony includes an exhibit which demonstrates the significant proportion of business customers that are within 1,000 feet of existing competitive fiber facilities, including fiber belonging to such major carriers as AT&T/TCG, MCI WorldCom, Electric Lightwave, GST and e.spire. These customers are subject to active and aggressive marketing by these competitors. In addition, competition in the residence market is

escalating throughout the greater Phoenix area as Cox makes its digital telephony service available to an increasing number of consumers.

My testimony identifies specific wire centers in the Phoenix and Tucson areas in which facilities-based competition currently exists. The presence of significant competition in these wire centers qualifies them, under Article 11, R-14-2-1108 of the Commission Rules, for "competitive" classification. U S WEST proposes that these wire centers be classified as "competitive zones," in which services provided to customers within these wire centers are subject to relaxed regulation. Although I am initially proposing competitive zone classification for specific wire centers within the Phoenix and Tucson metropolitan areas, I am also defining a mechanism to designate additional wire centers as competitive zones as competitors expand their offerings into other areas of the state. U S WEST's competitive zone proposal will establish a level of regulatory oversight consistent with that of its competitors. Specific price ceilings will be established for services offered within competitive zones, below which U S WEST will be free to adjust prices as the market dictates. In addition, U S WEST will be able to promote services and offer packages to similarly-situated customers within the zone at prices that may vary from prices in effect in other zones or areas of the state.

Additionally, I propose that all new services introduced in Arizona be automatically classified as "competitive" upon their introduction. By definition, new services will be optional and discretionary when they are introduced, and the market will govern their acceptance. Automatic competitive classification for new U S WEST services will place U S WEST on competitive par with other telecommunications providers in Arizona.

Finally, I propose that U S WEST be granted the same ability to promote its products and services as that afforded its competitors. Currently, U S WEST is required to file tariffs with the Commission outlining the details of any promotion with a value of $25.00 or more. The tariffs are required to be on file with the Commission at least 30 days prior to the advent of the promotion.

U S WEST proposes that this requirement be modified to mirror the promotional capabilities of other competitive providers.

The rate of growth of competition in Arizona creates a need for U S WEST to rebalance prices and refine the structure of its services to position them properly in the marketplace. My testimony outlines proposals which will appropriately rebalance rates, reduce traditional cross-service subsidies and move residential local exchange service rates toward cost-recovery levels. Specific pricing proposals are outlined in detail in Section II of my testimony. The overall annual revenue impact of these changes is $67,980,566.

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is David L. Teitzel. I am employed by U S WEST Communications, Inc. (U S WEST) as Director-Product and Market Issues. My business address is 1600 7th Avenue, Room 2904, Seattle, WA, 98191.

Q. BRIEFLY OUTLINE YOUR EMPLOYMENT BACKGROUND.

A. I began my career with U S WEST's predecessor company, Pacific Northwest Bell, in 1974. I have held a number of management positions in various departments, including Regulatory Affairs, Network, and Marketing. As a Marketing product manager, I was responsible for product management of Basic Exchange, Centrex, and IntraLATA Long Distance services. I have also served as a Market Manager for U S WEST Dex. I was named to the Director - Product and Market Issues position in March 1998.

Q. WHAT IS YOUR EDUCATIONAL BACKGROUND?

A. I received a Bachelor of Science degree from Washington State University in 1974.

Q. HAVE YOU TESTIFIED IN ARIZONA PREVIOUSLY?

A. No, I have not. I have, however, testified as an expert witness in state regulatory dockets in Iowa, Washington, Oregon, Minnesota, New Mexico, North Dakota, South Dakota, Utah, and Wyoming.

Q. ON WHAT BASIS IS U S WEST ADVANCING ITS PROPOSALS?

A. Competition in local telecommunications markets is a key issue facing U S WEST and this Commission. While the telecommunications environment has changed dramatically, and customers have an increasing number of choices, U S WEST remains largely regulated as a traditional utility. Competition creates a need for a shift in the regulatory paradigm.

To meet customers' evolving telecommunications needs in a timely way, it is especially important that U S WEST and this Commission redefine U S WEST's regulatory

relationship with the state. The old regulatory model no longer works. A new model must be established.

I. COMPETITION

Q. HOW DOES THE TRADITIONAL FORM OF REGULATION HINDER COMPETITION?

A. This can best be demonstrated by contrasting competitive, unregulated businesses and U S WEST:

- Competitive businesses pick their customers and set their own prices.[1] U S WEST is required to serve all customers at regulated prices, while facing the risk that excess capacity will be found not "used and useful" and excluded from the rate base.

- Competitive businesses price to particular markets in a way that reflects the variation in the customers' perception of value and the cost of serving different customers. U S WEST must continue to charge average prices that often carry higher margins, regardless of the actual costs, in order to permit residential prices to remain low.

- Competitive businesses choose the level of service they will offer on the basis of cost/benefit trade-offs and analyses of the service their competitors offer customers. Competitors have no standards that are enforced and are not required to report service quality results to the Commission. U S WEST is subject to a detailed service quality tariff and reporting requirements are rigidly enforced.

- Competitive businesses compete in the marketplace, while U S WEST is often required to fight its battles with competitors in front of regulators. In the interest of maintaining maximum flexibility for themselves, U S WEST's competitors argue for extensive regulatory burdens on U S WEST that are typically not required of the competitors, preventing the benefits of true competition from flowing to the customer.

- Competitive businesses introduce new services and price initiatives without advance notice and then aggressively promote them. U S WEST must often disclose its

[1] As evidenced by tariffs on file with the Arizona Commission, many alternative telecommunications companies have chosen only to serve business customers at this time.

marketing initiatives to regulators and competitors in advance, giving competitors substantial lead time to develop and implement reactive strategies.

- While competitive businesses aggressively promote their brands, the cost of brand advertising by U S WEST has been typically disallowed from recovery through rate payers.[2]

In short, competitive businesses make their own operating decisions, make their own investment decisions, and set their prices as a matter of management judgement in recognition of competitive market forces. U S WEST, in stark contrast, continues to have many of its choices made by regulators.

Q. IS U S WEST CURRENTLY EXPERIENCING COMPETITION IN ARIZONA?

A. Yes, there is substantial competition today in Arizona and the pace is escalating. Arizona is one of the most rapidly growing areas in the United States. Analysts project that the Phoenix area alone will sustain an annual increase of over 50,000 people for the next 15 years. As a result of the robust economy, Phoenix is currently one of the most competitive telecommunications markets in the U S WEST region. U S WEST faces intense competition from both resellers and established facilities-based competitors with substantial resources and extensive networks. These established companies, which include the combined AT&T/TCG and MCI WorldCom companies, have access to financial resources greater than U S WEST's with which to fund expansion of their networks. Today's competitive networks transmit voice and data traffic for a variety of services, over switched and dedicated facilities.[3]

Q. WHAT IMPACT HAS THE TELECOMMUNICATIONS ACT OF 1996 HAD ON COMPETITION IN ARIZONA?

A. Congress passed into law the Telecommunications Act of 1996 which put in place a philosophy to open all telecommunications markets to all providers. Since that time, the Ariz ona Corporation Commission (ACC) has received applications from over sixty-five

[2] The Commission, in Arizona Docket No. E-1051-93-183, Decision No. 58927, Page 31, 1/3/95, disallowed $478,441 in legislative, public relations and advertising expense.

[3] Cox's telephone service will be available over the company's cable television lines, enabling customers to receive television, telephone and Internet services from the same source. Arizona Republic, 11/19/98, Page A20.

companies to be classified as Competitive Local Exchange Carriers (CLECs). (See Exhibit DLT-1, List of Companies with CLEC and ILEC Applications, as maintained by the Arizona Corporation Commission Utilities Division). U S WEST has signed contracts with 50 companies which have been approved, allowing for interconnection with U S WEST facilities and/or resale of U S WEST products and services in Arizona. Competitors range from powerful international companies with substantial resources, to small innovative companies striving to take advantage of the exploding telecommunications market. Even cable and electric companies have emerged as alternative providers of telecommunications services for Arizona consumers.

Q. WHICH OF U S WEST'S MARKETS ARE MOST VULNERABLE?

A. U S WEST's high revenue business customer base is the most vulnerable, as these customers often can be reached by competitors with a minimal level of investment. Approximately (redacted)% of U S WEST's business access lines in Arizona are concentrated in the Phoenix/Tucson areas. (See Proprietary Exhibit DLT-2 for figure.) Proprietary Exhibit DLT-3 contains maps of the Phoenix and Tucson areas with business locations plotted on them. The maps also highlight a 1000' zone surrounding competitive fiber. (Redacted)% of business access lines in the Phoenix area and (redacted)% of business access lines in the Tucson area fall within this 1000' zone, making these customers extremely vulnerable to competition. (See Proprietary Exhibit DLT-2 for figures.) With prices for these customers continuing to carry high levels of contribution, competitors have focused on these businesses for quick competitive entry.

Q. SHOULD THIS BE A CONCERN OF THIS COMMISSION?

A. Yes. The public interest is not served by keeping U S WEST's hands tied while its competitors win its best customers. In fact, quite the opposite is true. When it loses high revenue customers, U S WEST must recover its costs over a smaller customer base. As the rate of loss grows, and support from high margin services is no longer available, rate increases become inevitable. If this Commission will allow U S WEST to compete on equal footing with its competitors, it will have the opportunity to retain some proportion of those high revenue customers. The result will be to mitigate the need for rate increases, especially in the residential market.

Q. ARE THE LOSSES LIMITED TO BUSINESS CUSTOMERS?

A. No. U S WEST is also experiencing losses of residential customers. While most competitors have primarily been targeting business customers to this point, other competitors such as Cox are beginning to target residence customers. On November 18, 1998, the Phoenix City Council granted Cox a license to begin providing residential telephone service in the area. According to a Cox representative, "more than half of Cox's 220,000 cable customers in Phoenix will have the upgraded components (necessary to provide digital telephone service) by June 30, 1999." Cox is already providing residential telephone service to over 5,000 residents of Chandler, with the potential to serve 40,000 additional subscribers there and plans to ultimately offer telephone service to all of its 600,000 subscribers in Phoenix and surrounding communities.[4] Cox's efforts illustrate that the residential market is not immune to competition.

Q. HAVE THE LOSSES OCCURRED THROUGHOUT THE STATE OR HAVE THEY BEEN CONCENTRATED IN SPECIFIC GEOGRAPHIC AREAS?

A. U S WEST's competitive losses have primarily occurred in the greater Phoenix and Tucson areas. While competitors' facilities once focused exclusively on the central business districts in Phoenix and Tucson, investments in network build-outs over the last 24 months have resulted in facilities that reach the most remote suburbs of these two cities.

Q. WHY IS THE COMPETITION FOCUSING ON THESE PARTICULAR AREAS OF THE STATE?

A. These areas represent (redacted)% of total U S WEST access lines and (redacted)% of total U S WEST revenue in Arizona (See Proprietary Exhibit DLT-2 for figures). As indicated above, alternative providers in these areas can easily target a high number of customers with minimal investment, thereby maximizing their competitive impact.

Q. HOW ARE ALTERNATIVE TELECOMMUNICATIONS PROVIDERS APPROACHING COMPETITION IN ARIZONA?

[4] The Arizona Republic, November 19, 1998, Page A1.

A. U S WEST's primary competition comes in the form of facilities-based providers who initially target densely concentrated, high revenue business customers. Competitors may win all of a customer's telecommunications business immediately, or, they may make gradual inroads by first handling only a portion of the business' traffic, e.g., long distance or data. Once a relationship is established, the competitor can easily capture all of the customer's business by offering further incentives such as low prices and one-stop shopping convenience. While U S WEST's competitors can offer complete, integrated packages, U S WEST remains at a competitive disadvantage by not being able to compete in the interLATA long distance market. Once facilities are in place in a given area, there is very little incremental cost for the competitor to expand their service to other business and residence customers, especially as fiber is placed in suburban areas to reach business complexes located outside central downtown business corridors. U S WEST is experiencing erosion of its customer base in this manner today.

In addition to facilities-based providers, U S WEST is also facing other forms of significant competition. I will discuss this in more detail below, specifically relating to the Phoenix and Tucson areas.

A. COMPETITIVE LANDSCAPE - PHOENIX

In Phoenix, U S WEST's primary competitors include AT&T/TCG, MCI WorldCom, Electric Lightwave Inc. (ELI), GST, and Cox. Following is a brief description of the competitive impact each of these companies is having on the telecommunications market in Phoenix:[5]

AT&T/TCG

AT&T's $11.3 billion takeover of Teleport Communications Group (TCG) was approved by the FCC on July 23, 1998, providing it with easy, rapid access to the facilities-based local exchange and high capacity markets in Phoenix and other major urban centers across the nation. Before the merger, TCG was majority owned by three cable companies – TCI, Comcast, and Cox. AT&T's purchase may be seen as a stepping stone to its entry into cable-provided local telephony. AT&T, commenting on the merger, said that it will enable it to sell all-in-one packages of local, long distance and data communications to

[5] This information was obtained from various sources, including the Internet, magazine and newspaper articles, and studies of the Phoenix and Tucson markets performed by Quality Strategies.

businesses.[6] In a press release issued July 23, 1998, AT&T Chairman C. Michael Armstrong stated: "Completion of this merger accelerates our entry into the $21 billion business local service market because we're reducing our dependence on the Bell companies for direct connections to businesses. We're giving customers simplicity, convenience, and choice. It's one-stop shopping for local and long distance services, just for starters."[7]

AT&T's merger with TCG provides it with access to TCG's 300 route miles of fiber in Phoenix (the largest CLEC fiber network in Arizona) which is currently connecting approximately 150 single and multi-tenant buildings. The vast majority of these buildings are located in Phoenix and Tempe. TCG's network is composed of 11 self-healing SONET (synchronous optical network) rings and is capable of providing facilities-based service to the majority of the Phoenix Metropolitan Statistical Area's (MSA's) business-intensive localities. TCG offers facilities-based service in the following communities: Downtown Phoenix, Phoenix Sky Harbor International Airport, Chandler, Mesa, Tempe, Paradise Valley, Scottsdale, Tolleson, and Glendale.

In 1996, TCG was authorized by this Commission to offer local switched services in the Phoenix area. Traditionally, TCG has marketed integrated packages of telecommunications services to business and government customers, including local exchange services, high capacity services, and enhanced data products. The company primarily targets financial services firms, media, health care companies and government facilities. To recoup network construction costs, TCG has relied on dedicated access revenues from large business customers. However, TCG has recently modified that strategy and attempted to move "down-market." This is largely the result of its local exchange product rollout and proliferation of high capacity use among smaller and medium-sized businesses.

The AT&T/TCG merger will allow the two companies to capitalize on the strengths of each. Traditionally, TCG has directed its marketing efforts toward the large business market, and rapidly accumulated a customer list laden with Fortune 500 companies. Conversely, AT&T's recent strengths have been the small business and consumer markets. With the merger, AT&T will be poised to reassert its influence among large business customers and TCG will expand its focus to include the small business market.

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[6] "AT&T's Teleport takeover OK'd," Arizona Republic, 7/24/98.
[7] http://www.tcg.com/tcg/media/PRcurrent/attfinal.html.

TCG will also acquire additional resources from the merger to allocate for network expansion in the Phoenix MSA. AT&T stands to benefit significantly from the merger in that it will undoubtedly lead to a reduction in operating costs via a reduction in the overall switched access costs it must pay U S WEST for its core business – long distance.

The press release announcing completion of the merger explains the companies' competitive strategy in more detail:

> TCG's services enhance AT&T's ability to provide integrated end-to-end services for large and small business customers. AT&T will offer single points of contact for local and long-distance services and customer care, enterprise solutions for businesses with multiple locations, volume discounts across services and an integrated bill for customers who want it. The company plans to roll out offers in 34 more markets this year; by early next year, AT&T plans to integrate local service into its business offers throughout 66 of TCG's markets.
>
> TCG's network infrastructure also helps the company add toll-free calling capabilities to AT&T Digital Link, a local service for businesses with dedicated digital connections to the AT&T network. Introduced as an outbound local service in 49 states last year, the service now also lets customers in California, Texas, New York, New Jersey, Florida, Georgia and Connecticut receive incoming calls using their existing phone numbers. AT&T plans to add inbound local calling in five more states this year and more in 1999.[8]

Exhibit DLT-4 is a copy of a TCG web page, describing AT&T/TCG switched service offerings, all of which can be considered direct competitive alternatives for U S WEST services. For example, with TCG's PrimePath[sm] Service, customers can connect to TCG's fiber using their Prime Business Lines or Prime Business PBX trunks. PrimePath customers may also obtain enhanced features such as Call Waiting, Call Forwarding, Conference Calling, and Voice Mail.[9] TCG's web page touts that their customers can save, on average, 10% over what they were paying to "the traditional phone company." As they state: "Competition does amazing things to prices. We should know. We're the

[8] http://www.tcg.com/tcg/media/Prcurrent/attfinal.html
[9] http://www.tcg.com/tcg/products/factSheets/PrimePath.html.

competition."[10] TCG's Arizona tariffs specify recurring rates that are discounted for multi-year contracts. Exhibit DLT-5 is a price quote AT&T recently sent to a U S WEST business customer located in Phoenix, comparing AT&T's rates to U S WEST's rates for such a contract. TCG's tariffs also allow for pricing on an individual case basis for "special situations."

In June of this year, AT&T announced another record-breaking deal, this one with TCI. If approved, this deal will allow AT&T to provision entertainment, high speed internet access, and telephone service to millions of homes across America.

MCI WorldCom

In September, 1998, the FCC granted approval for a $37 billion merger between WorldCom and MCI. WorldCom had previously acquired Brooks Fiber in 1997, adding 44 local facilities-based networks to its portfolio. Phoenix FiberLink, Metro Access Networks, Compuserve, and ANS are also part of the MCI WorldCom family. WorldCom, commenting on the merger, stated that their primary strategy revolves around business customers. "John Sidgmore, vice chairman of World Com Inc., said in a telephone interview that the residential customers likely would be transferred to other long distance companies, potentially including the regional Bell companies...'We're not saying (the end of residential service) is definitely going to happen on day one,' Sidgmore said. Initially, we're going to market to consumers just like MCI does. On the other hand, our strategy is not in the consumer business.'"[11] In January 1998, MCI declared that it was backing away from serving the residential market. "MCI announced that it was abandoning local residential service provision until – reincarnated as a unit of WorldCom – it could construct its own network facilities, perhaps during 1999. For now, the company's president announced, MCI would proceed 'with the only business case that makes sense' – furnishing local service to corporate customers."[12]

In Phoenix, WorldCom's network has been operational since 1995 when it initiated service to several large end users and every major carrier in the central business district. Since then, the network has expanded to encompass a much broader geographic area. In 1997, WorldCom installed a central office switch in Phoenix that will allow it to diversify its product offering with the rollout of local exchange services. Currently, there are over

[10] http://www.tcg.com/tcg/products/productsSvcPrice.html.
[11] "WorldCom Would Shift MCI's Focus," by Mike Mills, Washington Post, October 3, 1997, Page A01.
[12] Telecommunications Reports Daily, "MCI to Abandon Residential Local Service," January 22, 1998. Reported in "Bad Deal of the Century" by Dan Schiller of the Economic Policy Institute.

50 single and multi-tenant buildings connected to WorldCom's 75 mile fiber network in the Phoenix MSA, with the majority clustered downtown and along Camelback Road. Geographic areas currently covered by WorldCom fiber in the greater Phoenix area include: Downtown Phoenix, Camelback Road/Indian School road areas between Central Avenue and 46th Street, Lincoln Road, Phoenix Sky Harbor International Airport, Van Buren Street, and Tempe. WorldCom has a "Resold Local Exchange Service" tariff on file with the Commission, which allows them to provision a full range of products and services to end user customers in the Phoenix area not served directly by their existing fiber facilities.

MCI has built a small fiber network (20-40 miles) in Phoenix's central business district to transmit voice and data traffic. In contrast with several other competitors, MCI has not invested heavily in fiber facilities to serve end users on the city's periphery or in the suburbs. Instead, it has limited the scope of its network to the city's downtown area and connected the buildings that house its largest long distance accounts (to provide facilities-based high capacity service). MCI also provides services through resale to customers outside the scope of their existing physical network.

Traditionally, MCI has targeted the large business segment for voice and data services (long distance, high capacity, data, and local exchange). In Phoenix, MCI is the primary long distance carrier for several Fortune 500 companies—a sales channel that it frequently uses to win high capacity and local exchange accounts.

Electric Lightwave, Inc.

Having turned up its network in 1994, ELI was one of the first providers of competitive telecommunications services in the greater Phoenix area, originally providing alternatives to interexchange carriers for U S WEST's switched access and private line services. Like MCI and WorldCom, ELI originally limited the scope of its network to Phoenix's central business district. However, it decided to expand its network as the suburban demand for communications services increased. In 1997, ELI entered into a strategic alliance with the Salt River Project (SRP). Under the terms of the agreement, ELI leases substantial amounts of SRP dark fiber. The combined ELI-SRP network now encompasses over 400 route miles and is capable of delivering facilities-based service to Phoenix, Tempe, Scottsdale, Chandler, and Gilbert, among others. ELI has 30 to 45 buildings on its network. ELI also claims to have invested $37 million in new facilities in Phoenix.[13] Far

[13] http://www.eli.net/phxswitch.html.

from being a start-up, ELI is a subsidiary of Citizens Utilities Company, a large utility company and full-service telecommunications provider.[14]

ELI has recently increased marketing campaigns directed toward Internet Service Providers (ISPs). One of its primary overall strategies is to establish several communications networks in the western United States and become a regional provider of communications services. At present, ELI operates competitive facilities in eighty-four cities, enabling ELI to effectively market service to businesses operating in one or more of these markets. It is a full service provider (offering integrated communications service packages including local service, switched and dedicated long distance, private networks, advanced data and Internet access services, nationwide videoconferencing, and prepaid services) to customers in Phoenix, Boise, Salt Lake City, Sacramento, Portland, Spokane, and Seattle. Additionally, ELI has established long-haul links between many of its markets and leases capacity to ISPs and other carriers.

Exhibit DLT-6 is an advertisement ELI recently ran in the Arizona Business Magazine, encouraging customers to move their local telephone service to Electric Lightwave.[15] Tariffs on file with the Commission provide for initial and maximum rates for Business Local Exchange Service, with discounted rates specified for customers signing 2-year, 3-year, and 5-year contracts.

GST

GST has approximately 300 route miles of fiber in Arizona, including more than 11 miles of fiber in downtown Phoenix and a long haul fiber link between Phoenix and Tucson. GST has been certified by the Commission to provide facilities-based and resold telecommunications services and has connected 15 to 25 buildings to its network. In the first quarter of 1998, GST acquired a long distance company, Call America Phoenix, to boost corporate revenues.[16] GST serves residence and business customers in Phoenix, providing local dial tone, long distance, private line, Centrex, internet, and data transport services.[17] Exhibit DLT-7 is a copy of a GST ad that appeared in the July 10, 1998 edition of "The Business Journal," highlighting GST's product line.

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[14] http://www.czn.net/AnnualReports/1997. Citizens Utilities had revenues of $1.4 billion in 1997, an increase of 8% over 1996.
[15] Arizona Business Magazine, November/December 1998.
[16] http://www.gstcorp.com/press/gen86.html.
[17] http://www.gstcorp.com/local/mesa.html.

Cox

Cox Communications is perhaps the most diversified of U S WEST's competitors, currently offering customers integrated packages of television, local and long distance telephone service, and internet services. Cox is also the first facilities-based competitor to offer telephone service to residence customers on a wide geographic basis. Exhibit DLT-8 includes copies of direct mail advertisements sent to Phoenix customers, highlighting Cox's offerings. Cox has reportedly undertaken a $500 million cable infrastructure project in Phoenix, and is in the process of building seven operation centers to support its 8,900-mile fiber network.[18] Cox entered the telecommunications market focusing on multiple dwelling units. However, they have recently expanded their offerings to the single family residential market.

On September 10, 1998, Cox announced that they will begin offering local telephone service to its cable TV customers for $11.75/month. Exhibit DLT-9 includes excerpts from the tariff Cox has on file with the Commission. Note that for residence combination service (cable TV and telephone), Cox is offering a second line for $6.50/month. Features and voice mail are also available at prices below U S WEST's rates. The tariff also allows Cox the permanent flexibility to waive initial service connection charges for residential customers and to run promotions at their discretion without Commission approval.[19]

Other Competitors

Resellers are competing with U S WEST in both the residential and business markets in Phoenix. Many of the CLECs who utilize fiber facilities to serve customers also resell U S WEST services. Residential resellers have primarily focused on multiple dwelling units as their target market. Telephone Plus, Cable Plus, and One Point are examples of such resellers. Proprietary Exhibit DLT-10 is a map showing the location of residential apartment buildings in the Phoenix area which are now being served by a alternative telecommunications providers. Combined, these buildings represent over 2,300 units that are served by alternative providers. NextLink is an example of a competitor who has employed this same strategy for business complexes in the Phoenix area. Resellers offer customers rates that are lower than U S WEST's, as they are able to purchase U S WEST residential services at a 12% discount and most business services at an 18% discount from retail rates.

[18] The Business Journal, 3/17/97.

Another competitive means of providing telecommunication services is that used by WinStar Communications. WinStar's system removes the necessity for the local wireline loop, totally bypassing the U S WEST network. They can extend service from a carrier's Point of Presence to customer locations entirely through fixed wireless facilities. WinStar has been certified by this commission as a Competitive Local Exchange Carrier and is actively marketing its services in Arizona. On October 27, 1998, WinStar announced that it will provide free local telephone service (up to $1,000 per month) until the year 2000 to certain customers who sign 3 year contracts with the company. Customers who participate will receive long distance service at $.09/minute. Although this offer is not currently available to customers in Arizona according to WinStar's Internet Home Page, it demonstrates the increasing competition afforded by this technology, as the offer comes on the heels of an announcement from Teligent, another fixed wireless competitor, to begin offering service in 10 U. S. markets.

According to an October 27, 1998 Press Release, Teligent will offer customers who commit to switching their existing service (local service, or local service in some combination with long distance or Internet) a 30% discount from the rates they are currently paying for such services. (Customers must sign at least a one year contract.) The Press Release states, "Teligent can deliver these substantial savings to customers because it is creating its own digital networks to deliver local service to its customers. These networks give the company a substantially lower cost structure than the traditional local telephone companies, or other competitors that use the existing local networks."[20] Information obtained from Teligent's Web site indicates they will soon be offering service in Phoenix and Tucson.

TCG is also a carrier licensed to provide service through fixed wireless loop technology. Phoenix, with its relatively flat terrain, is an ideal environment for utilization of wireless fiber which relies on direct line of sight for successful transmission.

B. COMPETITIVE LANDSCAPE - TUCSON

[19] Arizona SCC Tariff No. 1, Second Revised Page No. 60, Effective 11-4-98; Original page 69, Effective 11/30/97.

[20] http://www.teligentinc.com/templates/temp_pressrel.asp?content_id=165.

In Tucson, U S WEST's primary competitors are Brooks, GST, and e.spire. Following is a brief description of these companies' impact on the Tucson telecommunications market[21]:

Brooks

Brooks Fiber completed its initial fiber buildout in Tucson in early 1996. For the first several months of operation, Brooks offered dedicated access, enhanced data services, and point-to-point connections used by carriers and other customers to bypass U S WEST's switched access services. Brooks entered the local exchange market on a resale basis during the second quarter 1996. Subsequently, Brooks has migrated to a mixture of provisioned service and resale. Over the past year, Brooks has diversified its product offering to include switched voice and data products in addition to traditional high capacity services. Brooks has been routing traffic via its own central office switch since the second quarter 1997. Brooks' network in the greater Tucson area surrounds the central business district, covering an area stretching 10 miles in all directions from the center of the city. Brooks' metropolitan area network consists of several SONET rings and connects over forty buildings in the greater Tucson area, including several multi-tenant buildings in addition to some single-tenant edifices. The vast majority of served buildings are located within the city limits of Tucson. Brooks' stated goal for the Tucson market is to gain significant market share by offering an integrated package of local exchange services in addition to data services, connectivity, and internet access.

GST

In November, 1997, GST completed construction of long-haul facilities in Arizona to connect its Phoenix fiber network with its Tucson-area network. GST established operations in Tucson in 1994 with the completion of its 70 route mile network in the central business district and a few nearby suburbs. GST now operates more than 250 route miles of fiber across the southern part of Arizona. The long haul facilities connecting Phoenix and Tucson comprise over 110 route miles. GST began offering service to Tucson-area businesses in November 1997. Like several other CLECs, GST's focus is on becoming a provider of integrated telecommunications services. GST's local switched product offering is similar to U S WEST's. GST offers its customers basic business lines, Centrex-like service, trunks, and ISDN lines. Before the rollout of local switched services, GST was strictly a provider of dedicated services designed to allow customers to bypass the U S WEST network, including point to point connections, special

[21] This information was obtained from various sources, including the Internet, magazine and newspaper articles, and studies of the Phoenix and Tucson markets performed by Quality Strategies.

access, and data services. GST has installed fiber beneath the following streets in Tucson: Country Club Road, Speedway Boulevard, Broadway Boulevard, 18th Street, and 6th Street.

e.spire

e.spire (formerly ACSI) completed construction of its original network serving Tucson's central business district in the first quarter of 1996. The Tucson network was one of e.spire's first networks and is thus one of its most mature. Although its network was originally constructed in 1996, it did not roll out local switched services until the first quarter 1997. Although the original network consisted of just a few miles in downtown Tucson, e.spire's network has grown to its present size of nearly 120 route miles of optical fiber.

e.spire's Internet Web page provides more specific information on the location of e.spire's network expansion, citing a 29-mile northwest expansion completed in October 1996 in the northwest business corridor along Interstate 10; a 73-mile expansion completed in May 1996 which proceeds eastward from downtown along Grant and Broadway south to Rita Road to serve potential customers like Keane, IBM, and Hughes, through the Airport Authority complex, serving Intuit, UPS, and Butterfield Business Park, and installation of a Lucent 5ESS switch which, according to the Web page, was scheduled for completion in second quarter 1997.[22]

In Tucson, e.spire's local service product line is similar to that of U S WEST's, including basic lines, features, a Centrex-type service, and PBX trunks. Additionally, e.spire offers a robust package of high capacity and data services including DS-1 and DS-3 special access circuits, optical-speed circuits, frame relay, Ethernet, etc. Before the rollout of local switched services, e.spire had generated revenues by offering private line and data services to large businesses in the greater Tucson area and by offering alternatives to U S WEST's local exchange service to major interexchange carriers. e.spire was the first facilities-based CLEC to offer local services to the business community of Tucson. e.spire's web page touts their ability to offer a solutions package to meet all of a customer's telecommunications needs: "Our first-hand experience in the market tells us that businesses don't have time to deal with different providers for local dial tone and long

[22] http://www2.espire.net/networks/nxx_look2.cfm?MainCity_ID=33.

distance. They need a provider that offers creative alternatives that can "do it all," offering the simplicity and convenience of a single point of contact and one bill."[23]

Q. HAS U S WEST BEEN ABLE TO DETERMINE THE LOCATION OF THESE COMPETITORS' FACILITIES IN RELATIONSHIP TO U S WEST'S PHOENIX AND TUCSON WIRE CENTERS?

A. Yes. Exhibit DLT-11 shows the presence of these competitors' facilities in U S WEST service areas in Phoenix and Tucson, based on the above-referenced information and other competitive intelligence. Cox's facilities are not shown on Exhibit DLT-11; however, the area where Cox is currently offering telephone service is highlighted in green on the exhibit.

Q. ARE THE PROVIDERS MENTIONED ABOVE A COMPLETE REPRESENTATION OF THE ALTERNATIVES AVAILABLE TO PHOENIX AND TUCSON CUSTOMERS?

A. No. There are a number of additional providers that I have not specifically mentioned. For example, I am attaching pages from the Phoenix and Tucson 1998 U S WEST Dex Yellow Pages as Exhibit DLT-12. This exhibit demonstrates that there are 78 telecommunications companies other than U S WEST available to Phoenix customers and 7 such companies available to Tucson customers. While some of these companies may focus on a single market such as paging or long distance, many of them offer a full menu of telecommunications products and services from which customers may choose. It is abundantly apparent that broad-scale local competition can no longer be treated as a future possibility. It is here now and is growing rapidly.

C. REGULATORY FLEXIBILITY

Q. DOES U S WEST HAVE THE ABILITY TO EFFECTIVELY COMPETE UNDER THE EXISTING REGULATORY FRAMEWORK?

A. No, it does not. With the exception of the few services which have already been classified as competitive, U S WEST is obligated to charge state-wide rates for its products and services. State-wide rates are developed based on costs for the entire state, including high-cost rural areas. Competitors, on the other hand, are focusing solely on large metro

[23] http://www2.espire.net/products/voice.

areas of the state (Phoenix and Tucson) where they can maximize their investment by reaching a high volume of customers in a concentrated area. As the incumbent local exchange carrier, U S WEST doesn't have the ability to "pick and choose" its customers and service area. To successfully compete, U S WEST must have the ability to manage and price its services in a flexible manner in areas where competition exists. To this end, I recommend the Commission take three significant actions: 1) Establish specific geographical areas as "competitive zones," 2) Classify new services as "competitive" upon introduction, and 3) Allow U S WEST to promote its products and services with as much flexibility as its competitors enjoy. I address each of these recommendations in more detail below.

Q. HAS THE COMMISSION PREVIOUSLY ESTABLISHED A MECHANISM TO BE USED IN RESPONDING TO COMPETITION IN ARIZONA?

A. Yes. Article 11, R-14-2-1108 of the Commission Rules specifies the procedures to be followed if a telecommunications company or the Commission believes a service should be classified as competitive. Petitioning parties are required to submit documentation in support of their contention that the service should be classified as competitive, including the number of alternative providers of the service, identification of the alternative providers, information on the ability of alternative providers to furnish substitutable services at competitive rates, terms, and conditions, and other indicators of market power. If the Commission finds that a service *is* competitive, the rules provide for streamlined regulation of that service.

D. COMPETITIVE ZONES

Q. PLEASE DESCRIBE YOUR PROPOSAL TO DESIGNATE CERTAIN GEOGRAPHICAL AREAS AS COMPETITIVE ZONES.

A. U S WEST is proposing that the Commission, in recognition of the increasingly competitive telecommunications environment, classify specific wire centers as competitive zones. The wire centers will be those in which competitive alternatives to U S WEST services exist. Within such zones, U S WEST will be able to meet customer needs and respond to competition with relaxed regulatory oversight. Initially, I am proposing that competitive zones be established in the Phoenix and Tucson areas, but I

also suggest a mechanism to designate additional wire centers as competition extends throughout the state.

Q. WHAT CRITERIA ARE YOU PROPOSING MUST BE MET BEFORE A WIRE CENTER CAN BE DESIGNATED AS A COMPETITIVE ZONE?

A. Before a competitive zone can be established, at least one of the following criteria must be met: 1) A competitor has facilities in place and is marketing or offering services in competition with U S WEST; 2) A reseller is marketing or offering services in competition with U S WEST; or 3) A competitor is marketing or offering services through the provision of unbundled network elements purchased from U S WEST.

Q. WHAT FLEXIBILITY WILL COMPETITIVE ZONES PROVIDE FOR U S WEST?

A. Within each zone, maximum rates will be established for each service, below which U S WEST may change prices without Commission approval. Maximum rates will equate to a doubling of the price of the service in effect at the time this rate case is concluded, except for residence Basic Exchange Service. Residence Basic Exchange Service will have a maximum rate of $19.00 established within each competitive zone.

Within the parameters established by the maximum price levels, U S WEST will be able to:

- Change prices, terms, and conditions for services upon concurrent, written notice of the change to the Commission. Formal Commission approval is not required. Prices will apply to all similarly-situated customers within the zone.
- Implement promotional offerings/discounts on services. This will encompass limited duration as well as permanent programs designed to attract customers or increase customer awareness of a particular offering.
- Offer incentives designed to attract and/or retain customers. Similarly-situated customers will receive comparable offers. Such offers will be available to anyone within the competitive zone.
- Package, bundle, and/or price services on a customer-specific basis. Similarly-situated customers will receive comparable offers. Such offers will be available to anyone within the competitive zone.

Offerings and prices may vary between competitive zones. With this flexibility, U S WEST will be able to effectively respond to customer and market demands in the areas subject to competition.

Q. IS THE FLEXIBILITY YOU ARE PROPOSING TO HAVE IN THE COMPETITIVE ZONES ANY DIFFERENT THAN THE FLEXIBILITY ENJOYED BY YOUR COMPETITORS OPERATING IN THOSE SAME AREAS?

A. No. U S WEST's competitors enjoy the flexibility of being able to price under maximum rates, run promotions and waive charges according to market needs, and design offerings to meet specific customer demands. However, even with the flexibility to be gained by the competitive zone concept, U S WEST remains at a distinct disadvantage as long as our competitors are able to offer an integrated package of interLATA and intraLATA long distance services. Until U S WEST is allowed into the interLATA long distance market, its competitors will continue to attract customers who are looking for a single provider to meet all of their telecommunications needs.

Q. WHAT SERVICES WILL BE IMPACTED BY APPROVAL OF COMPETITIVE ZONES?

A. Once an area is designated as a competitive zone, all services offered by U S WEST will be afforded the flexibility outlined above. Some services have already been deemed "competitive" on a state-wide basis by this Commission (i.e., Private Line, MTS, WATS, Centrex, and National DA). They will continue to have state-wide flexibility and will also be eligible for any further flexibility afforded by the competitive zone concept.

Q. WILL RESIDENCE AND BUSINESS SERVICES BE AFFORDED PRICING FLEXIBILITY IN EVERY COMPETITIVE ZONE?

A. Not necessarily. It will depend on the competition that exists in the competitive zone. If the only competition in a particular area is for business customers, then the flexibility associated with that competitive zone will only be applicable to business-type services. Similarly, if competitors are only serving residence customers in a specific area, U S WEST's competitive response within the competitive zone will be limited to residence services. Of course, it is very likely there will be competition for both residence and business customers in a certain competitive zone, in which case all of U S WEST's product family will be afforded flexibility.

Q. WILL THERE BE ANY RESTRICTIONS ON HOW U S WEST MAY PRICE SERVICES WITHIN THE COMPETITIVE ZONES?

A. Yes. U S WEST will not be able to price in a manner that will result in a price squeeze. The price floor for all services will be TSLRIC, with the exception of residence Basic Exchange Service. Prices for specific services may be offered below Total Service Long Run Incremental Cost (TSLRIC) in competitive zones only as long as the total revenue for the customer or group of customers is above TSLRIC. Only regulated costs will be used to make this determination. In addition, the maximum price establishes a price ceiling for services within competitive zones. The price ceilings will be double the rates approved in this filing; or for services not treated in this rate case, double the existing rates, except for residence Basic Exchange Service. Residence Basic Exchange Service will have a maximum rate of $19.00 established within competitive zones. In the case of services already classified as "competitive" on a state-wide basis, the maximum rates will also apply outside of the competitive zones. U S WEST will not price above these price ceilings. U S WEST will only be able to change ceiling prices in the future upon Commission approval on an expedited schedule consistent with R14.2.1110. Exhibit DLT-13 provides an example of the price ceiling concept.

Q. WHAT CONTROLS REMAIN ON U S WEST WITHIN A COMPETITIVE ZONE?

A. U S WEST remains under the jurisdiction of the Arizona Corporation Commission. Prices and terms/conditions for services offered within competitive zones will be subject to the complaint process, whereby the remedy for any customer or agency believing prices or terms to be unjustified is to file a written complaint with the Commission.

Q. WHAT SPECIFIC AREAS ARE YOU PROPOSING BECOME COMPETITIVE ZONES?

A. I am recommending that those wire centers currently experiencing competition per the criteria described earlier in my testimony be classified as competitive zones. Specifically, I am recommending that the following wire centers be designated as competitive zones:

<u>Business Competitive Zones – Phoenix</u>

Bethany-West, Cactus, Chandler South, Coldwater, Deer Valley North, Foothills, Ft. McDowell, Gilbert, Glendale, Greenway, Higley, Laveen, Maryvale, Mesa, Pecos, Peoria,

Phoenix East, Phoenix Main, Phoenix North, Phoenix Northeast, Phoenix Northwest, Phoenix South, Phoenix Southeast, Phoenix West, Queen Creek, Scottsdale Main, Shea, Sunnyslope, Super Main, Super West, Tempe, Thunderbird, Tolleson

Residence/Business Competive Zones – Phoenix
Chandler-Main, Chandler-West, McClintock

Business Competitive Zones – Tucson
Cortaro, Craycroft, Flowing Wells, Marana Main, Rincon, Tucson-East, Tucson-Main, Tucson-North, Tucson-South, Tucson-Southeast, Vail-South.

Exhibit DLT-11 highlights the proposed competitive zones.

Q. YOU MENTIONED PREVIOUSLY THAT THE COMMISSION CURRENTLY HAS A PROCESS IN PLACE TO PROVIDE PRICING FLEXIBILITY FOR SERVICES THAT ARE DETERMINED TO BE COMPETITIVE. WHY, THEN, ARE COMPETITIVE ZONES NECESSARY?

A. U S WEST is requesting the flexibility that competitive zones will provide to be able to respond to competitors' offerings. At the time the existing competitive rules were developed, competition was just emerging. Local competition wasn't even a reality. Existing rules do not reflect the course that competition has taken in the state. It is not occurring state-wide. Rather, it is occurring within specific geographic areas of the state (Phoenix and Tucson). U S WEST needs the flexibility to compete with all of its products where the competition is.

Furthermore, current rules allow U S WEST pricing flexibility on a product-specific basis. However, competitors are not limiting their offerings to a single product. As I indicated earlier, competitors are approaching customers with packaged offerings, integrating voice, data, internet, wireless, and in some instances, cable TV services. To be successful and retain customers, U S WEST must be able to respond in kind, to the fullest extent possible under the law. U S WEST cannot compete with only a handfull of "competitive" products when our competitors have the flexibility to address a customer's entire telecommunications portfolio.

Another reason that the existing system is not conducive to attracting and retaining customers in a competitive environment is the amount of time it takes to achieve competitive status for a product within the regulatory process. For example, it took five months for National Directory Assistance and eleven months for Centrex to be classified as competitive services. It's been 17 months since U S WEST filed its petition to have ATM services declared competitive and the request is still pending. Meanwhile, competitors continue to make inroads into the market.

The existing service-oriented approach to pricing flexibility, while helpful in the past, is incompatible with today's competitive environment. A reasonable solution is to establish competitive zones which will give U S WEST immediate pricing flexibility, on a limited geographic basis, that it needs to be able to compete on a more equal basis with competitors operating within those same limited geographic areas.

Q. DON'T YOU ALSO HAVE A NEED TO RESPOND IN A COMPETITIVE MANNER OUTSIDE OF THE PHOENIX AND TUCSON AREAS?

A. At the present, competition is not as prevalent in other areas of the state; therefore, existing contracting capability affords U S WEST the flexibility it needs to respond with unique, customer-specific pricing proposals in these other areas. However, as competition develops in other areas of the state, establishment of additional competitive zones will be appropriate.

Q. WHAT CRITERIA ARE YOU PROPOSING MUST BE MET BEFORE ADDITIONAL COMPETITIVE ZONES ARE ESTABLISHED?

A. The same criteria used to establish competitive zones in the Phoenix and Tucson areas should be used to establish additional competitive zones. Those criteria are described above.

Q. WHAT PROCESS DO YOU PROPOSE BE FOLLOWED BY THIS COMMISSION TO ESTABLISH ADDITIONAL COMPETITIVE ZONES IN THE FUTURE?

A. I recommend that competitive zones be established upon notification to the Commission that the above-referenced criteria have been met. The Commission will respond to the notification within a pre-determined timeframe, which I recommend be 15 days. If the

Commission does not object to the proposal, formal approval is not required. The area will automatically become a competitive zone after the 15-day clock expires. If objections are raised, or additional information is required, the Commission shall issue a formal notice of such. The entire process should be considered within 60 days of notification.

E. NEW SERVICE INTRODUCTIONS

Q. ARE YOU RECOMMENDING REGULATORY RELIEF FOR NEW SERVICES AT THE TIME OF INTRODUCTION?

A. Yes. Currently, U S WEST must follow a two-step process to have new services classified as "competitive." Initially, the service is classified as fully regulated or non-competitive. A subsequent filing must then be made to have services classified as "competitive." As described elsewhere in this testimony, this process can take months or years to complete. I am proposing that a streamlined process be adopted whereby all new services will automatically be classified as "competitive" upon introduction. Maximum rates will be established at that time.

Q. WHY IS U S WEST MAKING THIS RECOMMENDATION?

A. U S WEST is making this recommendation in response to the competitive marketplace. When competitors roll out new initiatives to Arizona consumers, the services described in the tariffs they file are automatically classified as competitive. Competitors are not required to incur the time and expense of having their services reclassified. U S WEST is requesting that same flexibility. As new services are likely to be optional and discretionary, and competitive providers are prevalent, it is appropriate for the Commission to approve this recommendation.

Q. HAVE OTHER STATES RECOGNIZED THAT NEW SERVICES SHOULD BE CLASSIFIED AS COMPETITIVE?

A. Yes, many states in the U S WEST region allow for this type of flexibility. For example, the Price Regulation Plan recently adopted by the Iowa Utilities Board (Board) categorizes all new services as "Nonbasic Communications Services." Nonbasic Communications Services tariffs are filed with the Board and become effective within 15 days unless suspended or rejected by the Board. In Minnesota, when U S WEST first offers a service,

a tariff or price list is filed with the Commission with the proposed classification for the service. New services classified as price-regulated may be offered to customers ten days after notice to the Commission. New services classified as flexibly priced or non-price regulated may be offered to customers one day after filing. If no interested party or the Commission objects to U S WEST's proposed classification within thirty days from the date of filing, the proposed classification is approved.[24] Legislation in Utah provides that an incumbent telephone company may offer any new service by means of a price list which will become effective five days after it is filed with the commission.[25] Idaho, Colorado, and Wyoming also allow regulatory flexibility for most new services.

Q. WILL APPROVING THIS RECOMMENDATION IN ARIZONA BE IN THE PUBLIC INTEREST?

A. Most definitely. It will mean that Arizona consumers will be able to benefit from new developments and new technologies in a much more rapid manner. It will also mean that U S WEST will be able to compete more equitably with other providers, which in turn will result in tangible consumer benefits such as more choices, better customer service, attractive pricing, and more innovation.

F. PROMOTIONS

Q. AT THE BEGINNING OF YOUR TESTIMONY, YOU INDICATED U S WEST IS PROPOSING ADDITIONAL FLEXIBILITY RELATIVE TO PROMOTIONS. PLEASE EXPLAIN.

A. Under existing tariff provisions, U S WEST has limited ability to promote its products. Promotions valued at more than $25.00 per customer must be filed with the Commission Staff thirty days prior to implementation. In addition, at the conclusion of each promotion, the Company is required to file results with the Commission Staff. U S WEST's competitors are not required to file promotion results, and are not required to file 30 days in advance for *any* promotion-regardless of the value to the customer. I am proposing that U S WEST be granted the same ability to promote its products as its competitors enjoy. The tariffs accompanying this filing contain revised promotional language, which mirrors the promotional tariff that Cox has on file with this Commission. A copy of Cox's

[24] Minnesota Stat. § 237.761, subd. 7.
[25] UCA §54-8b-2.3.

promotional tariff is attached as Exhibit DLT-14 to this testimony. Other competitors' promotional tariffs are also attached to the Exhibit.

Q. WHAT CONCLUSION CAN BE DRAWN ABOUT THIS PROPOSAL?

A. U S WEST is simply asking for comparable regulatory treatment as that already granted its competitors. Promotions are generally designed to increase customers' awareness of offerings or to attract new customers. The thirty day notice requirement currently imposed on U S WEST gives competitors an opportunity to develop a marketing response before U S WEST has had an opportunity to implement its promotion. Acceptance of my proposal is in the best interest of Arizona consumers, who will be able to realize benefits associated with promotions from U S WEST on a much more rapid basis.

II. PRICING PROPOSALS

Q. YOU INDICATED EARLIER IN YOUR TESTIMONY THAT ANOTHER ASPECT OF THIS FILING IS THE NEED TO REPRICE CERTAIN SERVICES. WHY IS THIS REPRICING NECESSARY?

A. It is necessary for the prices of U S WEST's service to more closely reflect the actual cost of providing the services. If they do not, competitive losses for our high margin services will be unnecessarily high and impacts on customers who do not have alternatives will be magnified. Moving services toward the actual cost of providing service will require the prices of some products such as long distance and switched access, which have traditionally carried high levels of contribution, to be decreased, and the price of other services, such as residential basic exchange, to be increased.

Q. PLEASE IDENTIFY THE CHANGES YOU ARE PROPOSING IN THIS FILING.

A. The services and proposed changes are:

1. Residence Basic Exchange Service
   a. First Line Recurring Rate – Increase
   b. Exchange Zone Increment Recurring Rates – Increase
   c. Low Use Option – Convert to Budget Measured Service
   d. Nonrecurring Charge - Decrease

e. Zone Connection Charge – Eliminate
f. Multi-Party Service – Eliminate for Residence and Business
g. Base Rate Areas – Expand Boundaries

2. Business Basic Exchange Service
   a. Bundle Dial Tone Line and Local Usage Components
   b. Measured Local Usage – Restructure
   c. Resale Line – Increase Monthly Rate
   d. Exchange Zone Increment Recurring Rates – Increase
   e. Zone Connection Charge – Eliminate
3. Market Expansion Line – Increase Monthly Rate
4. Long Distance Services
   a. MTS – Change Business, Residence, Miscellaneous Rates
   b. Speech and Hearing Impaired Discount – Increase Discount Amount
   c. Simple Value – Reduce Residence Rates
   d. Arizona Value Calling Plan – Grandfather and Reduce Rate
   e. Arizona Value Calling Plan II – Withdraw Plan
   f. Business Daytime Connection Plus – Reduce Rates
   g. Volume Discount Plan – Eliminate
   h. MetroPac – Grandfather
   i. Operator Surcharges – Increase Charges
5. Directory Assistance – Incorporate into National DA
6. Complete-A-Call – Incorporate into National DA
7. Listings
   a. Internet Listings – Increase Monthly Rate
   b. E-Mail Listings – Increase Monthly Rate
   c. Privacy Listings – Increase Monthly Rate
   d. Premium Listings – Increase Monthly Rate
8. Custom Calling Services
   a. Caller Identification-Name and Number - Increase Residence Monthly Rate
   b. Caller Identification-Number – Increase Residence Monthly Rate
   c. U S WEST Receptionist-Name and Number – Increase Residence Monthly Rate
   d. U S WEST Receptionist-Number – Increase Residence Monthly Rate
   e. Custom Calling Packages – Grandfather Business Custom Calling Packages
9. SingleNumber^{sm} Service – Grandfather Service
10. Screening Services
   a. CustomNet Service – Restructure, Reprice

b. Billed Number Screening – Introduce Charge
c. Toll Restriction – Reprice
d. ScoopLine Access Restriction - Eliminate
d. 900 Service Restriction – Introduce Charge
e. Blocking for 10XXX1+, 10XXX011+ - Increase Nonrecurring Charge and Monthly Rate

Exhibit DLT-15 displays an overview of the revenue impacts associated with my recommendations for each of these categories of services.[26]

Dr. Wilcox will explain the price changes for Switched Access and other finished wholesale services in her testimony.

Q. PLEASE EXPLAIN THE PROPOSED CHANGES FOR EACH SERVICE AND THE RATIONALE FOR THE CHANGES.

A. Certainly. I will begin with residence Basic Exchange Service.

A. RESIDENCE BASIC EXCHANGE SERVICE

Q. WHAT ARE THE PRICE CHANGES YOU ARE PROPOSING FOR RESIDENCE BASIC EXCHANGE SERVICE?

A. I am proposing to increase the monthly access line and exchange zone increment rates. I am also proposing to reduce the nonrecurring charge associated with installing a residential access line; convert customers on Low Use Option Service to a new Budget Measured Service offering; and eliminate the Zone Connection Charge and Multi-Party Service. I discuss each of these proposals in more detail below.

1. ACCESS LINE, EXCHANGE ZONE INCREMENT INCREASES

Q. SPECIFICALLY, WHAT ARE THE CHANGES YOU ARE PROPOSING FOR RESIDENTIAL ACCESS LINES?

[26] All rates and revenue impacts referred to in this testimony exclude the impact of the temporary surcharge applied to certain services as a result of Decision No. 60381. The surcharge is expected to expire in late 1999.

A. I am proposing that the rates for residential access lines be increased as follows:

Rate Element	Current Monthly Rate*	Proposed Monthly Rate**	Difference
Flat Rate Service			
Individual line	$13.18	$15.68	$2.50
2-Party line	$11.94	$14.44	$2.50
4-Party line	$10.70	$13.20	$2.50
Low Income Telephone Assistance Program			
Flat Individual Line	$8.05	$9.92	$1.87
2-Party Line	$7.12	$9.00	$1.88
4-Party Line	$6.20	$8.07	$1.87
Low Use Option	$4.58	$6.44	$1.86
Lifeline Assistance Program			
Flat Individual Line	$11.43	$13.93	$2.50
2-Party Line	$10.19	$12.69	$2.50
4-Party Line	$ 8.95	$11.45	$2.50
Low Use Option	$ 6.75	$ 9.25	$2.50

* Does not include temporary surcharge

** Final rates in effect after surcharge expires.

NOTE: Proposed multi-party rates are interim until multi-party customers are converted to single-line service at which time customers will be charged the appropriate single line service rate. Multi-Party Service is currently grandfathered to existing customers.

Q. ARE YOU PROPOSING TO INCREASE THE MONTHLY RATE FOR ADDITIONAL LINES?

A. No, I am not. U S WEST believes Arizona residential customers have an expectation that the purchase of multiple access lines should be priced in a manner reflecting perceived economies of scale. In fact, Cox is currently offering discounted pricing for additional residential lines to address this expectation. Additionally, the CALC charge for additional lines is currently $1.50 higher than the primary line, and will be increasing again in January of 1999.

Q. SPECIFICALLY, HOW IS COX PRICING THEIR RESIDENTIAL TELEPHONE SERVICE?

A. Cox offers its residence cable subscribers in Phoenix a rate of $11.75 for the first line and $6.50 for the second line.[27] This compares to U S WEST's proposed rates of $15.68 for the first line and $13.18 for each additional line. Cox augments its service by providing long distance services at $.10/minute for interstate and intrastate calling.[28]

Q. WHAT INCREASES ARE YOU PROPOSING FOR EXCHANGE ZONE INCREMENT RECURRING RATES?

A. I am proposing that the recurring rate for Zone 1 be increased from $1.00 to $2.00 and the Zone 2 recurring rate be increased from $3.00 to $5.00.

2. RATIONALE FOR PRICE INCREASES

Q. PLEASE EXPLAIN WHY THE PRICE INCREASES TO RESIDENCE BASIC EXCHANGE SERVICE ARE NECESSARY.

A. The increases are necessary to move the service towards cost recovery levels and minimize implicit subsidies.

Q. WHAT IS THE RELATIONSHIP OF THE CURRENT PRICE TO THE COST OF THIS SERVICE?

A. I have attached proprietary Exhibit DLT-16 which details the existing price and cost for the residential access line.

Q. WHY ARE THE CURRENT PRICES BELOW THEIR COST?

A. Over the years, universal service has been a key public policy goal of the Commission and U S WEST. It has long been thought that low residential service rates would help achieve this objective. The policy testimony of Mr. Wayne Allcott contains a comparison of current rates with rates in effect ten years ago.

Q. HOW DID THE COMMISSION ACCOMPLISH THE OBJECTIVE OF KEEPING RATES LOW?

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[27] Arizona SCC Tariff no. 1, Page No. 61, Effective 11-30-97.
[28] Direct mail advertisement sent to Phoenix residents.

A. Traditional rate of return regulation in a monopoly environment enabled the Commission to keep residential rates lower than their cost through reliance on significant contributions from other services such as long distance and carrier access. Historically, in a monopoly environment, residence service prices were kept low and the Company was given an opportunity to earn its overall authorized rate of return.

Q. ARE THERE ANY RECENT EXAMPLES OF THE COMMISSION CONTINUING THIS TYPE OF MONOPOLY PRICING?

A. Yes. In the rate case U S WEST filed in 1993 (Docket E-1051-93-183), the Commission failed to approve the full increase to residential rates that U S WEST had proposed. This determination contributed to keeping the price of this service well below its TSLRIC costs.

Q. RATES WERE KEPT LOW TO ACHIEVE SOCIAL OBJECTIVES, IS THAT CORRECT?

A. Yes, that is what has historically occurred.

Q. WHAT DO YOU BELIEVE SHOULD BE DONE TO REMEDY THIS PRICING ANOMALY?

A. It is important that the basic residential line cover its total costs and provide an appropriate contribution to the corporation's common costs. Based on the testimony of Jerrold Thompson, Cost Witness for U S WEST, it is evident that the current price of residential basic exchange service is significantly below this cost. (See proprietary Exhibit DLT-16.) By increasing the rate of the residential line, we begin to rectify this cost/pricing discrepancy which is not sustainable in today's competitive environment.

Q. HAVE ANY OTHER STATES ACKNOWLEDGED THIS NEED TO MOVE COSTS AND PRICES TOWARD CORRECT ALIGNMENT?

A. Yes. Several states have recently taken steps in this regard:

- The Oregon Commission has specifically held that each service's price must cover its TSLRIC cost. Order No. 96-118, Page 2:

"It will be increasingly difficult to maintain policies which overprice certain services to perpetuate high levels of contribution to residential exchange service...Rates which reflect the incremental (or marginal) cost of service encourage better resource utilization by conveying accurate price signals to consumers of those services."

- The Wyoming legislature has mandated that each service cover its TSLRIC. As a first step in that transition, the residential access line rate was raised to $18.75 (excluding EAS and Carrier Access Line Charges (CALC) on January 1, 1997 and an additional increase is pending Commission approval.

- The Utah Public Service Commission issued a Report and Order in U S WEST's 1997 General Rate Case Proceeding authorizing several price changes, including an increase in the monthly rate for residential Basic Exchange Service and decreases in the prices for intraLATA Long Distance and Switched Access services. The Commission was following the Utah Legislature's direction in 1995 to remove subsidies from rates by bringing prices closer to the cost of service.

Q. HASN'T THE ARIZONA COMMISSION ALSO RECOGNIZED THE NEED TO PRICE SERVICES IN RELATIONSHIP TO THEIR COSTS?

A. Yes. Section R14-2-1109 of the Arizona Administrative Code indicates that the price of a competitive telecommunications service should not be less than the company's TSLRIC cost of providing the service. In addition, Section R14-2-1310 (B) requires incumbent local exchange carriers to price interconnection services at a level equivalent to their TSLRIC-derived costs.

Q. WHAT IS CAUSING THE HISTORICAL PRICE-COST RELATIONSHIP BETWEEN VARIOUS TELECOMMUNICATIONS PRODUCTS TO CHANGE?

A. Actions at both the federal and state levels are encouraging competition in all markets, including the local exchange market. Congress passed the federal Telecommunications Act of 1996 (Act) and this Commission conducted interconnection proceedings where prices and procedures were adopted to allow competitors access to the local exchange market in Arizona. The success of these initiatives is documented in the "Competition"

section of this testimony. As a result, the entire telecommunications landscape is changing radically, and a key element of that change is the need to price services above their TSLRIC.

Q. HOW DOES THIS NEW COMPETITIVE LANDSCAPE AFFECT THE PRICING OF U S WEST SERVICES?

A. This landscape makes it imperative that the prices of U S WEST services cover cost, thereby creating an equitable base for competition.

Q. WHAT ARE THE RAMIFICATIONS OF THIS CHANGED ENVIRONMENT FOR CONSUMERS?

A. With alternative providers increasingly available, consumers will elect not to pay prices for services that have been inflated to pay part of the cost of residential Basic Exchange Service. Competitive Access Providers (CAPs) have capitalized on this fact in the carrier access arena for many years. As I explained previously in this testimony, the same situation is occurring in the business Basic Exchange market. As these competitive entries occur, there is significant erosion of the incumbent local exchange carrier's (ILEC) "traditional" ability to achieve greater contribution from some services (e.g., Long Distance and Switched Access) while supporting other services (e.g., residential Basic Exchange).

Therefore, as competition enters the local and long distance telecommunications markets, U S WEST must be entitled to respond by pricing all services in relationship to their appropriate costs. These changes in cost/price relationships then lessen the amount of the historically-based subsidy flow from high contribution services to below-cost residential Basic Exchange Service.

Q. HOW DOES THIS TYPE OF COMPETITIVE ENTRY IMPACT THE ARIZONA RESIDENTIAL CONSUMER?

A. As traditional support available from other products is quickly eroded, significant price increases on previously subsidized services are necessary if U S WEST is to remain financially viable.

Q. IS COST THE ONLY FACTOR TO BE CONSIDERED WHEN SETTING THE PRICE FOR A SERVICE?

A. No, the other factors to be considered are existing market conditions and customer needs.

Q. DOES REMOVAL OF IMPLICIT SUBSIDIES SEND THE CORRECT ECONOMIC SIGNALS TO POTENTIAL COMPETITORS?

A. Yes, it does, in that it will make it more feasible for others to realistically compete in the residential Basic Exchange market. As long as U S WEST's prices are significantly below their forward-looking costs, there is no incentive for the competitor to enter the market as there is little or no room for profits. Consequently, competitors have primarily focused on the business market in Arizona.

Q WHAT OTHER FACTORS SHOULD THE COMMISSION CONSIDER REGARDING ITS REVIEW OF RETAIL PRICING OF THE RESIDENTIAL LINE?

A. With passage of the Act, and this Commission's decision in Docket U S WEST-3021-96-448 et.al, a competitive telecommunications provider now has the ability to enter the local market either through the use of unbundled network elements (wholesale) or through the resale of an existing ILEC's services under the new provider's name (retail). (Of course, providers also have the ability to enter the market through provision of their own facilities.)

Q. HOW DOES THIS CHOICE OF MEANS OF ENTERING THE LOCAL MARKET AFFECT A COMPANY'S PRICING OF ITS RETAIL RESIDENTIAL ACCESS LINE?

A. Unless there is some type of logical relationship between the underlying prices for the unbundled network elements and the finished services (wholesale and retail), there is the potential for tariff shopping and rate arbitrage. It is imperative that this Commission understand the significant interrelationships which exist between the pricing of wholesale and retail services. It is also important for the Commission to understand that a resold retail product is comprised of all of the elements that are available on an unbundled basis, therefore, the underlying costs for either the network elements or the finished product would be very similar. Because of that, the retail price of each service must be supported by cost, but the relationship to its counterpart wholesale product must also be considered.

The same is true of the relationship of the retail services to the unbundled network elements.

Q. IS SUBSIDY-LADEN PRICING SUSTAINABLE INTO THE FUTURE?

A. No, it is not. As is discussed elsewhere in this testimony and in the testimony of Dr. Wilcox, prices for long distance and other services need to be restructured and reduced to meet competitive pressures. This reduction will remove some of the current subsidy which these services provide to residential Basic Exchange Service. If U S WEST does not take immediate steps to respond to competitive pressure, including the establishment of competitive zones and lowering of Long Distance prices, the Company will continue to lose a large portion of the revenue from these services. The high volume Long Distance users are lost, leaving the cost recovery burden on the high cost, low use customers. This means there will be a need for even greater future price increases to the residential customer, to offset losses of traditional subsidy flows and to afford U S WEST the opportunity to earn a reasonable return. It is imperative, therefore, that U S WEST take steps today to move residence rates towards self-sufficient levels while simultaneously acknowledging the increasingly competitive nature of long distance and access by reducing their rates.

Q. COULD FAILURE TO REPRICE CORRECTLY HAVE A NEGATIVE IMPACT ON REMAINING CUSTOMERS?

A. Definitely. If the reprice is not done correctly, U S WEST will lose the high volume, high margin customers to new entrants, leaving primarily the high cost, low margin residential customers. However, the network investment remains the same. Therefore, cost recovery must occur over an ever-diminishing body of customers. This will result in significantly higher prices for those remaining customers.

Q. ARE CUSTOMERS WILLING TO PURCHASE THEIR LOCAL SERVICE FROM AN ALTERNATIVE LOCAL EXCHANGE PROVIDER?

A. Yes. Resellers and other local exchange providers have the ability to bundle services and provide customers with one stop telecommunications shopping. Market research studies have indicated consumers' desire to have only one provider. For example, the J.D. Power and Associates 1998 Residential Wireline CSI Study found that the main reasons

households would be willing to bundle services are: 1) convenience (75%), 2) receiving a single bill (60%), 3) having only one contact for questions/problems (40%), and 4) competitive/discount pricing (34%).

Q. DO MARKET-BASED PRICING PRINCIPLES PRESENT ANY LONG TERM BENEFITS FOR ARIZONA CUSTOMERS?

A. Yes, they do. A potential long-term benefit of competition will be a reduction in total rates and an increase in options available to customers. As products are priced more realistically in relation to cost, facilities-based service providers are encouraged to enter a given market area. As this occurs, the market as a whole becomes truly competitive. This means that not only will the number of services offered increase, but the basic line may have increased functionality. And even though the price for residential service will initially be increased, greater incentives will develop for other providers. The presence of multiple providers will lead eventually to attractive pricing and packaging. However, as long as any of our services remain priced artificially low or artificially high, sustainable competitive entry is adversely impacted, as are the benefits to Arizona consumers. When U S WEST's services are priced artificially high to provide subsidies, competitors can win customers by pricing just under the "umbrella" thus created, reaping artificially high margins without providing real competitive benefits to consumers. Cox's recurring prices for residential ancillary telephone services compared to U S WEST's current rates demonstrate this pricing relationship:

	Cox	U S WEST
Call Waiting	$ 4.00	$ 5.00
Voice Mail	$ 4.95	$ 6.95

3. CUSTOMER ASSISTANCE PROGRAMS

Q. WHAT ARE THE POTENTIAL IMPACTS OF YOUR PROPOSED RATE INCREASES ON THE TELEPHONE SUBSCRIBERSHIP LEVELS IN ARIZONA?

A. It is U S WEST's belief that there will be negligible, if any, impact. First, it must be realized that for the vast majority of Arizona customers, the rates U S WEST is proposing are still very affordable and are an excellent value. It is unreasonable to distort prices for

all services to subsidize one service when the proposed rate for residential customers is affordable for most.

Q. ON WHAT BASIS DO YOU CONTEND THAT MOST CUSTOMERS CAN AFFORD TO PAY THE RATE YOU ARE PROPOSING IN THIS CASE?

A. Median household income in Arizona is $31,637. According to PNR and Associates Request III study, conducted in August 1997, the local telephone bill represents just 2.24% of income and 2.24% of expenses for Arizona consumers. Even with the small price increase proposed in this filing, local telephone service remains very affordable.

Q. DO NEW ENTRANTS IN THE LOCAL EXCHANGE MARKET HAVE TO KEEP THEIR RESIDENTIAL PRICES LOW TO COMPLY WITH REGULATORY MANDATES?

A. No. Competitors may use their discretion in pricing service for their customers, as long as their price is above TSLRIC. In other words, they have no obligation to maintain artificially low prices for their customers, nor any obligation to meet any needs identified by this Commission for subsidized residential rates. As a practical matter, however, the current below-cost prices for U S WEST's residential service means there is no market for residential service priced at a higher level than the subsidized U S WEST price. Competitors must therefore meet this price if they are to have any business.

Q. PLEASE EXPLAIN PROGRAMS IN EFFECT TODAY WHICH THE COMMISSION, THE FCC, AND U S WEST HAVE IMPLEMENTED IN ARIZONA TO HELP PROMOTE INCREASED SUBSCRIBERSHIP LEVELS.

A. First, there is the Low Income Telephone Assistance Program which provides qualifying low income senior citizens with a 17% discount and a $1.75 reduction on the monthly rate for residence Basic Exchange Service. In addition, the CALC is waived. Customers on this plan may also receive a 17% reduction on the Basic Exchange nonrecurring charge.

There is also a Telephone Assistance Program for the Medically Needy. This program provides a credit to qualifying customers to cover the monthly rate for residence Basic Exchange Service; it covers the Universal Service Fund Surcharge; and covers 50% of the nonrecurring charge to install a residential access line. Additionally, the federal plan provides a $3.50 credit to be applied to the CALC.

Additionally, the Lifeline Assistance Program is available for qualifying low-income subscribers. This program provides for a $1.75 reduction in customers' monthly local exchange bill and a waiver of the $3.50 CALC.

Finally, residents who qualify for the Low Income Telephone Assistance Program, the Telephone Assistance Program for the Medically Needy, or the Lifeline Assistance program may also qualify for the FCC's Link Up program. Link Up offers a 50% discount (up to $30.00) on the nonrecurring charge to have a residence access line installed.

Q. WHY IS IT IMPORTANT TO REVIEW THESE PLANS?

A. It is important to review and understand these plans because they will continue under the new rate proposals. These programs do an excellent job of targeting those individuals who most likely are in need of assistance as rates are raised. It is my belief that a targeted subsidy makes the most sense in an environment where competition exists and regulation and traditional funding is changing. These plans provide reasonable, low cost options for customers who truly need assistance in funding their basic telephone service. In Arizona, approximately 160,000 customers are eligible for state and/or federal assistance in paying for telephone service.

Q. WHAT IS THE LIMIT ON WHAT THE CUSTOMER WILL ACTUALLY PAY WITH THE FEDERAL AND STATE SUPPORT MECHANISMS?

A. Under my proposal, customers on the Low Income Telephone Assistance Program will pay $9.92 per month for flat rated single line service. Lifeline customers will pay $13.93 per month. Customers on both programs will receive a waiver of the $3.50 CALC.

4. COMMISSION RESPONSE

Q. HOW DOES U S WEST RECOMMEND THE PRICING ANOMALIES WHICH EXIST IN ARIZONA BE CORRECTED?

A. U S WEST recommends that the price of the residential access line be increased so that it recovers more of the service's cost. We also recommend that the Commission approve the reductions proposed for Long Distance Service and Switched Access Service.

Q. WHAT IS THE RATIONALE FOR THIS APPROACH?

A. This type of approach recognizes:

- The need for the price of a service to cover its TSLRIC cost.
- Subsidies exist today which will be eroded through loss of contribution and through loss of high volume customers.
- As long as subsidies exist and services are priced below their appropriate cost, competition, especially meaningful facilities-based competition, will be thwarted.
- Consumers will benefit from true competition.

5. LOW USE OPTION

Q. YOU INDICATED EARLIER IN YOUR TESTIMONY THAT PART OF YOUR PROPOSAL FOR RESIDENCE BASIC EXCHANGE SERVICE WAS TO CONVERT CUSTOMERS ON THE LOW USE OPTION TO A BUDGET MEASURED PLAN. PLEASE EXPLAIN THIS RESTRUCTURE, AS WELL AS THE RATIONALE FOR YOUR PROPOSAL.

A. Customers using Low Use Option Service as it is currently structured pay a reduced line rate and a $.20 charge for each outgoing call. A very small percentage of customers subscribe to the service, as the $.20 per call charge, when added to the line rate, quickly makes flat rate service more attractive. I am proposing to convert Low Use Option Service customers to a new Measured Service Option, the Budget Measured Plan. Under this plan, customers will receive a one hour usage allowance and then pay $.02/minute for usage over the allowance. The existing line rate of $8.50 will be increased to $11.00, to be consistent with the amount of increase proposed for standard flat rated service.[29] The Budget Measured Plan will not only better meet the needs of the Low Use Option Service customer, but will also be a viable option for many other customers desiring an alternative to flat rated service.

Q. WILL EXISTING LOW USE OPTION SERVICE CUSTOMERS AUTOMATICALLY BE CONVERTED TO BUDGET MEASURED SERVICE?

A. Yes.

[29] Rates do not include temporary surcharge.

Q. ONCE CUSTOMERS HAVE BEEN CONVERTED, IS LOW USE OPTION SERVICE BEING WITHDRAWN AS A SERVICE OFFERING?

A. Yes, it is.

Q. WILL CUSTOMERS BENEFIT FROM THE CONVERSION TO BUDGET MEASURED SERVICE?

A. Yes. With the monthly rate for the new plan, customers will receive one hour's worth of usage which they didn't receive with the Low Use Option monthly rate. Customers will also save on each call they make beyond the one hour per month allowance, as the average length of a residential call in Arizona is approximately four minutes. On the Low Use Option Plan, customers making a four minute call were charged $.20. With the Budget Measured Plan, they will be charged $.08, a significant savings.

6. NONRECURRING CHARGE

Q. YOU MENTIONED PREVIOUSLY YOU WERE ALSO PROPOSING TO REDUCE THE NONRECURRING CHARGE ASSOCIATED WITH INSTALLING A RESIDENCE LINE. WHY IS THIS REDUCTION APPROPRIATE?

A. The nonrecurring charge is being reduced to bring it closer to cost. Arizona currently has the highest residence nonrecurring charge of all the states in the U S WEST region at $46.50. The lower charge of $35.00 will be more attractive to customers and is more in line with the charges competitors charge residence customers for installation. For example, Cox charges residence customers $40.00 to install a line, however, their tariff indicates that charges for the initial connection of service will be waived.[30]

7. ZONE CONNECTION CHARGE

Q. YOU ARE ALSO RECOMMENDING ELIMINATION OF THE ZONE CONNECTION CHARGE, IS THAT CORRECT?

[30] Arizona SCC Tariff No. 1, Page No. 60, Effective 11-4-98.

A. Yes. The $53.30 charge was designed to apply to service placed beyond the base rate area. However, this charge has proven to be a customer irritant and has resulted in a great deal of customer confusion. I am proposing that the charge be eliminated.

8. MULTI-PARTY SERVICE

Q. WHAT IS MULTI-PARTY SERVICE?

A. Multi-party service is the sharing of a residence or business exchange line by more than one user. Eight-party service is presently grandfathered for existing residence and business customers. Four-party and two-party services are offered on a limited basis.

Q. WHAT IS U S WEST'S RECOMMENDED PROPOSAL?

A. We recommend that multi-party service for residence and business customers be discontinued as facilities become available. Eight party service for residential customers will be eliminated immediately, as there are no longer any customers subscribing to the service.

Q. WHY SHOULD MULTI-PARTY SERVICE BE DISCONTINUED?

A. The reason is simple: very few customers subscribe to this service today. It is a service whose market demand has declined to the point of virtual extinction. Because the service does not reflect the majority of customers' needs, it is no longer economical for U S WEST to continue to provide it.

Furthermore, in approving U S WEST's petition to be designated as an eligible telecommunications carrier under 47 U.S.C. §214 (e), the Commission granted U S WEST a waiver to allow additional time to complete the transition of multi-party service to single-party service. (The FCC has excluded multi-party service from being eligible for federal universal service support.)

Q. HOW DO YOU RECOMMEND CUSTOMERS CURRENTLY ON MULTI-PARTY SERVICE BE CONVERTED TO SINGLE LINE SERVICE?

A. We recommend that as facilities become available, multi-party customers have their service transferred to single party lines.

Q. HOW MANY CUSTOMERS WILL BE IMPACTED BY THE ELIMINATION OF THIS SERVICE?

A. U S WEST currently has approximately (redacted) residential customers and (redacted) business customers in Arizona who subscribe to some form of multi-party service. (See proprietary Exhibit DLT-2 for figures.)

Q. WHAT IMPACT WILL THIS PROPOSAL HAVE ON EXISTING MULTI-PARTY CUSTOMERS' RATES?

A. The impact will be minor. I am proposing that, at the conclusion of this rate case, Residence multi-party customers be assessed a $2.50 per month increase per line, consistent with the increase I have proposed for single-party service customers. Upon conversion to single-party service, these customers will begin to pay the single-party rate which will be another minimal increase. For example, a customer currently subscribing to two-party service will pay $14.44 per month (an increase of $2.50) at the conclusion of the rate case. When that customer is subsequently converted to single-party service, their monthly rate will increase to $15.68. Since I am not proposing an increase to business Basic Exchange Service in this case, business multi-party customers will experience just one rate increase as they transition to single-party service. A four-party business customer currently pays $24.98 per month. They will continue paying that rate until they are converted to single-party service, at which time they will pay $32.78, the current single-party business rate.

Q. HOW LONG DO YOU ANTICIPATE IT WILL TAKE TO CONVERT ALL MULTI-PARTY CUSTOMERS TO SINGLE-PARTY SERVICE?

A. Multi-Party Service customers will be converted within 18 months after the conclusion of this case. Conversion cannot begin until the rate case is concluded because it will result in a rate increase to multi-party customers, and such increases are allowable only in a rate case.

9. BASE RATE AREAS

Q. WHAT ARE BASE RATE AREAS?

A. Base Rate Areas (BRA) are geographical areas used for pricing purposes. Customers residing outside of the BRA of an exchange are "rural" customers.

Q. DO CUSTOMERS WITHIN THE BRA PAY THE SAME RATE AS CUSTOMERS OUTSIDE OF THE BRA?

A. No. Customers outside of the BRA pay an additional charge called an Exchange Zone Increment Charge. These additional charges are based on the customer's distance from the BRA boundary.

Q. WHAT CHANGES ARE YOU PROPOSING TO BASE RATE AREAS?

A. I am proposing that the boundaries for some Base Rate Areas be expanded to reflect growth that has occurred in Arizona. Base Rate Area boundaries have not changed since the last rate case, which was filed in 1993. Significant growth has occurred in the state since that time. As areas grow, there becomes a greater concentration of customers further from the exchange central office. This increase in customer density then warrants their inclusion in the BRA in order to be fair and equitable to all customers. New exchange tariff maps are being filed with this case to reflect the expanded boundaries.

Q. HOW MANY CUSTOMERS WILL EXPERIENCE A RATE DECREASE BECAUSE OF THESE BOUNDARY CHANGES?

A. Approximately 185,000 customers will experience a rate decrease due to the expansion of the BRAs.

10. CONCLUSION

Q. BASED ON THIS OVERALL PROPOSAL, WHAT SHOULD THIS COMMISSION CONSIDER REGARDING THE PRICE OF THE RESIDENTIAL ACCESS LINE?

A. The Commission should:

- Understand the impact on U S WEST of new competitive entry, the impact that entry has on monopoly-based rates, and its obligations to identify and eliminate subsidies;
- Recognize the need for each service's price to cover cost; and
- Find that the price proposed by U S WEST will not adversely impact universal service, as the telephone line remains an excellent bargain and there are targeted programs in place to assist low income customers.

For these reasons, U S WEST believes that the requested changes proposed for residential Basic Exchange Service are reasonable, will incent competitive growth, and are in the best long term interests of Arizona customers.

Q. WHAT IS THE OVERALL REVENUE IMPACT OF THE CHANGES YOU HAVE PROPOSED FOR RESIDENTIAL BASIC EXCHANGE SERVICE?

A. The total impact is an annual increase of $32,731,250.

B. BUSINESS BASIC EXCHANGE SERVICE

Q. WHAT ARE THE COMPONENTS OF BUSINESS BASIC EXCHANGE SERVICE?

A. Business Basic Exchange Service in Arizona consists of two recurring pricing components: 1) Dial tone line; and 2) Usage associated with that line. The dial tone line is that portion of the service which provides a subscriber access to the outside world. It is the true "connection" of the telephone to our central office and hence to all users of the public switched network. This connection includes feeder, distribution, and drop facilities. The dial tone line includes the access element which is a key part of universal service. The local usage component is a separate element which reflects switching and average local interoffice usage associated with local calls placed by the customer.

Q. WHAT CHANGES ARE YOU RECOMMENDING TO BUSINESS BASIC EXCHANGE SERVICE?

A. I am recommending that the dial tone line and usage elements be combined into a single, unified rate similar to the way residential service is provided. Rates are not changing-the combined rate will simply be the sum of the existing two components.

Q. PLEASE PROVIDE EXAMPLES OF THIS PRICE RESTRUCTURE.

A. The following shows the current and proposed structure for Phoenix customers:

CURRENT STRUCTURE:

DTL: $15.35
FLAT RATED USAGE: $17.43

PROPOSED STRUCTURE:
FLAT USE SERVICE: $32.78

NOTE: Rates shown do not include temporary surcharge.

Q. HAVE THERE BEEN ANY POSITIVE BENEFITS TO THIS BIFURCATED RATE STRUCTURE?

A. None that I am able to document. In actuality, few customers understand why a service that they see and use as a single service is actually priced separately. The current structure simply does not reflect how the service is viewed by customers, nor how it is offered or marketed.

Q. PLEASE SUMMARIZE THE BENEFITS OF THIS PROPOSAL.

A. The combining of rate elements that U S WEST is proposing for business Basic Exchange Service is consistent with industry rate designs. The restructure will eliminate a potential source of billing errors and a needless and potentially confusing complication on our customers' bills. The proposed structure is consistent with the way residence access lines are priced. Combining of the dial tone line and usage will have no economic impact on business customers and should therefore be adopted by this Commission.

Q. WHAT ADDITIONAL CHANGES ARE YOU PROPOSING FOR BUSINESS BASIC EXCHANGE SERVICE?

A. I am proposing that the $53.30 Zone Connection Charge be eliminated for business customers for the same reasons I described earlier in this testimony supporting

elimination of the charge for residence customers. To maintain a proper rate relationship to business access lines, I am also proposing to reduce the monthly rates for 911 and E-911 Service by $.25/month. In addition, I am advocating that the proposed increases to the monthly Exchange Zone Increment rates described under the residence Basic Exchange section of this testimony also apply to business customers. I am also taking this opportunity to reprice Resale/Sharing lines and trunks to provide a more appropriate price differential between measured and flat rated service.

Q. WHAT SPECIFIC PRICE CHANGES ARE YOU PROPOSING FOR RESALE/SHARING SERVICES?

A. I am proposing that the monthly rate for Measured Resale/Sharing Lines (Primary and Additional) be increased from $15.35 to $18.50. In addition, I am proposing that the monthly rate for Measured Resale/Sharing Trunks be increased from $17.16 to $18.50. The price for Measured Resale/Sharing DID trunks will increase from $25.16/month to $26.50/month. (This price equates to the line/trunk charge plus an $8.00 charge for Hunting.) Usage charges associated with these lines and trunks will also increase, as described below.

Q. WHAT CHANGES ARE YOU PROPOSING FOR USAGE ASSOCIATED WITH RESALE/SHARING MEASURED SERVICE?

A. I am proposing that the rate structure for usage charges be simplified. Currently, customers subscribing to Resale/Sharing Measured Service are charged $.03/minute for calls placed between 8 a.m. and 5 p.m. on weekdays. Calls placed during other time periods and on designated holidays are charged $.02/minute. I am proposing that the time differential be eliminated and that the usage charges for all calls, regardless of when the call is placed, be $.03/minute. This will eliminate customer confusion and simplify the offering.

Q. WILL THIS CHANGE APPLY TO ALL RESALE/SHARING MEASURED LINES AND TRUNKS?

A. Yes, it will apply to all residential and business lines and trunks, with the exception of Public Access Lines (PAL). Dr. Wilcox discusses the PAL rate proposals in her testimony.

Q. WHAT IS THE REVENUE IMPACT OF YOUR PROPOSALS FOR BUSINESS BASIC EXCHANGE SERVICE?

A. The annual revenue impact will be ($385,034).

C. MARKET EXPANSION LINE

Q. PLEASE DESCRIBE MARKET EXPANSION LINE SERVICE.

A. Market Expansion Line Service allows incoming calls to be automatically routed to another telephone number, which may be local or long distance in nature. Some customers use the service so that parties calling them will not incur long distance charges. Providing the appearance of having a local telephone number also is an effective marketing tool for businesses who wish to serve a wide geographic area. Customers are billed a monthly rate and are also assessed a charge per forwarded call.

Q. WHAT CHANGES ARE YOU PROPOSING FOR THIS SERVICE?

A. I am proposing to increase the monthly rate from $19.00 to $22.00.

Q. WHAT IS THE REVENUE IMPACT OF THIS CHANGE?

A. The annual revenue impact associated with the Market Expansion Line rate increase is $541,314.

D. LONG DISTANCE SERVICE

Q. WHAT ARE LONG DISTANCE SERVICES?

A. Long distance services are provided to customers in Arizona for switched point-to-point calling outside their local calling area to other exchanges within their Local Access and Transport Area (LATA). Message Telecommunications Service is the most familiar and widely used of U S WEST's long distance products.

Q. DOES U S WEST FACE COMPETITION IN THE INTRALATA LONG DISTANCE MARKET?

A. Yes, it most certainly does. The Commission acknowledged this in April 1996 when they deemed long distance services in Arizona "competitive" and allowed U S WEST pricing flexibility for MTS, WATS, 800 Service and Optional Calling Plans.[31] IntraLATA 1+ equal access was implemented at the same time.

Q. WHAT IMPACT HAS 1+ EQUAL ACCESS HAD ON U S WEST'S LONG DISTANCE MINUTES OF USE IN ARIZONA?

A. U S WEST's share of switched intraLATA long distance minutes has declined dramatically. In April 1996, U S WEST's share of the switched market was (redacted)%. By October 1998, that number had decreased dramatically to (redacted)% (See proprietary Exhibit DLT-2 for figures). These statistics clearly illustrate the competitive nature of the Arizona intraLATA long distance market. However, it should be noted that, in reality, U S WEST's share of the intraLATA long distance market is actually less than these figures represent.

Q. WHY ARE THE U S WEST MARKET SHARE FIGURES OVERSTATED?

A. Market share as depicted by the figures on proprietary Exhibit DLT-2 reflects only measurable switched minutes. Long distance traffic is also carried over dedicated and non-switched facilities. In the June 3, 1998 edition of the Wall Street Journal, AT&T Network Chief, Frank Ianna, was quoted as saying that 50% of AT&T's traffic from business customers runs directly to AT&T's network, bypassing the Bells altogether. He also stated that this number will increase once AT&T's merger with TCG is completed.[32] In addition to bypass through means of owned or leased facilities, companies also avoid the switched network through the purchase of special access or other types of high-capacity private line services from U S WEST or other providers. They may also utilize wireless and internet facilities. To be totally accurate, the intrastate long distance minutes of use flowing through these non-switched facilities should be considered when calculating market share. However, U S WEST has no direct way of knowing how many minutes are being transported since these minutes are not carried and measured via the

[31] Order in Docket No. E-1051-96-160, Issued April 24, 1996.
[32] Wall Street Journal, June 3, 1998, Page A3.

U S WEST switched network. The percentages depicting U S WEST's share of the Arizona intraLATA long distance market shown on proprietary Exhibit DLT-2 represent only switched measurable minutes. They are, therefore, overstated.

Q. IS THE TREND IN ARIZONA CONSISTENT WITH WHAT IS OCCURRING IN THE REST OF THE NATION?

A. Yes, it is. According to the Federal Communication Commission's (FCC) First Quarter 1998 report on Long Distance Market Share, the long distance market share of MCI, Sprint, and "All Other Long Distance Carriers" has been increasing steadily since 1991. However, AT&T, the Bell Operating Companies, and Other Local Telephone Companies experienced market share losses during the same period.[33] Based on the report, Bell Operating Company market share sharply declined from 14.7% in 1991 to 7.2% in 1997. Conversely, MCI's market share in 1991 was 12.1%; by 1997 it had climbed to 17.4%. The market share for "All Other Long Distance Carriers" almost doubled from 9.0% in 1991 to 17.8% in 1997. It appears that the intraLATA competitive long distance market penetration witnessed in Arizona is indicative of what is occurring in the rest of the nation.

Q. WHAT IMPACT HAS LOCAL COMPETITION HAD ON THE INTRALATA LONG DISTANCE MARKET?

A. CLECs offer their customers a complete range of telecommunications services, including interLATA and intraLATA long distance. Facilities-based CLECs such as Brooks Fiber and TCG provide long distance service to their customers via switched and dedicated facilities, completely bypassing U S WEST.[34] For example, Brooks' Arizona tariff includes a rate of $.109/minute for switched intraLATA toll service and $.071/minute for dedicated intraLATA toll service.[35] TCG's tariff allows its business customers to purchase intraLATA toll service for a price of $.0720 for the initial 30 seconds and $.0024 for each additional second.[36] As these examples indicate, local competition has contributed to heightened competition in the intraLATA long distance market.

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[33] Long Distance Market Shares, First Quarter 1998, released June 1998 by the Common Carrier Bureau of the FCC. Data is based on total operating revenues of long distance carriers and total long distance revenues for local exchange carriers. MCI experienced a slight decrease, from 17.6% to 17.4% between 1996 and 1997.

[34] Before WorldCom's announced acquisition of Brooks' in October 1997, Brooks had been the preferred provider for both AT&T and MCI.

[35] Arizona C.C. Tariff No. 1, Intelenet Exchange Access Service, Page 20.11, Effective 6/24/98.

[36] A.C.C. No. 1, Page 131.2, Effective 10/31/98.

Q. HAS "DIAL AROUND" REMAINED A LONG DISTANCE OPTION?

A. Yes, "dial around" as a non-traditional means of making a long distance call must not be underestimated. Dial around providers are abundant in Arizona. Exhibit DLT-17 contains just a sampling of dial around ads which have recently been sent to Arizona consumers. Many "dial around" companies have diversified into the 1+ intraLATA equal access market, and vice versa. For example, WorldxChange and VarTec, traditional "dial around" providers, are also 1+ intraLATA carriers in Arizona. Conversely, MCI owns Telecom*USA, a highly-advertised dial-around service, and AT&T recently joined the "dial-around" ranks with its "Lucky Dog" service. Such marketing tactics are being used to "cover all the bases" in a heated battle for the long distance market. With 15% of AT&T customers, 26% of MCI customers and 24% of Sprint's customers using dial-around services; these companies will offer expanded options to gain share.[37]

Q. IS IT NECESSARY FOR U S WEST TO RESPOND BASED ON THE COMPETITIVE NATURE OF THIS SERVICE?

A. Yes. U S WEST must take aggressive steps to remain competitive with its intraLATA long distance services. The proposals made in this docket are a step in the right direction to providing Arizona customers with the benefits of competition.

Q. HOW HAS U S WEST RESPONDED TO THE COMPETITIVE INTRALATA LONG DISTANCE MARKET UP TO THIS POINT?

A. U S WEST recently introduced the Simple Value and Super Savings Calling Plans to provide customers with reduced-rate options. However, as I explained earlier, the subsidies inherent in the existing long distance prices serve to keep residential Basic Exchange Service rates low, below cost, in fact. With the move to price residence Basic Exchange Service towards cost, U S WEST can then coincidentally eliminate a portion of the subsidies represented by the contribution in Long Distance Services. Further reduction in such implicit subsidies must occur if U S WEST is to remain a viable player in the Long Distance market. This can be accomplished by future price increases to the residence access line until such time that it is priced to fully recover its cost, or through the establishment of some other form of explicit subsidy. U S WEST cannot compete

with competitive Long Distance providers when its services are artificially inflated to subsidize a monopolistic pricing scheme.

Q. PLEASE EXPLAIN THE CHANGES YOU ARE PROPOSING TO THE STANDARD MTS SCHEDULE.

A. I am proposing to reprice the service as follows:

	Current Per Minute Rate		Proposed Per Minute Rate	
	Day	E/N/W	Day	E/N/W
Business	$0.2994	$0.2200	$0.2800	$0.2800
Residence	$0.3260	$0.1500	$0.2500	$0.1200
Miscellaneous	$0.3000	$0.1620	$0.2800	$0.1200

In addition, the existing 35% discount that applies to all direct dialed intraLATA calls placed from the residence of qualified speech and hearing impaired customers is being increased to 50%.

Q. WHY IS U S WEST PROPOSING MTS PRICE CHANGES?

A. As stated earlier, the restriction that prevents U S WEST from offering interLATA long distance and one stop shopping places the Company at a significant competitive disadvantage. It is necessary to respond with a very aggressive pricing plan. It must be remembered that this service is priced many times above its TSLRIC and Shared cost and such pricing is simply not sustainable in a competitive environment. The per minute rate increase for business customers making calls during evening, night, weekend hours is proposed in an effort to standardize these rates across the U S WEST region, and should have minimal impact on business customers who make only approximately 20% of their calls during these hours.

Q. DO THE PROPOSED PRICE CHANGES TO MTS AFFECT THE PRICES FOR OTHER LONG DISTANCE SERVICES?

[37] Rocky Mountain News, "AT&T Unveils Lucky Dog Service", 10/8/98.

A. Yes. As MTS prices are reduced, it is necessary to evaluate the prices associated with Optional Calling Plans. As U S WEST reduces the overall prices for MTS, it is necessary to determine if Optional Calling Plans still offer value to customers.

Q. .WHAT IS U S WEST'S RECOMMENDATION FOR THE OPTIONAL CALLING PLANS?

A U S WEST recommends the following changes:

- Reduce Peak and Off Peak residential rates for the Simple Value Calling Plan
- Reduce the Evening, Night, Weekend rate for the Arizona Value Calling Plan and grandfather the Plan to existing customers
- Eliminate the Arizona Value Calling Plan II and convert customers to the Super Savings Plan
- Reduce the monthly rate for Business Daytime Connection Plus, as well as the per minute rate
- Eliminate Volume Discount Plans and convert customers to MTS
- Grandfather MetroPac Calling Plan

Each of these changes is discussed below.

Q. WHAT CHANGES DO YOU RECOMMEND FOR SIMPLE VALUE CALLING?

A. I am proposing that the rates be reduced for residence customers for calls made during both Peak and Off Peak periods. Peak rates apply to calls made between 7 a.m. and 7 p.m., Monday through Friday. Off Peak rates are applied to calls placed between 7 p.m. and 7 a.m. Monday through Friday and all day Saturday and Sunday. The current Peak rate of $.25/minute will be reduced to $.22/minute. The current Off Peak rate of $.15/minute will be lowered to $.09/minute.

Q. WHY ARE THESE CHANGES APPROPRIATE?

A. These price changes are being made to maintain the pricing relationship with MTS. If left unchanged, current Simple Value Calling rates would be the same or higher than rates proposed for MTS. Since the plan is designed to provide discounts from U S WEST's standard MTS prices, the reductions are necessary.

Q. WHY ARE YOU GRANDFATHERING THE ARIZONA VALUE CALLING PLAN AND METROPAC?

A. These plans are being grandfathered to better serve customers and to position U S WEST's overall menu of long distance calling plans more favorably in light of the extremely competitive market. U S WEST's goal is to provide customers with plans that have few restrictions, are simple and easy to use and understand, and are competitively priced. To accomplish this, it is necessary to eliminate a number of existing offerings. However, in an effort to minimize customer inconvenience, we are proposing to grandfather the plans to existing customers rather than to simply withdraw them. New customers will be able to choose from other U S WEST long distance plans that are attractively priced to meet their long distance calling needs.

Q. YOU INDICATE YOU ARE ALSO REDUCING THE PRICE FOR THE ARIZONA VALUE CALLING PLAN. PLEASE DESCRIBE THE PRICE CHANGE.

A. I am proposing that the rate for calls made during the evening, night, or weekend time periods be reduced from $.12/minute to $.09/minute.

Q. WHY ARE YOU ELIMINATING THE ARIZONA VALUE CALLING PLAN II?

A. It's been found that this plan, due to its design, has limited customer appeal. Therefore, I am proposing to withdraw it and convert customers to Super Savings which is much more attractively priced and doesn't contain the usage requirements associated with Arizona Value Calling Plan II. This will result in an overall savings for these customers, as they are currently paying $19.20/month which includes 120 minutes (i.e., $.16/minute). The price for each additional minute is $.25 for calls made during the day and $.12 for calls made during evening, night, weekend hours. With Super Savings, customers will pay $.10/minute, regardless of when the call is placed. Customers will benefit from the conversion.

Q. SPECIFICALLY, WHAT REDUCTIONS ARE YOU PROPOSING FOR BUSINESS DAYTIME CONNECTION PLUS?

A. I am proposing that the monthly rate, which includes 60 minutes of usage, be reduced from $10.80 to $8.40. In addition, I am proposing that the per minute rate for additional minutes be reduced from $.17/minute to $.14/minute.

Q WHY ARE THESE NEW PRICE POINTS APPROPRIATE?

A. The prices for this plan are being adjusted to again ensure customers realize a benefit and value by subscribing to an optional calling plan, rather than standard MTS.

Q. WHY ARE YOU ELIMINATING THE VOLUME DISCOUNT PLAN?

A. This is another plan that has limited customer appeal. Customers have indicated they want long distance calling plans that are simple and uncomplicated. The percentage-based Volume Discount Plan is no longer an attractive option for customers. Therefore, existing Volume Discount Plan customers will be converted to MTS. With the MTS rates proposed in this case, the conversion will result in a savings for the average Volume Discount Plan customer.

Q. PLEASE DETAIL THE CHANGES YOU ARE RECOMMENDING FOR OPERATOR SURCHARGES.

A. I am recommending that the Operator Assisted Station-to-Station and Person-to-Person rate elements be revised to reflect different pricing for calls that require full assistance from an operator versus calls where the operator is only required to provide partial assistance. Partial assistance is when the customer dials the terminating number and calls are completed with the assistance of an operator. Full assistance is when the customer elects to have the operator place the entire call for them.

I am recommending that the following rate changes be approved:

	Current	**Proposed**
Calling Card (Mechanized)	$ .50	$ .80
Calling Card (Operator Assist)	$ .85	$2.25
Station (Partial Assist)	$1.30	$2.25
Station (Full Assist)	$1.30	$3.40

Person (Partial Assist)	$3.50	$4.90
Person (Full Assist)	$3.50	$6.05
Connect to DA	$1.50	$2.25
Busy Line Verify	$1.50	$3.00
Busy Line Interrupt	$3.00	$6.00

Q. WHAT ARE YOUR PROPOSED CHARGES BASED ON?

A. The rates proposed will more closely align the charges assessed by U S WEST with those of other operator service providers.

Q. ARE YOU PROPOSING ANY OTHER CHANGES TO OPERATOR SURCHARGES?

A. Yes, I am proposing that the charge to verify or interrupt a busy line apply to lines being used for voice and data communication. Previously, the charges only applied to voice communications. With use of the Internet and the explosion of fax line usage, operators are being asked to interrupt or verify lines in use for data, in addition to voice. Therefore, it is recommended that the application for these charges be updated to reflect today's technology.

Q. IS THIS THE EXTENT OF THE CHANGES YOU ARE RECOMMENDING FOR LONG DISTANCE SERVICE?

A. Yes. The overall revenue impact of these proposals is ($459,110). A summary of these proposals and the associated revenue impacts is attached to this testimony as Exhibit DLT-18.

E. DIRECTORY ASSISTANCE

Q. PLEASE DESCRIBE THE DIRECTORY ASSISTANCE FAMILY OF PRODUCTS CURRENTLY AVAILABLE TO ARIZONA CONSUMERS.

A. U S WEST's portfolio of Directory Assistance offerings consists of the traditional Directory Assistance, National Directory Assistance, Complete-A-Call, and Business Complete-A-Call. Customers dial 1-411 to access any of these services. With traditional Directory Assistance, callers can obtain up to two intraLATA telephone numbers per call. The

charge is $.47 per call (not including a temporary $.12 surcharge which was incorporated into the Directory Assistance rate as a result of Decision No. 60381). Customers are allowed one call to Directory Assistance per month at no charge. If a caller dials 1-411 or 411 and requests the telephone number for a party located outside of their LATA, a National DA charge of $.85 applies. Again, two numbers can be requested per call; however, there is not a monthly call allowance associated with National Directory Assistance. Complete-A-Call, available with traditional Directory Assistance, allows the party calling Directory Assistance to be connected to the local or intraLATA long distance telephone number requested. Business Complete-A-Call is a service subscribed to by business customers which allows calls to Directory Assistance to be connected to the business at no charge to the calling party.

Q. IS THERE CURRENTLY A CHARGE FOR COMPLETE-A-CALL AND BUSINESS COMPLETE-A-CALL SERVICES?

A. Yes. The charge for Complete-A-Call is $.35/call. Business Complete-A-Call customers have two pricing options: a per call charge of $.35 or a block of 100 calls for $7.50 per month. These charges do not include a surcharge.

Q. WHAT DO YOU PROPOSE TO CHANGE IN THIS FILING?

A. I propose to restructure and simplify the entire Directory Assistance offering. National Directory Assistance will become the only Directory Assistance service offered by U S WEST. The existing $.85 National Directory Assistance rate will not change. In fact, I propose to add value to the offering by incorporating Complete-A-Call at no additional charge. In essence, Arizona customers will be able to dial 1-411, obtain a telephone number for anywhere in the country, and be connected to local or intraLATA telephone numbers for the rate they are paying for National Directory Assistance today. (Long Distance charges may also apply.) The traditional Directory Assistance offering will be withdrawn and the monthly call allowance eliminated. These changes will eliminate the market for Business Complete-A-Call; therefore, it is being withdrawn as a service offering.

Q. WHY ARE YOU RECOMMENDING THIS CHANGE?

A. I recommend this change to alleviate customer confusion which results from multiple Directory Assistance products. Today, customers dialing 1-411 may be charged varying rates, depending on the telephone number requested. They are charged $.47/call for numbers requested within their own LATA and receive one free call per month (traditional Directory Assistance). Alternatively, if they dial 1-411 and request a telephone number outside of their LATA, they are charged $.85/call and do not receive any free calls per month (National Directory Assistance). Furthermore, if they dial 1-411 and request one telephone number outside of their LATA and another number within their LATA on the same call, they are charged the $.85 charge. The change I am proposing will greatly simplify the service for our customers, who may not understand LATAs or geographic boundaries which differentiate a traditional Directory Assistance call from a National Directory Assistance call. This should result in greater customer satisfaction. The proposal to incorporate Complete-A-Call into the National Directory Assistance offering will further enhance customer satisfaction. The $.85 charge is a competitive price while still being slightly below rates charged by other Directory Assistance providers. The proposed rate is also a more realistic starting point for resale of this service.

Q. WHAT ARE OTHER FIRMS OPERATING IN ARIZONA CHARGING FOR DIRECTORY ASSISTANCE?

A. WorldCom's Resold Local Exchange Tariff on file with the Commission indicates they charge $.47 for each number requested. If a customer requested two telephone numbers, as is allowed with U S WEST's service, the charge would be $.94.[38] AT&T rolled out their "00" Service last year in Arizona. AT&T customers pay $.95/call, which includes call completion. Similarly, MCI WorldCom offers 10-10-9000 Directory Assistance Service. Callers can obtain telephone numbers for anywhere in the country for $.99, which also includes call connection. In all cases, long distance charges apply if the call being completed is not local in nature. These alternative Directory Assistance providers are available to consumers throughout the state. Exhibit DLT-19, advertisements for "00" Service and 10-10-9000 Directory Assistance Service, demonstrate that consumers are being made aware of these alternatives. In addition, telephone numbers may be obtained from many internet sites.

Q. IS THE $.85 CHARGE THE PRICE TO BE IN EFFECT AFTER THE SURCHARGE ON DIRECTORY ASSISTANCE EXPIRES?

A. Yes, it is.

Q. PLEASE SUMMARIZE YOUR PROPOSAL FOR DIRECTORY ASSISTANCE.

A. I am proposing to blend the various Directory Assistance products into one offering, National Directory Assistance. This service will continue to be available to Arizona customers by dialing 1-411 or 411. Customers will be able to request a telephone number for anywhere in the country. Customers requesting numbers within their LATA will be able to be connected to the number requested without an additional completion charge. (If the completed call is long distance in nature, long distance charges will apply.) The charge for the service will be $.85 per call, the existing charge for National Directory Assistance. Two numbers may be requested per call. The call allowance associated with traditional local Directory Assistance is being eliminated, as is Business Complete-A-Call Service. This will position U S WEST's Directory Assistance product favorably with its primary competitors' offerings, which are priced higher and also include call completion.

Q. WHAT IS THE TOTAL REVENUE IMPACT OF THE CHANGES YOU ARE PROPOSING FOR DIRECTORY ASSISTANCE?

A. The total annual revenue impact for this restructure in Directory Assistance is $18,261,316.

F. LISTING SERVICES

Q. WHAT ARE LISTING SERVICES?

A. Listing services provide a variety of options available to both residence and business customers in the way their names appear in our telephone directories and on Directory Assistance.

Q. WHAT ARE THE SPECIFIC SERVICES YOU WOULD LIKE TO CHANGE?

A. I recommend increasing monthly prices for the following Listing services:

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[38] Arizona Tariff No. 2, Section 7, Page 9, Effective 2/19/98.

- Residence and business Privacy Listings;
- Residence and Business Premium Listings;
- Business E-Mail Listings; and
- Business and Residence Uniform Resource Locator Listings.

Exhibit DLT-20 summarizes the Listing Services proposals.

Q. PLEASE DESCRIBE PRIVACY LISTINGS AND THE CHANGES YOU ARE PROPOSING FOR THIS SERVICE.

A. Privacy Listings consist of non-published and non-listed names and telephone numbers. Non-published service offers customers the opportunity to omit their names and telephone numbers from both Directory Assistance records and the printed directory. Non-listed service provides for a customer's name and telephone number to be available from Directory Assistance but limits it from appearing in the printed telephone directory. I am proposing the Non-published Service monthly rates be increased from $1.80 to $3.00 for business customers and from $1.90 to $3.00 for residence customers. I am recommending that the monthly rate for Non-Listed Service be increased from $1.45 to $2.00 for business customers and from $1.55 to $2.00 for residence customers.

Q. WHY SHOULD THESE SERVICES' RATES BE INCREASED?

A. These rates should be increased because Privacy Listings are discretionary services which serve to devalue the public switched network over time. As more customers make their telephone number unavailable for others through the use of such services, telephone service for other customers is devalued. There are now fewer customers for others to call. Because of this, such services should be priced at premium rates.

Q. WHAT SERVICES FALL WITHIN THE "PREMIUM" LISTINGS CATEGORY AND WHAT CHANGES ARE YOU PROPOSING FOR THEM?

A. Premium Listings include Additional Listings, Alpha Listings, Client Main Listings, Foreign Listings, WATS Listings, Mobile Radio Listings, and Mobile Unit Listings. Again, these listings are entirely discretionary. They serve as an inexpensive way for businesses to inform their customers.

I am proposing that the rates for these Premium Listing services be increased for business customers from $3.00/month to $6.00/month. I am also proposing that the 50% discount associated with Premium Listings purchased by residence customers in conjunction with Custom Solutions be discontinued. Only a limited number of customers currently qualify for the discount. Furthermore, the recent introduction of Custom Choice, which provides significant savings to residential customers, makes the Listing discount unwarranted.

Q. ARE THERE ADDITIONAL LISTING SERVICES WHICH ARE IMPACTED BY THIS RATE CASE?

A. Yes. I am also proposing increases to E-Mail Listings and Uniform Resource Locator (URL) Listings. These listings allow customers' E-Mail addresses and URL addresses to appear on Directory Assistance and in the published telephone directories. I am recommending that the monthly rate for E-Mail Listings be increased for business customers from $3.00 to $6.00. I am also recommending that the monthly rate for URL Listings be increased from $3.00 to $12.00 for business customers and from $1.50 to $12.00 for residence customers.

Q. PLEASE EXPLAIN WHY YOU BELIEVE THE PROPOSED RATES FOR INTERNET LISTINGS ARE JUSTIFIED.

A. The rates proposed in this case are the rates U S WEST originally requested for the services when they were introduced. The proposed rates are the same rates that are in effect in twelve other states within U S WEST's region. Standardizing these rates with those in effect in other states will result in operating efficiencies and improved customer service. For example, the billing system used to generate bills for Arizona customers is the same system used to bill customers in Idaho, Wyoming, Colorado, Utah, New Mexico, and Montana. With my proposal, a separate rate table will no longer need to be maintained for Arizona because the rates will be the same as those in the other six states handled by the system. Customer service representatives who interface with Arizona customers are also responsible for serving customers in the same six states mentioned above. My proposal will eliminate the necessity of these representatives having to deal with the inconsistency in price for these services in Arizona, which will result in more rapid response time, as well as increased overall service quality. U S WEST will be able to

market and promote the products more cost effectively, since separate advertising campaigns for Arizona will no longer be necessary because of the non-standard rates.

In addition, these listings are entirely discretionary. They are provided as an aid to Arizona customers desiring to contact others through an advanced communications medium, the Internet. Consequently, they should be priced commensurate with their perceived value. As use of the Internet increases, so does the value of these listings from a customer perspective. The "Computer Almanac," available on the World Wide Web, offers these interesting statistics concerning escalating Internet usage:

- About 42% of adults overall say there is a personal computer in their home and 65% of these computer owners have Internet access;
- 53% of small businesses plan to be selling on the Internet within five years;
- One out of ten small businesses advertises on the Internet and the number was expected to triple by the end of 1997;
- This year, 10% of North American households are expected to make online purchases, twice the number who shopped in 1997;
- The Internet is growing so fast that traffic is doubling every 100 days;
- An estimated 62 million Americans now use the Internet. Radio existed for 38 years before it had 50 million listeners. Television took 13 years to get 50 million viewers. The Web reached 50 million U.S. users in just 4 years.[39]

Bill Gates, chairman of Microsoft, has been quoted as saying, "People are starting to adopt a Web lifestyle. No longer are they using the Web only as a source of occasional information; they are routinely using it to pay bills, buy cars, check movie schedules, book restaurants and plan vacations. The Web is becoming a central part of our lives."[40] Electronic commerce is a key national policy objective, so much so that President Clinton has established an interagency task force to oversee many of the administration's programs in this area. One of the most critical components in successfully using the Internet is knowing the address of the site to be accessed. Internet Listings make these addresses readily available to consumers, they are found easily through the telephone directory or through Directory Assistance, and they serve as an inexpensive advertising tool for businesses.

[39] www.cs.cmu.edu/afs/cs/user/bam/www/numbers.html, 12/1/98.
[40] Access Internet Magazine, 11/98, Page22.

In summary, the rates as proposed are appropriate in light of the increasing value the services provide to the growing number of Internet users. The proposal will also allow U S WEST to better serve its customers and realize cost savings as a result of the consistency gained by the price changes.

Q. WHAT IS THE REVENUE IMPACT ASSOCIATED WITH YOUR LISTING PROPOSALS?

A. The annual revenue effect for changes proposed to Listing Services is $7,744,085.

G. CUSTOM CALLING SERVICES

Q. WHAT CHANGES ARE YOU PROPOSING FOR RESIDENCE CUSTOM CALLING SERVICES?

A. I am proposing to increase the monthly rate for Caller Identification (Caller ID)-Name and Number from $5.95 to $6.95. I am also proposing to increase the Caller ID-Number monthly rate from $5.50 to $6.95

Q. ARE YOU PROPOSING ANY OTHER CHANGES TO RESIDENCE CUSTOM CALLING SERVICES?

A. Yes. As a result of the rate changes I am proposing for Caller ID, I am recommending that the monthly rates for U S WEST Receptionist Service be increased by the same amount. Therefore, the monthly rate for U S WEST Receptionist-Name and Number will increase from $10.95 to $11.95 and the rate for U S WEST Receptionist-Number will increase from $10.50 to $11.95. The rates for these two services are the summation of the individual rates for Call Waiting and Caller ID and are therefore impacted by rate changes made to either product.

Q. WHY ARE THE RATES FOR CALLER ID SERVICES BEING INCREASED?

A. I am proposing these increases because Caller ID has increased in value to the customer over the past few years. In addition, U S WEST has the lowest average price for Caller ID of all of the Regional Bell Operating Companies (RBOCs).

When Caller ID was initially introduced in Arizona in 1993, the technology was new and customers who subscribed to the service found that there were a great number of calls that were unidentified and appeared as "out of area", "unknown", or "unavailable" on their Caller ID units. This was due, in part, to the fact that the Signaling System 7 (SS7) technology that supports Caller ID was not widely deployed. Additionally, long distance carriers were not required to pass on the calling number information on calls placed by their customers to the local exchange carrier (U S WEST). Finally, PBX manufacturers did not have the technology in their switches to allow the name and number information to pass through their switches.

Caller ID Service is far more valuable to customers today because several improvements have reduced the number of calls that carry a message of "unavailable." Over the past year, many local and long distance service providers have upgraded their systems to SS7. The FCC has ordered long distance carriers to pass on the calling number information on calls they carry. U S WEST has negotiated agreements with a number of other local exchange carriers to allow us to pass the calling name and number on to our customers. PBX manufacturers are working to find ways to allow for the passing of Caller ID information from their switches. Finally, U S WEST has automatically placed Anonymous Call Rejection (ACR) on the lines of all residence customers who order Caller ID. (When ACR is activated, the service rejects calls from numbers which have purposely blocked their name and number from appearing to the customer, thus saving the customer from seeing yet another "unavailable" indicator on their Caller ID unit.)

As indicated above, U S WEST has the lowest average rate for Caller ID among all of the RBOCs. The average rate ranges from $6.52 to $8.56 in the other RBOCs.

Q. WHY ARE YOU PROPOSING A GREATER INCREASE TO CALLER ID-NUMBER THAN YOU ARE PROPOSING TO CALLER ID-NAME AND NUMBER?

A. Less than one-fourth of one percent of all customers who have Caller ID have Caller ID-Number. I am proposing that the services be priced the same to deter future sales of the Caller ID-Number product because of the demonstrated advantages of Caller ID-Name and Number over Caller ID-Number.

Q. WHAT IS THE REVENUE IMPACT OF YOUR CUSTOM CALLING PROPOSALS FOR RESIDENCE CUSTOMERS?

A. The annual revenue effect for the changes I am proposing to residence Custom Calling services is $3,292,216.

Q. ARE YOU PROPOSING CHANGES TO BUSINESS CUSTOM CALLING SERVICES?

A. Yes. I am proposing that all existing packages of Custom Calling Services with the exception of SMARTSET[sm], SMARTSET PLUS[sm] and Call Manager Connection be grandfathered.

Q. WHY ARE YOU PROPOSING TO GRANDFATHER THE BUSINESS CUSTOM CALLING PACKAGES?

A. The original packages were introduced to give customers a discount when they purchased two, three, four, or five Custom Calling features. Over the years, more and more Custom Calling features have been introduced and U S WEST has found that the number of subscribers to these packages has declined by almost 10% over the last year. U S WEST now offers the packages mentioned above that more accurately reflect the needs of the marketplace.

Q. IS THERE A REVENUE IMPACT ASSOCIATED WITH GRANDFATHERING BUSINESS CUSTOM CALLING PACKAGES?

A. Yes. Since the packages are being grandfathered, a nonrecurring charge is no longer appropriate. The revenue impact associated with eliminating the nonrecurring charge for these packages is ($37,388).

Q. IS THIS THE EXTENT OF THE CHANGES YOU ARE PROPOSING FOR CUSTOM CALLING SERVICES?

A. Yes. Custom Calling changes are summarized on Exhibit DLT-21.

H. SINGLENUMBER SERVICE

Q. WHAT CHANGES ARE YOU PROPOSING TO SINGLENUMBER SERVICE?

A. I am proposing that SingleNumber Service be discontinued as a product offering to new subscribers and current subscribers be grandfathered. Under the grandfathering provisions, current customers will be allowed to change or add to their existing service. I am also proposing that the rate stabilized rates be removed since there are no customers.

Q. WHY ARE YOU PROPOSING THAT SINGLENUMBER SERVICE BE GRANDFATHERED?

A. The onset of Local Number Portability brings significant changes to SingleNumber Service. The ability of a customer to "port" a telephone number and its associated customer data to a CLEC removes vital information about that customer from U S WEST databases.

To SingleNumber Service, the most important information associated with that "ported" telephone number is the ZIP Code information. Without valid ZIP Code data, the value of SingleNumber Service is lost, since calls are routed to their destination based upon the five or nine digit ZIP Code data resident on U S WEST's customer records. "Porting" the number moves this vital data to another company's database, which may or may not provide U S WEST with the ability to retrieve the ZIP Code associated with the calling number at the time the call is placed to the SingleNumber Service subscriber. This will result in an increase in calls that are directed to the subscriber's default location instead of routing the call to the appropriate location. This will ultimately degrade the value of SingleNumber Service to the subscriber.

I. SCREENING SERVICES

Q. WHAT PRODUCTS ARE INCLUDED IN SCREENING SERVICES?

A. Screening Services include CustomNet Service, Billed Number Screening, Toll Restriction, ScoopLine Access Restriction, 900 Service Restriction, and Carrier Access Blocking (10XXX1+/10XXX011+).

Q. WHAT CHANGES ARE YOU PROPOSING FOR CUSTOMNET SERVICE?

A. I am proposing to provide CustomNet customers with more choices relative to the types of calls to be blocked from outgoing lines and trunks. With Option 1, calls made using a

1+ dialing pattern will be blocked. With Option 2, such calls will not be blocked. With both options, long distance calls made by dialing "0" will not be permitted unless the calls are collect or billed to a third party or a calling card.

Q. ARE THE RATES AND CHARGES ASSOCIATED WITH CUSTOMNET CHANGING WITH THIS PROPOSAL?

A. Yes, some are. Current and proposed rates are depicted on Exhibit DLT-22. I am proposing to establish separate residence and business rates for individual lines equipped with CustomNet. Nonrecurring charges will be reduced for residence and business customers. In addition, I am proposing to reduce the monthly rate for residence customers.

Q. PLEASE EXPLAIN THE BILLED NUMBER SCREENING PRODUCT.

A. Billed Number Screening is a service that provides for the blocking of collect and/or billed to third number calls at a subscriber's billing number. If a party attempts to make a collect or billed to third number call from a subscriber's telephone number provisioned with Billed Number Screening, the call will not be completed. It has previously been provided at no charge; however, in this case, I am proposing to institute a nonrecurring charge for residence and business customers. In addition, I am establishing a small monthly rate for residence customers. These rates and charges appear on Exhibit DLT-22.

Q. WHY IS U S WEST PROPOSING TO CHARGE FOR THE SERVICE AT THIS TIME?

A. The charges proposed are designed to recover the costs associated with the service. They are extremely reasonable for the service provided.

Q. ARE YOU RECOMMENDING PRICE CHANGES FOR THE TOLL RESTRICTION PRODUCT?

A. Yes, I am proposing to reduce the nonrecurring charge for business customers and increase the nonrecurring charge for residence customers. In addition, I am proposing to introduce a monthly rate for residence customers of this product. The specific rate changes are depicted on Exhibit DLT-22.

Q. ON WHAT BASIS ARE YOU PROPOSING THESE RATE CHANGES?

A. Introducing the residence monthly rate is being done to recover costs associated with this service. The costs are presented in Mr. Thompson's testimony. The business nonrecurring charge is being reduced to make the offering more attractive to business customers. An increase in the residence nonrecurring charge is designed to generate additional revenue in this case.

Q. YOU ARE ALSO PROPOSING TO ELIMINATE SCOOPLINE ACCESS RESTRICTION SERVICE. PLEASE EXPLAIN.

A. ScoopLine is being withdrawn as a product offering as described in Dr. Wilcox's testimony; therefore, this service will no longer be necessary. Other types of 900 calls may be blocked using 900 Service Access Restriction.

Q. WHAT CHANGES ARE YOU PROPOSING FOR 900 SERVICE ACCESS RESTRICTION IN THIS CASE?

A. I am proposing to institute charges as shown on Exhibit DLT-22. Previously, U S WEST did not assess charges to have a line blocked from making calls to telephone numbers with a 900 prefix; however, to recover costs associated with provisioning the service, a nonrecurring charge is being introduced for residence and business customers. A small monthly rate is also being established for residence customers. These price changes are being made to recover costs associated with provisioning the service.

Q. IN ADDITION TO THESE CHANGES, YOU ARE ALSO PROPOSING TO INCREASE RATES FOR CARRIER ACCESS BLOCKING, ISN'T THAT CORRECT?

A. Yes, it is. I am proposing to have distinct residence and business rates. Nonrecurring charges for residence and business customers will be increased. The monthly rate for residence customers is also being increased. The specific pricing proposals for this service are depicted on Exhibit DLT-22.

Q. WHAT IS THE RATIONALE BEHIND THE PROPOSED RATE INCREASES?

A. These rates are being increased to gain consistency in pricing for the product across the U S WEST region. Again, this will result in operating efficiencies and improved customer service.

Q. WHAT IS THE OVERALL REVENUE IMPACT FOR SCREENING SERVICES?

A. The combined revenue impact for all Screening Services is $6,291,917.

Q. DOES THIS CONCLUDE THE PRICING PROPOSALS YOU ARE SUBMITTING IN THIS CASE?

A. Yes, it does.

III. CONCLUSION

Q. PLEASE SUMMARIZE YOUR TESTIMONY.

A. The telecommunications marketplace in Arizona is changing rapidly, and competitive alternatives to traditional U S WEST services have become a reality. In addition to the wide range of competitive alternatives available in the Long Distance market, major facilities-based providers are now offering local services to Arizona customers. Based on the degree to which competitors are active in the Phoenix and Tucson areas, I recommend relaxed regulatory oversight in specific wire centers or "competitive zones." Implementation of competitive zones will enable U S WEST to respond to consumers under conditions consistent for all carriers.

I am also recommending that all new services introduced by U S WEST be automatically classified as "competitive." New services are, by definition, optional and discretionary and will succeed or fail based upon market acceptance. Streamlined competitive classification of new services will enable U S WEST to respond quickly to market demands without the regulatory delays inherent in the existing reclassification process. In addition, I am proposing that U S WEST be granted the ability to promote its products and services under the same conditions as is afforded to its competitors.

Finally, I have outlined a number of pricing changes designed to rebalance rates, reduce subsidies between services and move residential Basic Exchange prices toward cost-

recovery levels. These price changes are in keeping with the evolving competitive market in Arizona, and are supportive of the growth of true competition.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN	))))))))))	DOCKET NO. _____

EXHIBITS OF

DAVID L. TEITZEL

U S WEST COMMUNICATIONS

JANUARY 8, 1999

INDEX OF EXHIBITS

DESCRIPTION	EXHIBIT
ACC Utilities Division List of Companies with CLEC and ILEC Applications	1
Proprietary Information	2
Business Locations within 1000' of CLEC Fiber (PROPRIETARY)	3
AT&T/TCG Switched Services	4
AT&T Price Quote	5
ELI Advertisement	6
GST Advertisement	7
Cox Direct Mail	8
Cox Arizona Tariffs	9
Phoenix Apartment Buildings Served By Competitors (PROPRIETARY)	10
Competitive Fiber Routes – Phoenix and Tucson	11
Yellow Page Listings of Telecommunications Companies	12
Price Ceiling Example	13
Promotional Tariffs	14
Summary of Annual Revenue Impacts	15
Residence Price/Cost Comparison (PROPRIETARY)	16
Dial-Around Advertisements	17
Summary of Long Distance Proposals	18
Competitors' Directory Assistance Advertisements	19
Summary of Listing Proposals	20
Summary of Custom Calling Proposals	21
Summary of Screening Services Proposals	22

Companies With CLEC & ILEC Applications – Granted OR Pending
(CLEC = Competitive Local Exchange; ILEC = Incumbant Local Exchange)

GSTNET (AZ) INC
5210 E WILLIAMS CIRCLE
SUITE 550
TUCSON AZ 85711-0000
(520) 290-1255

AT&T WIRELESS SERVICES INC
5000 CARILLON POINT
KIRKLAND WA 98033
(206) 828-8611 OR (206) 828-8452

METROPOLITAN FIBER SYSTEMS OF ARIZONA INC
225 BUSH STREET
SUITE 485
SAN DIEGO CA 92110-0000
(415) 743-4959 OR (415) 743-4975

ACSI LOCAL SWITCHED SERVICES
131 NATIONAL BUSINESS PARKWAY
SUITE 100
ANNAPOLIS JUNCTION MD 20701-0000
(301) 617-2400 OR (301) 617-4277

NORTH COUNTY COMMUNCATIONS CORPORATION
3802 ROSENCRANES
SUITE 485
SAN DIEGO CA 92110-0000
(619) 497-4750

OPTEL (ARIZONA) TELECOM INC
1111 WEST MOCKINGBIRD LANE
SUITE 10000
DALLAS TX 75247-0000

M&L ENTERPRISE INC
P O BOX 35
MIDVALE OH
(800) 462-4523 OR (208) 355-2222

TRANSAMERICAN TELEPHONE INC
209 EAST UNIVERSITY
DENTON TX 76201-0000
(817) 382-0533

U S WEST COMMUNICATIONS INC
ROOM 1010
3033 N 3RD STREET
PHOENIX AZ 85012-0000
(602) 866-0072

COX ARIZONA TELECOM II LLC
COX COMMUNICATIONS
17602 N. BLACK CANYON HWY
(602) 866-0072

CABLE PLUS COMPANY LP
TELEPHONE PLUS
11400 S E 6TH STREET
SUITE 120
BELLEVEUE WA 98004-0000
(206) 462-2090 OR (206) 462-2092

R.C.P. COMMUNICATIONS
300 WEST OSBORN
SUITE 101
PHOENIX AZ 85013
(602) 234-9887 OR (602)

COMM SOUTH COMPANIES
6830 WALLING LANE
DALLAS TX
(972) 690-9955 OR (206) 462-2092

MOUNTIAN TELECOMMUNICATIONS INC
3360 NORTH COUNTRY CLUB ROAD
TUCSON AZ 85716-0000
(520) 321-4100 OR (520) 321-0085

U.S. TELCO INC
UST COMMUNICATION
4001 MCEWEN DRIVE SUITE 200
(972) 392-6757 OR (972) 392-6723

TEL SAVE INC
THE PHONE COMPANY
6805 ROUTE 202
NEW HOPE PA 18938-0000
(215) 862-1500 (215) 862-1085

AMERITECH COMMUNICATIONS
INTERNATIONAL INC
2000 WEST AMERITECH CENTER DR
HOFFMAN ESTATES IL
(847) 248-3370 OR (847) 248-3198

AT&T COMMUNICATIONS OF THE MOUNTAIN STATES
2800 N CENTRAL AVE SUITE 828
PHOENIX AZ 85004-0000
(602) 964-5558

SPRINT COMMUNICATIONS LP
8140 WARD PARKWAY
KANSAS CITY MO 64114-0000
(703) 243-4600

GTE COMMUNICATIONS CORP
1200 WALNUT HILL LANE
SUITE 2000
IRVING TX 75038 0000
(214) 714-0244 OR (214) 714-0534

ELECTRIC LIGHTWAVE INC
8100 N.E. PARKWAY DRIVE
SUITE 200
VANCOUVER WA 98662-0000

FRONTIER TELEMANAGMENT
180 SOUTH CLINTON
ROCHESTER NY 14646-0000

ARIZONA TELEPHONE COMPANY
%JOHN ZEILER-TDS TELECOM
2495 N MAIN ST
CHOCTAW OK 73020-0000
(405) 390-8181 OR (405) 390-8992

BROOKS FIBER COMMUNICATIONS OF TUCSON
177 N CHURCH STREET
PRESIDO SUITES
TUCSON AZ 85701-0000
(520) 622-8800

WINSTAR WIRELESS OF ARIZONA INC
7799 LEESBURG PIKE
SUITE 401 SOUTH
TYSON'S CORNER VA 22403
(703) 917-6556

DIGTAL SERVICES CORPORTION
2300 CLARENDON BL
SUITE 800
ARLINGTON VA 22201-0000
(703) 527-9433

MCI METRO ACESS TRANSMISSION SERVICES
201 SPEAR STREET
9TH FLOOR
SAN FRANCISCO CA 94105-0000
(415) 228-1199 OR (415) 228-1746

ACSI OF PIMA COUNTY INC
131 NATIONAL BUSINESS PARKWAY
SUITE 100
ANNAPOLIS JUNCTION MD 20701-0000
(301) 617-4200

CITIZENS TELECOMMUNICATIONS COMPANY OF AZ LLC
3 HIGH RIDGE PARK
STAMPFORD CT 06905-0000

COX ARIZONA TELECOM INC
17602 N BLACK CANYON HWY
PHOENIX AZ 85302
(602) 866-0072

INTERMEDIA COMMUNICATION INC
3625 QUEEN PALM DRIVE
TAMPA FL 33619-1309

CENTURYTEL OF SOUTHWEST INC
P O BOX 4605
MONROE LA 71211-4065
(318) 388-9000 OR (318) 388-9602

DIGITAL DIAL COMMUNICATIONS INC
624 SIX FLAGS DRIVE SUITE 214
ARLINGTON TX 76011 0000

SUPRA TELECOMMUNICATIONS AND
INFORMATION SYSTEMS INC
2620 SW 27TH AVE
MIAMI FL 33133-0000
(305) 476-4220 (305) 476-4282

SAN CARLOS APACHE TELECOM UTILITY INC
% STEVE M TITLA
P O BOX 701
245 S HILL
GLOBE AZ 85502
(334) 368-8600

MICRO WAVE SERVICES
3 BALA CYNWYD PLAZA EAST
SUITE 502
BALA CYNWYD PA 19004
(610) 660-4910

LCI INTERNATIONAL TELECOM CORP
8180 GREENSBORO DRIVE
SUITE 800
MCLEAN VA 22102 0000
(703) 610-4866 OR (703) 848-4404

TCG PHOENIX
2730 E CAMELBACK ROAD
PHOENIX AZ 85016
(602) 912-9898

ACCESS NETWORK SERVICES
8201 PRESTON LANE
SUITE 350
DALLAS TX 75225

REDACTED

REDACTED

AT&T TCG®

AT&T Completes TCG merger;
TCG Now Core of AT&T Local Services Network Unit.
Read More.

Switched Services

At TCG, we offer a series of switched services that are backed by our guaranteed, reliable and disaster-resistant SONET fiber optic backbone network.

Together with 24 hour performance monitoring, fully redundant architecture and a 4 way uniterrupted power supply backup for all critical switching components, TCG offers you the services that you need with the reliability that you deserve!

Select one of the following switched services to learn more:

- PrimeReach(sm) Service
  Affordable, reliable regional services without having to give up your existing local area services.
- PrimeXpress(sm) Service
  A premiere switched line of business digital trunking service providing PBX users with access to TCG's switching center and switch-resident calling services.
- IXC Gateway Service(sm)
  Provides Interexchange Carriers an alternative to switched offerings provided by the incumbent Local Exchange Companies.
- PrimePath(sm) Service
  A reliable local calling service with access to your choice of long distance carriers.
- PrimePlex(sm) Services
  Flexible ISDN services that give you productivity enhancing power to meet the demands of today and the challenges of tomorrow.
- PrimeNBX(sm)
  A shared PBX service that is a flexible telecommunications solution for your business.
- PrimeCard(sm)
  Calling card solutions

WHATS NEW
ABOUT TCG
INVESTOR RELATIONS
MEDIA
REGULATORY ISSUES
PRODUCTS & SERVICES
The TCG Difference
TCG Product Line
Private Line Services
Switched Services
Enhanced Data Services
Wireless Services
What Makes Us Special
AREAS WE SERVE
CONTACT US
CAREER OPPORTUNITIES
HOME

- PrimeOne(sm) & PrimePlus(sm)
  Local & Toll Usage Plans

- TCG USA(sm)
  TCG's United Savings Advantage qualifies you for volume discounts based on your services with us in two or more cities!

- PrimeDistance(sm) Service
  Providing the highest quality service for all domestic and international long-distance calls - all at competitive rates.

- CERFtone(sm) Service
  An integrated Voice and Internet solution for Business, from America's Premier Local Telecommunications Provider.

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AT&T

Suite 100
2730 E. Camelback Road
Phoenix, AZ 85016

October 8, 1998

[redacted]
2101 West Jackson Street
Phoenix, AZ 85009

Dear Ms. [redacted]

Thank you for giving AT&T Local Services the opportunity to meet your telecommunications needs. Below you will find pricing for the AT&T services we discussed:

Services @ 2101 West Jackson Street

	US West	AT&T	Savings w/ AT&T
Centrex 21 (15) * Analog Two-Way Trunks	$38.52	$32.96	$83.40/mo. / $1,000.80/yr.
Business Line (4)	$41.56	$32.96	$17.20/mo. / $206.40/yr.
Totals	$744.04	$626.24	$117.80/mo. / $1,413.60/yr.

* AT&T does not charge customers for the Federal Access Fee and we do not charge for Hunting.

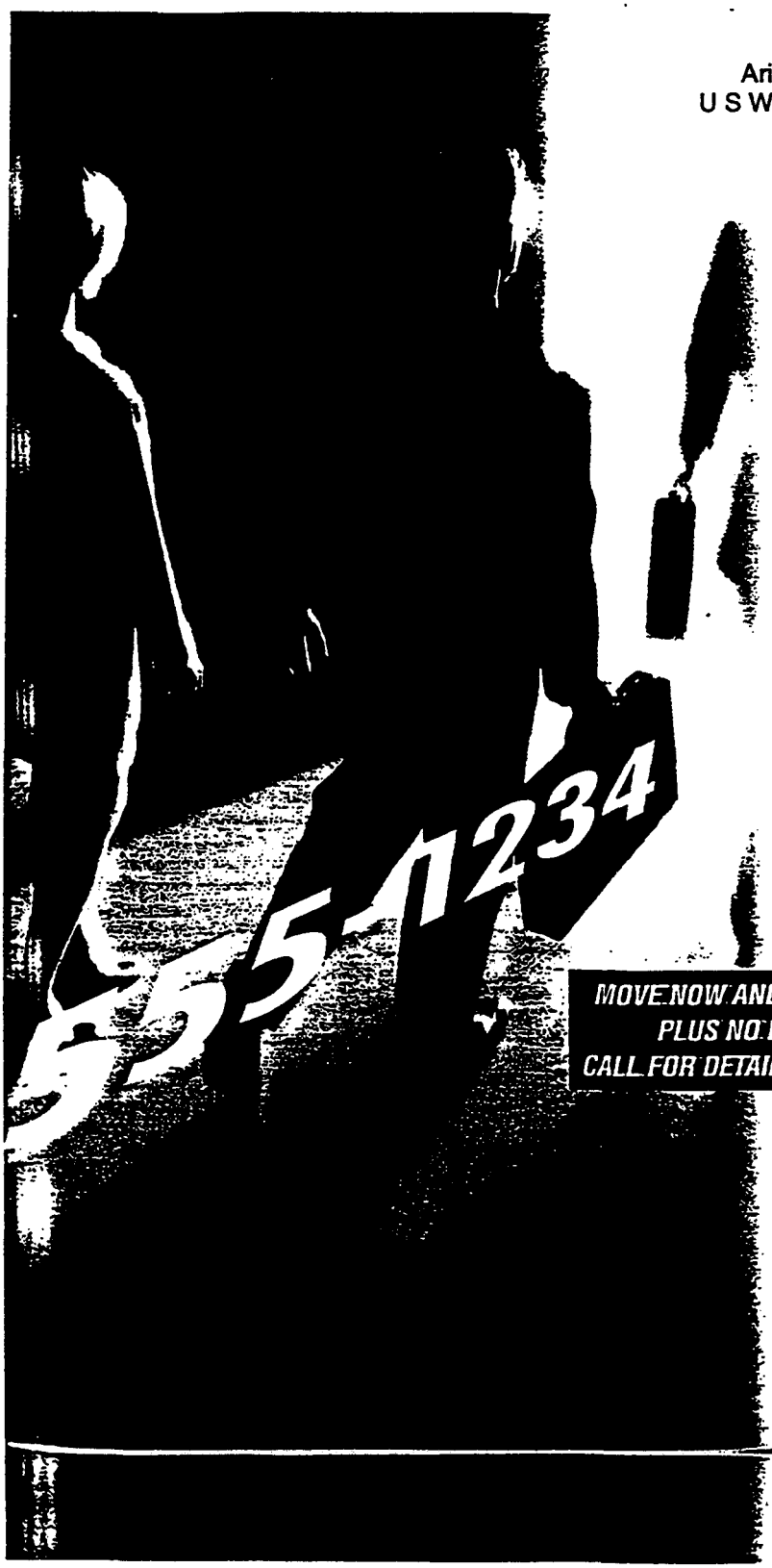
Thank you for your time and I look forward to working with you in the near future.

Sincerely,

Davis P. Magee
Account Executive
AT&T Local Services

Recycled Paper

Arizona
Business
Magazine
Nov/Dec 1998



to Electric Lightwave... and your number moves with you.

You can take it with you* ... and improve your service with clear, flexible voice/data/video solutions. Your number moves with you in one seamless transfer. Electric Lightwave is all about business telecommunications moving smoothly — reliably — with a commitment to strong customer relationships. That's why we make it easy to choose, easy to switch.

For dependable solutions that enhance your bottom line, look to the light: Call or check us out on the Web at www.eli.net.

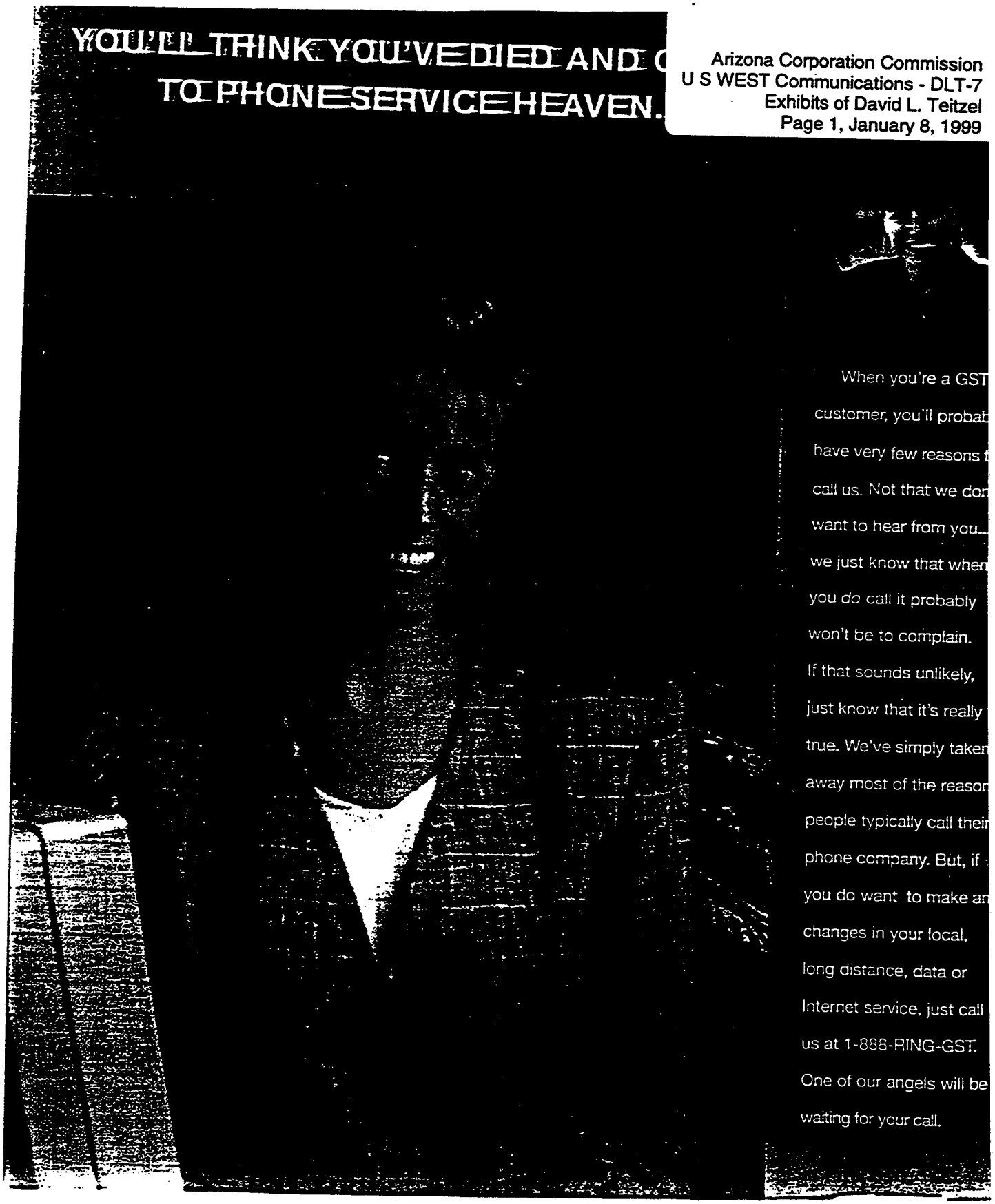
*Local number portability applies to numbers within the same metropolitan service area; some restrictions apply.

MOVE NOW AND RECEIVE UP TO $500 CREDIT, PLUS NO INSTALLATION CHARGES!***
CALL FOR DETAILS ... 1-(800)9TRY ELI, ext. 749**

ELECTRIC LIGHTWAVE

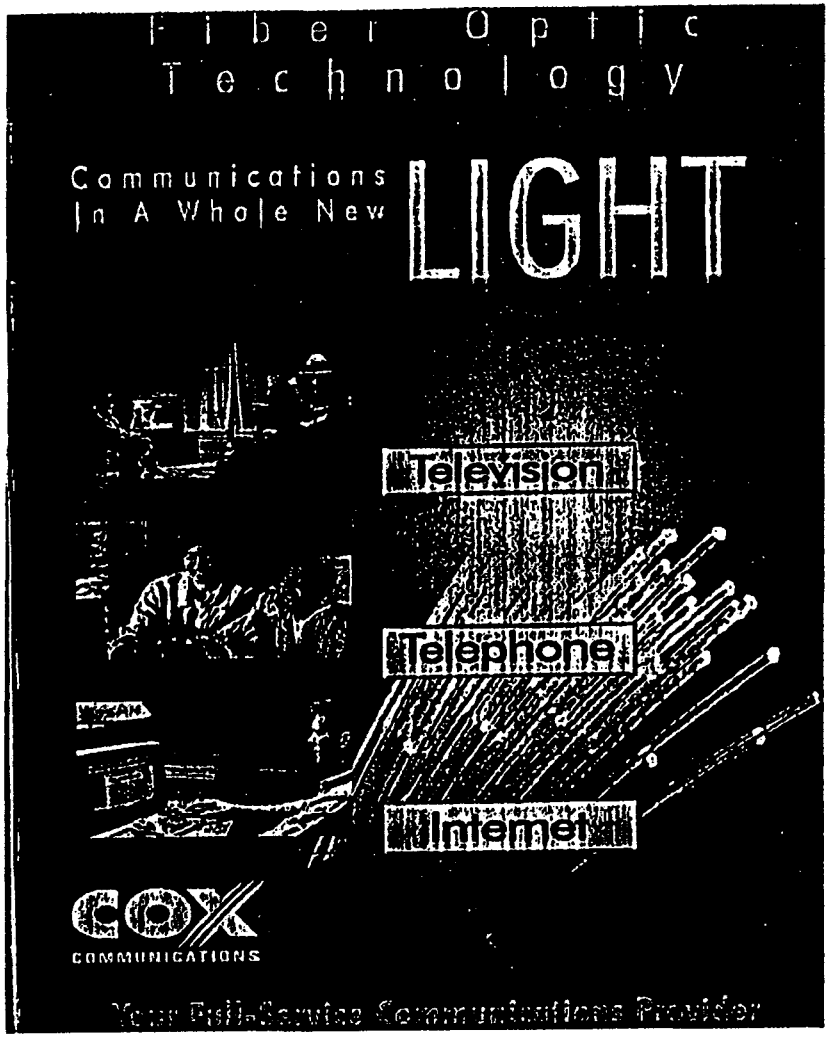
For total business communications solutions, look to the light.

1-(800)9TRY ELI, ext. 749
www.eli.net



The Business Journal, July 10, 1998. Page 23

Phoenix Direct Mail



100 Years

James M. Cox

A 100-Year Heritage With National Backing & Local Service

You've come to Expect The Best from Cox Communications, an industry leader in communications with a history of innovation and service dating back to 1898. Over the past 100 years, we've followed a simple and powerful philosophy: "Valuable products supported by customer care create customer loyalty."

A National Communications Leader - Dating Back 100 Years

Cox Enterprises began this communications tradition in 1898 with the first Cox newspaper founded by James M. Cox, former Ohio governor and presidential candidate. Cox expanded to radio (1934), followed by broadcast TV (1948), cable TV (1962), wireless communications (1994) and interactive media (1995).

Since becoming a public company traded on the New York Stock Exchange (NYSE:COX), Cox has expanded its communications offerings with the launch of high speed data and long-distance telephone service in 1996, and local telephone service and digital TV service in 1997.

Cox Communications is among the nation's largest broadband communications companies, delivering television, telephone and internet services including cable television, local and long-distance telephone service and high-speed Internet access. Today, Cox serves more than 3.3 million customers in 14 different states.

Locally Tested And Proven Technology - In The Valley Today

Locally, you have looked to Cox Communications, a leader in the cable television industry since the early 1960's, for a wide variety of in-home news, entertainment, information and sports programming through our traditional cable service.

As we continue to complete our $300 million superior fiber optic network ahead of schedule, we begin to offer Cox Digital TV, Cox Digital Telephone and Cox@Home - allowing us to become your full-service communications provider of choice, offering quality television, telephone and Internet technology for the 21st Century. Cox's long term strategy has been to maximize the vast capability of its broadband delivery network to offer customers a reliable, easy and economical full-service communications plan.

Through our cable television business and the telephone and Internet services we have begun to offer, we are delivering access to entertainment, people and information. Cox is delivering enhanced reliability, local customer service, and advanced technology. Technology which has been tested. And, is PROVEN!

[redacted]

Phoenix Direct Mail

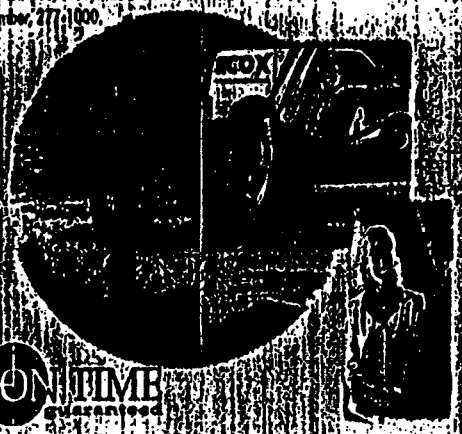
Serving You Is Our Priority - Our Service Is 99.9% Reliable, Local and On-Time Guaranteed

Technology is only as good as the people behind it, and Cox employees are among the finest. Our employees are highly trained and committed to providing you top-quality products, the very best value and legendary customer service you deserve.

We're working 24 hours a day to create the most reliable network possible through fiber optic technology and innovative design. This dedication earned Cox Communications a 99.9 percent network reliability in 1997. Once we complete our fiber optic network upgrade, we expect our reliability to improve even more.

To guarantee reliability second to none, Cox pioneered a unique Ring-in-Ring network architecture which sends your signal along two different routes within our fiber optic network. If one route becomes blocked, your signal is rerouted through the second route allowing you to receive clear, uninterrupted reception.

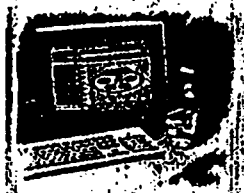
Cox employees live and work in the same communities as you do and understand the importance of providing you with the legendary, award-winning customer service you deserve. We are available when you need us - 24 hours a day, 365 days a year - by "dialing" calling our toll-free, Valleywide customer service number, 277-1000.



We also know your time is valuable. So we don't just say we'll be on time for your connection or service appointment, we guarantee it! Cox Communications On-Time Guaranteed commitment guarantees your connection will be on time, or it's FREE. And if we're late for a service appointment, we'll credit your account $20.00.

Cox Communications Fiber-Optics Network – Delivers The Latest Digital Services

You've come to Expect The Best from Cox Communications in great television entertainment and customer service - and now our investment in technology will allow us to bring you several exciting new services. Our superior fiber optic network enables us to transmit a greater amount of video, voice and data to your home than any other provider - including the local telephone company - all through one single line to your home.



COX @ Home

AVAILABLE NOW...In Upgraded Areas

Cox@Home delivers access to the Internet at speeds up to 100 times faster than traditional phone modems. You can cruise the web as fast as you can click your mouse and leap from site to site instantaneously when you connect with Cox@Home. Your graphics will load instantly, and large files that normally take 30 minutes to down-load will transfer in mere seconds. Visit our website: www.phx.cox.com

COX Digital TV

COMING SOON

Look forward to an explosion of new programming and advanced services that place enhanced levels of choice, convenience and control at your fingertips all with Cox Digital TV. Cox Digital TV delivers new cable networks, additional premium services, enhanced pay-per-view, digital music channels, and numerous new networks grouped by genre. In addition, parents will be able to screen out certain programs based on rating and content our Interactive program guide.

COX Digital Telephone

COMING SOON

As Cox Digital Telephone becomes available, you will receive superior reliability and voice quality, as well as a competitively priced alternative for local and long distance residential and business phone service. The extensive capacity of our facilities-based network allows Cox Digital Telephone to deliver you advantages over traditional residential phone service, including additional phone lines at significant savings. Plus, you can expect to enjoy the telephone services and features you use today. Cox Digital Telephone will provide better choice, technology, customer service and value to Cox customers.

*Cox is bringing these services throughout the Valley as the fiber optic network is upgraded. We will notify you when these services are available in your area.

Rate and Gilbert

Best Values

HOLLYWOOD HITS — Save over $ 6.50

Virtually everything Hollywood has to offer, from every major studio! You receive HBO/HBO2, Showtime and STARZ! - Hollywood's top theatrical releases, great specials and family classics - includes Cox Classic service, set-top converter and remote control. — $ 51.50

EXTREME ENTERTAINMENT — Save over $ 6.50

Maximum movies! Superstar concerts! Professional boxing! Stellar original programming! You receive HBO/HBO2, Cinemax and Showtime, includes Cox Classic service, set-top converter and remote control. — $ 51.50

MONTHLY SERVICE RATES	
COX LIMITED BASIC	$ 11.45
COX EXPANDED SERVICE*	16.75
COX CLASSIC (Includes Cox Limited Basic and Cox Expanded Service)	28.20
EQUIPMENT & CONNECTION RATES	
ADDITIONAL OUTLET – Monthly rate	$ FREE
ADDRESSABLE CONVERTER – Monthly rate	1.56
REMOTE CONTROL – Monthly rate	0.53
NEW CONNECTION	37.44
RECONNECT	24.96
ADDITIONAL OUTLET CONNECTION – At time of connect	9.60
ADDITIONAL OUTLET CONNECTION – Separate trip	17.28
IN WALL CABLE CONNECTION (Wallfish)	
RECONNECT TRANSFER OF SERVICE	
24-HOUR CABLE RELATED SERVICE REPAIR	
ADDITIONAL SERVICES	
HBO/HBO2	
SHOWTIME	
CINEMAX	
THE MOVIE CHANNEL	
STARZ!	
COX WIRELINE	

Phoenix Direct Mail

LOW MONTHLY CHARGE.
Guaranteed savings every month.

SIMPLICITY.
Pay one low rate for all in-state toll calls all the time. No confusing rules or hassles.

A SECOND LINE FOR $6.50.
Need a second line for your fax, computer, in-home business or for your kids?

LONG DISTANCE.
In-state calls and out-of-state calls within the continental U.S. just 10¢ a minute. Low international rates too!

FREE INSTALLATION.*
For a limited time installation is FREE!

COX Digital Telephone

Part Of The Leading Edge Of Cox Communications

- Guaranteed Savings Over U S West*
- Second Line For Just $6.50 Per Month*
- FREE Installation*

Call 1-888-333-2171

COX COMMUNICATIONS
Expect The Best.

Announcing A Better Choice In Local Phone Service

Phoenix Direct Mail

Make The Better Choice...

Cox is bringing a better choice in telephone service to your home: Cox Digital Telephone service. It's a better choice because it gives you greater value. For starters, you'll pay less than you're paying now for the same monthly services with U S West. Guaranteed. Plus, your calls will be immediately connected over our superior digital fiber-optic network. If you ever need assistance or repairs, you'll have the best people in the industry on call, 24 hours a day.

Compare And You'll Choose Cox.	COX Digital Telephone	U S West
Monthly Line Charge	$11.75	$13.43
Local Toll Calls	10¢/min.	Up to 30¢/min.
Second Line	$6.50	$13.43
Worldwide Long Distance	Yes	No
Installation Charge	FREE*	$46.50

Better Technology

Cox Digital Telephone service is provided over an upgraded superior digital fiber-optic network that has made Cox first in reliability. Our state-of-the-art technology assures you of crystal-clear connections. To keep your phone service trouble-free, we monitor the network 24 hours a day.

	COX Digital Telephone	U S West
Line 1	$11.75	$13.43
Line 2	$6.50	$13.43
Caller I.D.	$5.00	$5.95
Call Waiting	$4.00	$5.00
Voice Mail	$4.95	$6.95
Total	$32.20	$44.76

You Can Save 28% every month.

That adds up to more than $150 a year you'll save by switching to Cox!

Better Customer Service

Cox Communications is a company you can depend on for superior quality and award-winning service. You can expect the best, because that's our ongoing commitment to you. We schedule service calls to be as convenient for you as possible. And we give you an On-Time Guarantee that guarantees we will arrive within a 4-hour service window—if we don't, you will receive a $20 credit on your next bill.

Better Value

Save on your monthly line charge every month. And features like Call Waiting and Voice Mail are also less. If you would like a second line for a computer, fax machine or your teenager, you can get one for just $6.50 per month.

Long Distance

Cox Long Distance is simple and affordable. In-state and out-of-state calls (within the continental U.S.) are just 10¢ per minute, 24 hours a day. Plus, you'll have the convenience of a single phone bill.

Satisfaction Guaranteed

To make it even easier to enjoy the better choice, we guarantee your satisfaction. If you're not completely satisfied with Cox Digital Telephone service, we'll refund your first month's charges on your primary line (excluding local toll and long-distance charges).

COX Digital Telephone

Call 1-888-333-2171

... and start saving today!

SECTION 1 - Definitions, cont'd.

Call Park: Allows a User to "park a call against their directory number within the business group and "unpark" the call from any other directory number. A business group consists of a series of Customer-defined telephone numbers.

Call Pickup: Allows a User to answer incoming calls to another Station line within a defined call pickup group. Call Pickup is provided as either Group Call Pickup, where predesignated groups can pickup each other's calls by activating an access code or a feature key, or Directed Call Pickup, where any call can be retrieved by dialing a different access code followed by the extension number.

Call Trace: Allows a Customer who has been receiving harassing or annoying phone calls to have the number of the caller recorded for follow-up by appropriate law enforcement agencies.

Call Transfer/Consultation/Conference: Provides the capability to transfer or add a third party, using the same line.

Call Waiting: Provides the User with a burst of tone to indicate that another call is waiting. The second call can either be answered by flashing the switchhook or hanging up the phone and being rung back by the caller.

Call Waiting Cancel: Allows a User to cancel the Call Waiting feature on a per call basis by dialing a specific two digit code.

Calling Number Delivery (Caller ID): Identifies the 10-digit number of the calling party.

Calling Number Delivery Blocking: Blocks the delivery of the number to the called party on a per call basis.

Class of Service (COS): Used to prevent a Station from dialing certain codes and numbers.

Company: COX ARIZONA TELCOM, INC., which is the issuer of this tariff.

Combination Service: shall mean a residential Customer, who may qualify for discounts on the first and additional lines if the Customer also purchases either Cable Services or high speed internet access from a Cox Affiliated Company. The eligibility will continue so long as the Customer continues to purchase the either service from the Cox Affiliated Company.

Conference/Six-Way: The User can sequentially call up to five other people and add them together to makeup a six-way call.

ORIGINAL

3.1 Local Exchange Service, cont'd.

3.1.2 Local Line, cont'd.

2. Local Line Rates and Charges

A Local Line Customer will be charged applicable Non-Recurring Charges (NRCs), monthly Recurring Charges as specified in Sections 3.1.2.3.(a) and 3.1.2.3.(b) respectively

(a)

Non-Recurring Charge	Res. ($)	Bus. ($)	Home Office ($)
Line Connection Charge[7] (per line)	40.00[1(a)]	50.00	50.00
Account Changes (per number change after first or per billing record change)	10.00	20.00	20.00
PIC-2 Change (per line - initial set-up)	N/C	N/C	N/C
after initial set-up*	5.00	5.00	5.00
Line Restoral Charge[8] (per line)	20.00	25.00	25.00

* Waive PIC change charge if Cox Long Distance is selected.

[7] A reduced charge of one-half the non-recurring rate is available for the initial connection of service for those eligible under Link Up America Assistance Plan. (See Section 6.1)

[1(a)] Initial connection of service charges will be waived.

[8] If service is temporarily interrupted for non-payment and payment is not received within 10 days following the interruption, the Company reserves the right to discontinue service. If service is discontinued and subsequently re-established charges apply as for a new installation of service.

LOCAL EXCHANGE SERVICE

SECTION 3 - Service Descriptions, cont'd.

3.1 Local Exchange Service, cont'd.

3.1.2 Local Line Rates and Charges, cont'd.

(b) Monthly Recurring Charges

	Res.	Bus.	Home Office
Local Line - Line Charge			
Flat Rate	$13.00	30.00	30.00
Add'l lines	$13.00	30.00	30.00
Combination Svc.	$11.75	30.00	30.00
2nd line	$ 6.50	30.00	30.00
Add'l lines	$11.75	30.00	30.00

APPROVED FOR FILING

DECISION #: 60285

SECTION 3 - Service Descriptions, cont'd.

3.1 Local Exchange Service, cont'd.

3.1.3 Local Trunk

Local Trunk(s) provide Business Customer with voice-grade communication channel(s) to the Customer's Private Branch Exchange (PBX) or Hybrid Key System. Local Trunks can be provisioned as either analog or digital and will be provided in the following manner:

1. **Local Trunk-Basic**
Local Trunk-Basic can be used to carry one-way outbound traffic, one-way inbound or two-way traffic.

(a) **One-Way Outbound**
Provides the Customer with a single analog connection which is restricted to carry outbound traffic only.

(b) **One-Way Inbound or Two-Way**
Provides the Customer with a single analog connection which can carry one-way inbound or two-way traffic.

Features: The following features are available:

Multiline Hunting
Serial Hunting
Distributed Line Hunting
Calling Number Delivery

(c) **Local Trunk-Basic Rates and Charges:**
A Local Trunk-Basic Customer will be charged applicable Non-Recurring Charges and monthly Recurring Charges as specified in Sections 3.1.3.1.(c).1 and 3.1.3.1.(c).2 respectively. Local Line charges are only offered on a flat rate service basis.

1. **Non-Recurring Charges**

Line Connection Charges (per Trunk)	$50.00

APPROVED FOR FILING
DECISION #: 60285

SECTION 3 - Service Descriptions, cont'd.

3.1 Local Exchange Service, cont'd.

3.1.3 . Local Trunk, cont'd.

(c) Local Trunk-Basic Rates and Charges, cont'd.

1. Non-Recurring Charges, cont'd.

Account Changes (Moves, Changes, Additions) (per change)	$50.00
Account Changes (Per Billing Record Change)	$20.00
Initial PIC-2 Change (per line) after initial set-up*	N/C 5.00
Line Restoral Charge[10] (per trunk)	$25.00
Suspension of Service Restoral Charge (per trunk)	$25.00

(Applies for trunk restoral after Customer-initiated suspension.)

2. Monthly Recurring Charges

Local Trunk -Basic Charge (per trunk) Flat Rate	$35.00

* Waive PIC change charge if Cox Long Distance is selected.

[10] If service is temporarily interrupted and payment is not received within 10 days following the interruption, the Company reserves the right to discontinue service. If service is discontinued and subsequently re-established, charges apply as for a new installation of service.)

SECTION 6 - PROMOTIONS

6.1 Promotions - General

From time to time the Company shall, at its option, promote subscription or stimulate network usage by offering to waive some or all of the nonrecurring or recurring charges for the Customer (if eligible) of a target service for a limited duration. Such promotions shall be made available to all similarly situated Customers.

APPROVED FOR FILING
DECISION #: 60285

SECTION 7 - CUSTOMER SPECIFIC CONTRACTS

7.1 General

The Company may provide any of the services offered under this tariff, or combinations of services, to Customers on a contractual basis. The terms and conditions of each contract offering are subject to the agreement of both the Customer and Company. Such contract offerings will be made available to similarly situated Customers in substantially similar circumstances. Rates in other sections of this tariff do not apply to Customers who agree to contract arrangements, with respect to services within the scope of the contract.

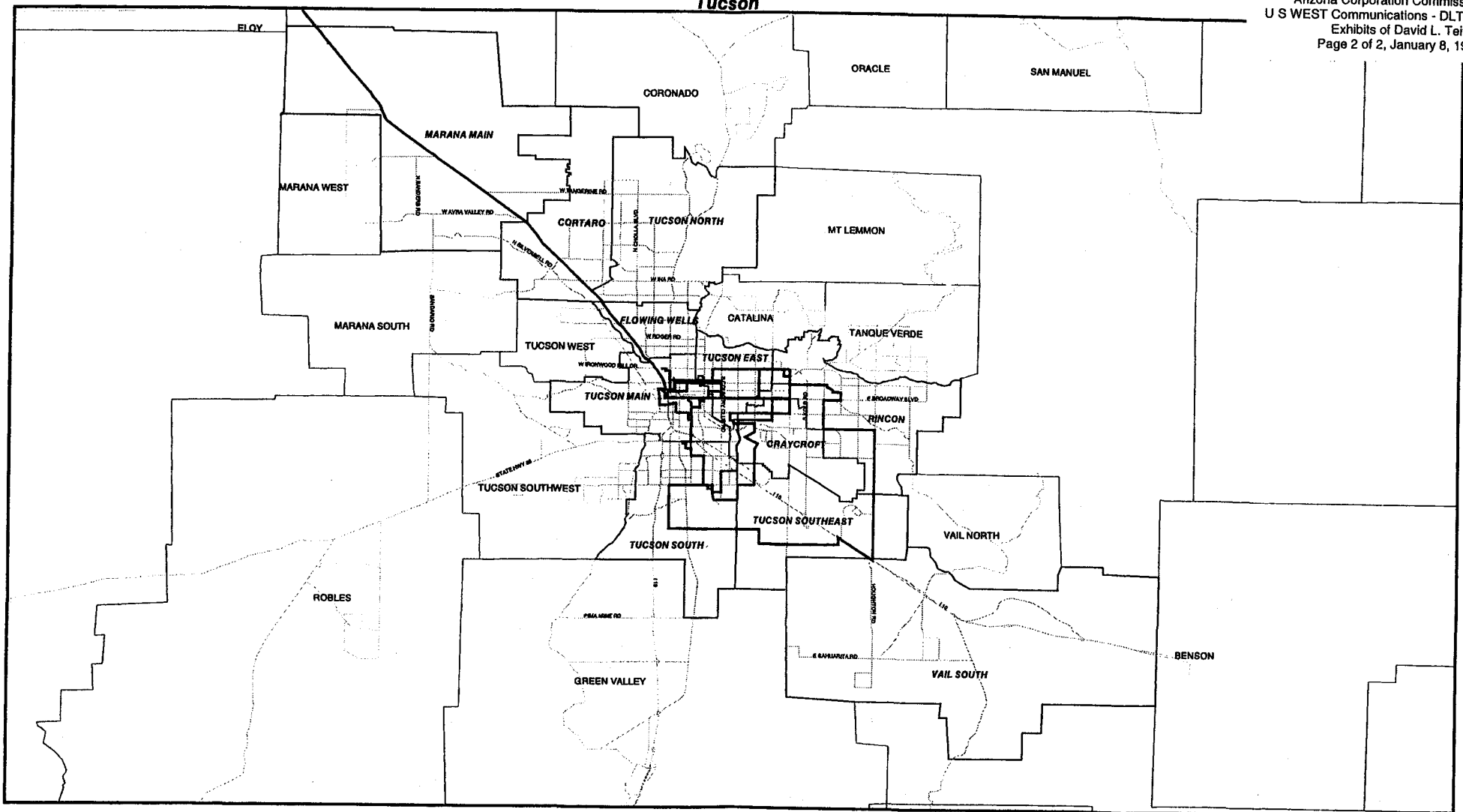
Services provided under contract are not eligible for any promotional offerings which may be offered by the Company from time to time.

Contracts in this section are available to any other similarly situated Customer that places an order for such contract service within 90 days of the effective date of such contract service.

APPROVED FOR FILING
DECISION #: 60285

REDACTED

Tucson



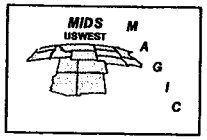
Competitive Fiber Routes
Tucson, Arizona

USWEST

Source: Competitive fiber routes from Quality Strategies and US WEST competitive managers.

Legend
- Highway
- Gst Fiber
- Brooks Fiber
- e.spire (formerly ACSI)
- Business Competitive Zone

Tucson MSA



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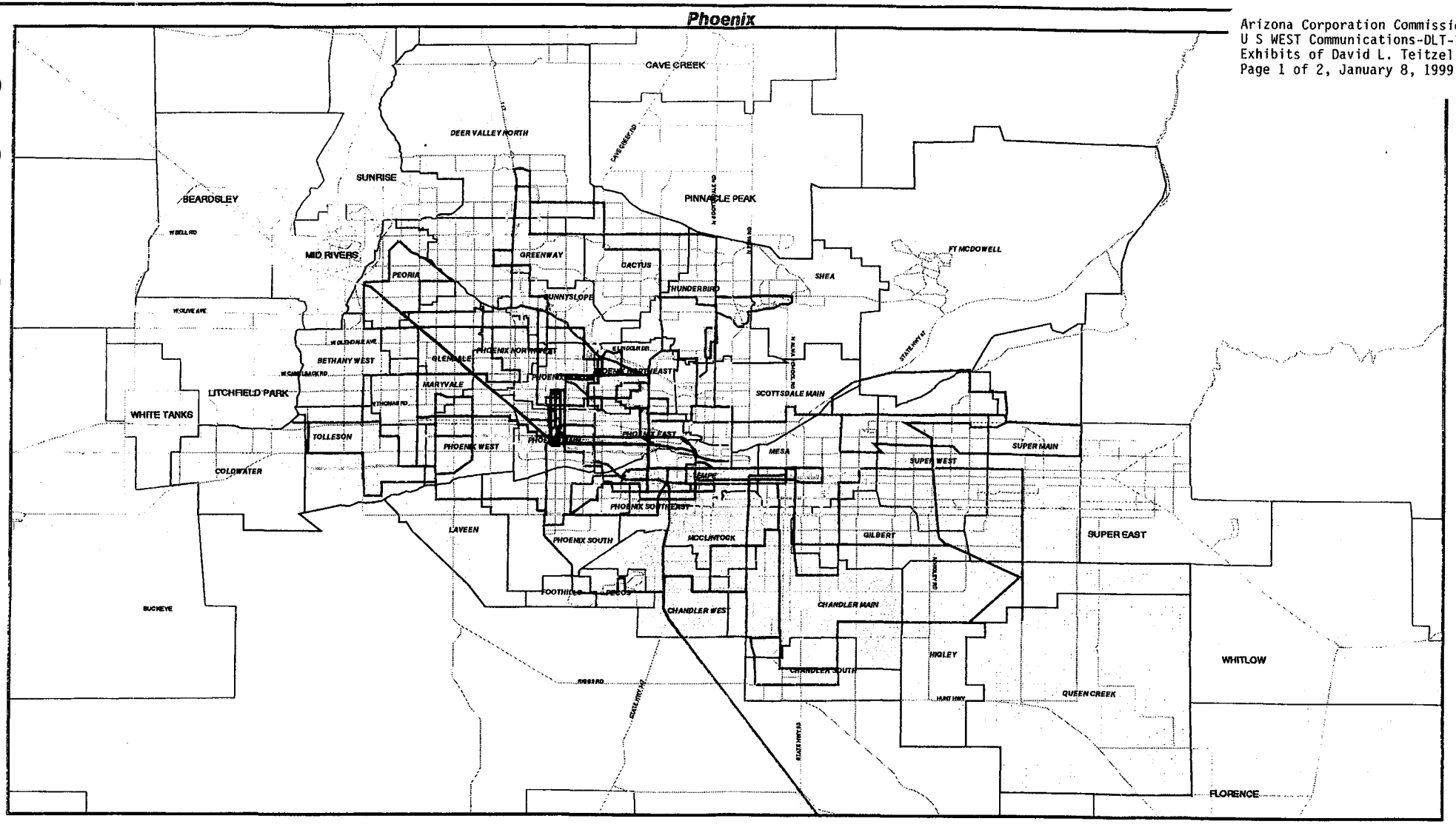

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Phoenix, Arizona

USWEST

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- GST
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- Highways
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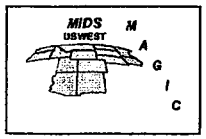

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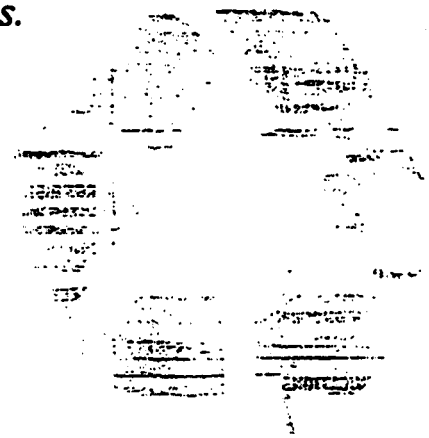

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PRICE CEILING EXAMPLES

Service Treated in Rate Case

Service	Current Monthly Rate	Proposed Monthly Rate	Proposed Price Ceiling
Residence Caller ID-			
Name & Number	$5.95	$6.95	$13.90*

*Price ceiling will be double the rate approved in the rate case.

Service Not Treated in Rate Case

Service	Current Monthly Rate	Proposed Price Ceiling
Stand-By Line	$17.00	$34.00

LOCAL EXCHANGE SERVICE

SECTION 4 - Promotional Offerings

4.1 Promotional Offerings

The Company, from time to time, may make promotional offerings of its services which may include waiving or reducing the applicable charges for the promoted service. The promotional offerings may be limited as to the duration, the date and times of the offerings and the locations where the offerings are made.

ORIGINAL

LOCAL EXCHANGE SERVICES

SPECIAL ARRANGEMENTS

4.1 CONTRACTS

The Company may offer customized service packages under special arrangements on a case by case basis. Service offered under this Tariff provision will be provided to Customers pursuant to contract. Unless otherwise specified, the regulations for such arrangements are in addition to the applicable regulations and prices in other sections of this Tariff.

4.2 PROMOTIONAL OFFERINGS

From time to time, the Company will introduce promotional offerings. The Company may offer services at a reduced rate, or offer incentives including gift certificates and coupons for promotional, market research or rate experimentation purposes.

4.3 MARKET TRIALS

The Company may offer service to test and evaluate service capabilities, implementation procedures, technical processes, etc., or for market research, including rate experimentation purposes. Such trials will be for a limited duration.

APPROVED FOR FILING
DECISION #: 60042

ORIGINAL

MISCELLANEOUS SERVICES

13.4 SPECIAL CONSTRUCTION - (Continued)

13.4.3 Termination Liability - (Continued)

13.4.3.2 The amount of the maximum termination liability is equal to the estimated amounts for:

1. Cost installed of the facilities provided including estimated costs for arrangements of existing facilities and/or construction of new facilities as appropriate, less net salvage. Cost installed includes the cost of:

   a) equipment and materials provided or used,

   b) engineering, labor and supervision,

   c) transportation, and

   d) rights of way;

2. license preparation, processing, and related fees;

3. tariff preparation, processing, and related fees;

4. cost of removal and restoration, where appropriate; and

5. any other identifiable costs related to the specially constructed or rearranged facilities.

13.4.3.3 The applicable liability method for calculating the unpaid balance of a term obligation is obtained by multiplying the sum of the amounts determined as set forth above by a factor related to the unexpired period of liability and the discount rate for return and contingencies. The amount determined pursuant to the above paragraphs shall be adjusted to reflect the redetermined estimate net salvage, including any reuse of the facilities provided. This product is adjusted to reflect applicable taxes.

13.5 TEMPORARY PROMOTIONAL PROGRAMS

13.5.1 The Company may establish temporary promotional programs wherein it may waive or reduce non-recurring charges, to introduce present or potential Customers to a service not previously received by the Customers. The Corporation Commission will be notified of such promotional programs.

13.6 NUMBER RETENTION

The following charge applies whenever a customer requests to retain a telephone number for future use. This allows a customer to request that a number be withheld from service and reserved for their use for more than 30 days.

	Non -Recurring Charge		Recurring Charge	
	Residence	Business	Residence	Business
Number retention, per telephone number	$30.00	$50.00	$4.25	$8.50

APPROVED FOR FILING
DECISION #: 59346

LOCAL EXCHANGE SERVICE

SECTION 4 - PROMOTIONAL OFFERINGS

4.1 Promotional Offerings: The Company, from time to time, may make promotional offerings to its service which may include waiving or reducing the applicable charges for the promoted service. The promotional offerings may be limited as to the duration, the date and times of the offerings and the locations where the offering are made.

4.2 New Customer Promotion

Beginning on the effective date of this tariff, and ending August 1, 1996, the Company will offer the following promotion to all new Local Exchange Service Customer who order the service during the promotional period.

(A) All new Customers who order three or more optional service features will receive a fourth optional feature at no charge.

(B) LCI will reduce the non-recurring and monthly recurring Local Line charge if the customer selects LCI as their long distance carrier for all intrastate and interstate long distance traffic.The monthly recurring Local Line Charge shall be reduced to $15.00 and the non-recurring charge shall be reduced to $20.00 for such customers.

Carol Kunow, Manager
LCI International Telecom Corp.
8180 Greensboro Drive
McLean, VA 22102

ORIGINAL

4. Promotional Offerings

The Company, from time to time, may make promotional offerings of its services which may include waiving or reducing the applicable charges for the promoted service. The promotional offerings may be limited as to the duration, the date and times of the offerings and the locations where the offerings are made.

(D)

(D)

FOR FILING
DECISION #: N/A

7. PROMOTIONAL OFFERINGS

The Company may from time to time engage in special promotional service offerings designed to attract new customers or to increase existing customers awareness of a particular tariff offering. These offerings may be limited to certain dates, times and/or locations.

.8 SPECIAL CUSTOMER ARRANGEMENTS (SCA)

For special situations, rates for specialized services will be determined on a Special Customer Arrangement and specified by contract between the Company and the Customer.

SUMMARY OF ANNUAL REVENUE IMPACTS

SERVICE	REVENUE IMPACT
Residence Basic Exchange	$32,731,250
Business Basic Exchange	$ (385,034)
Market Expansion Line	$ 541,314
Long Distance Services	$ (459,110)
Directory Assistance	$18,261,316
Listings	$ 7,744,085
Custom Calling	$ 3,254,828
Screening Services	$ 6,291,917
Total	**$67,980,566**

PRICE/COST COMPARISON

Residence Basic Exchange

	Current Price	Proposed Price	TSLRIC Cost	Shared Cost	TSLRIC + Shared Cost
Support			Total Direct Cost	Network Support Cost	Direct + Network Cost
	$13.18	$15.68	$25.91	$1.70	$27.61

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24 hours a day	Different rates at different

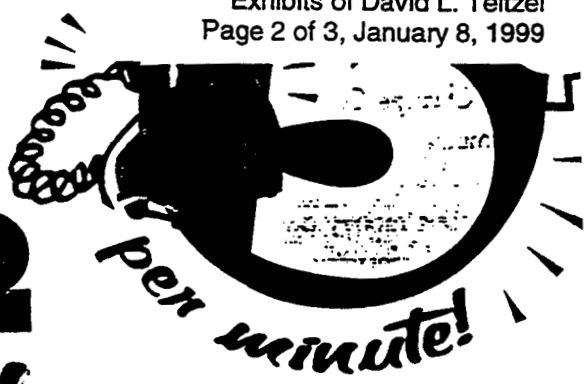
Care to know what 10-10-321 reall saves you over AT&T on an interstat call? Try only 1 cent per phone call below AT&T basic rates for peak, of peak and nights/weekend.† Basic rates are the highest residential rate of AT&T.

To save the 50% they advertise, you must talk *at least* 20 minutes per c Our studies indicate that less than 15% of all calls made last 20 minut or more. In reality, you are saving 50% off very few calls. Remember, that's 50% off an already high rate!

You pay different rates for calls at

TALK CENTS™

Domestic Long Distance for 5¢ per minute!



10-10-502

Dial the Code!

Dear Long Distance User:

Who would you like to talk to more often? You probably wish you had more time to talk to your family. Or to share what's new with your best frie When you Dial the Code – 10-10-502 – your interstate* direct dialed calls will cost only 5¢ per minute through November 15, 1998 after which will pay our regular low rate of 7¢ per minute! These rates apply any time of the day, any day of the week. We make it simple. GUARANTEED!

And that's not all. With the Talk Cents™ "Take Five" Promotion, you can call to Australia, Belgium, Canada, France, Germany, Netherlands, N Zealand, Sweden, and the U.K. for only 5¢ per minute through November 15, 1998!

The Talk Cents™ program has already allowed our one million callers to complete long distance calls at super low rates. Through the "Take Five Promotion, our already low rates have been dramatically reduced to offer you even more significant savings. Dial the Code – 10-10-502 – each time yo make a long distance call, and talk is cheap. Simply Dial the Code.

Your Talk Cents™ charges will be included on the long distance portion of your local phone bill, so that you can pay with a single check. For a lov monthly access fee of just $4.95, you can make an unlimited number of calls at these low rates, from your home or business.

Dial the Code!

10-10-502

+1+Area Code+Number

Sincerely,

Peter Smith

Peter Smith
Senior Vice President of Customer Service

P.S. Talk Cents™ also offers low international rates. See reverse for examples.

Incredibly low International Rates Too!

☎ Unlimited calls ☎ You don't have to change long distance companies ☎ Just Dial the Code–10-10-502

Talk Cents™ is brought to you by WorldxChange Communications, a global long distance company with a high-tech fiber optic network that provides the [illegible]

Agent

10 TALK℠

10¢ A Minute* Long Distance

********** ECRWSS ** C079
0342
ARIZONA TELEPHONE CUSTOMER
15014 N 58TH PL
SCOTTSDALE AZ 85254

Dear Local Telephone Customer,

Now you can talk as long as you want with the **10 Talk** low rate of just 10¢ a minute*! Save money 24 hours a day on unlimited long distance calls to all 50 states.

This inexpensive service is already working on your phone. ***Simply dial 1010-636 + 1 + area code + the number you wish to call.*** and start seeing the difference on every long distance minute. You don't need to sign up or notify anyone to start dialing 1010-636!

10 Talk service is available 24 hours a day.

- ***No minimums, no monthly fee.***
- ***10 Talk** works 24 hours a day, seven days a week for interstate, intrastate and intralata calls.*
- ***A low 20¢ surcharge per call.***
- ***Service takes place on Clear Choice Communications' high-tech digital network.***
- ***Billing is rendered by your local telephone company.***

Just dial 1010-636 before every U.S. long distance call!

Stick with **10 Talk** for 10¢ a minute long distance. Place the enclosed stickers on or near your phone and start saving today. If you ever have any questions about the **10 Talk** service, call our toll-free customer service number, 1-800-668-4872. Try **10 Talk** today. You can talk as long as you want and save money, too!

Sincerely,

K.R. Ball
Vice President Marketing
Clear Choice Communications

Check Out Our New International Rates!

We Participate
BBB CARE
A Customer Assistance Program of the Better Business Bureau

P.S. Remember, **10 Talk** lets you make long distance calls to all 50 states for just 10¢ a minute! Dial now – 1010-636 + 1 + area code + the number you wish to call.

Clear Choice communications

*All calls are subject to a 20¢ surcharge per call.

Clear Choice Communications is a division and a trademark of Vartec Telecom, Inc. 10 Talk is a service mark of VarTec Telecom, Inc. TT-P1GE-L

TALK TALK TALK TALK TALK

INTRALATA LONG DISTANCE SERVICE

MTS

	Current Per Minute Rate		Proposed Per Minute Rate		
	Day	E/N/W	Day	E/N/W	
Business		$0.2994	$0.2200	$0.2800	$0.2800
Residence	$0.3260	$0.1500	$0.2500	$0.1200	
Miscellaneous	$0.3000	$0.1620	$0.2800	$0.1200	

Annual Revenue Impact: ($3,811,178)

Speech/Hearing Impaired Discount:

Current: 35%

Proposed: 50%

Annual Revenue Impact: ($1,274)

Simple Value Calling Plan

	Current Per Minute Rate		Proposed Per Minute Rate		
	Peak	Off-Peak	Peak	Off-Peak	
Business		$0.19	$0.19	$0.19	$0.19
Residence	$0.25	$0.15	$0.22	$0.09	

Annual Revenue Impact: ($33,881)

Arizona Value Calling Plan I

Current Per Minute Rate	Proposed Per Minute Rate
$0.12	$0.09

5% Discount on Dial Station-to-Station, Customer Dialed Calling Card Calls Placed Monday – Friday, 8 a.m. – 5 p.m.: No Change

Grandfather Service

Annual Revenue Impact: ($863,397)

INTRALATA LONG DISTANCE SERVICE (CONTINUED)

Arizona Value Calling Plan II

Monthly Rate: $19.20 (Includes 120 minutes)

Current Per Minute Rate Beyond 120 Minutes:

Day	$0.25
Evening/Night/weekend	$0.12

Proposal:

Eliminate Plan, Convert to Super Savings*

*Super Savings Calling Plan

	Per Minute Rate
Residence	$0.10

Annual Revenue Impact: ($56,148)

Business Daytime Connection Plus

Current Monthly Rate	Proposed Monthly Rate
$10.80	$8.40

Monthly Rate Includes 60 Minutes

Current Rate Beyond 60 Minutes	Proposed Rate Beyond 60 Minutes
$0.17/Minute	$.14/Minute

Annual Revenue Impact: ($240,897)

INTRALATA LONG DISTANCE SERVICE (CONTINUED)

Volume Discount Plans

Plan	Minimum MTS Usage	Discount
1	$ 25.00	10%
2	$ 50.00	15%
3	$ 100.00	20%
4	$ 200.00	25%
	$ 500.00	30%
	$1,000.00	35%

Proposal: Eliminate Plans, Convert to MTS

Annual Revenue Impact: ($17,876)

MetroPac Calling Plan

Monthly Rate
$ 9.00 (Includes 180 Minute Call Allowance)
$16.20 (Includes 360 Minute Call Allowance)
$21.50 (Includes 540 Minute Call Allowance)
Each Additional Minute: $.124

Proposal: Grandfather Plan

Annual Revenue Impact: ($545)

Operator Service Charges

	Current	Proposed
Calling Card (Mechanized)	$ .50	$ .80
Calling Card (Operator Assist)	$ .85	$2.25
Station (Partial Assist)	$1.30	$2.25
Station (Full Assist)	$1.30	$3.40
Person (Partial Assist)	$3.50	$4.90
Person (Full Assist)	$3.50	$6.05
Connect to DA	$1.50	$2.25
Busy Line Verify	$1.50	$3.00
Busy Line Interrupt	$3.00	$6.00

Annual Revenue Impact: $4,566,086

TOTAL ANNUAL REVENUE IMPACT: ($459,110)

eed To Find A Phone Number?

10-10-9000

*America's Directory Assistance*sm

The Easy Way To Find A Phone Number

10-10-9000

America's Directory Assistance.

- ✔ Dial 10-10-9000 to get any phone listing in America
- ✔ No need to know area codes
- ✔ Just provide the name and city of the listing you need
- ✔ The operator will dial it for you with no connection charge*
- ✔ Two listings per call
- ✔ Fast, easy, friendly service

PEEL →

Put this sticker on your phone and save time finding phone numbers.

*Low per-minute toll rates apply to connected calls. Service provided by MCI WorldCom.

wher

Introducing

AT&T 00 INFO℠

The assistance is back in Directory Assistance.

Problem: You need a phone number. But suppose you're not sure of either the exact name or location. Solution: New AT&T "00" INFO service. Even if you can't pin things down, one call to a helpful AT&T assistant can. After all, we want to find the number just as much as you do.

- Just dial "00" from home for local or long distance information.
- You never need an area code.
- Are you an AT&T customer? Then this exclusive service is already on your phone.

Why not give it a try?
Dial "00" today and get the assistance you need.

It's all within your reach. AT&T

Normal Directory Assistance charges apply.
©1997 AT&T

Introducing

AT&T 00 INFO

Dial 00 for a new kind of local and long distance information.

Try it now while it's free.

- AT&T customers for all directory assistance, just dial 00 from your home.
- You don't need the exact name, location, or even the area code.
- Also call to get free addresses and zip codes.
- We'll stay with you 'til you get everything you need.

The assistance is back in directory assistance.

Dial 00 today.

Free every weekend in February.

It's all within your reach AT&T

LISTING SERVICES

Type	Res/Bus	Monthly Rate Present	Monthly Rate Proposed	Revenue Impact
Premium				
Additional	Business	$3.00	$6.00	$1,601,154
	Residence*	$ .75	$1.50	$ 107,664
Alpha	Business	$3.00	$6.00	$ 9,798
Client Main	Business	$3.00	$6.00	$ 37,614
Foreign	Business	$3.00	$6.00	$ 542,567
	Residence*	$ .75	$1.50	$ 183
Informational	Residence*	$ .75	$1.50	$ 188
WATS	Business	$3.00	$6.00	$ 13,194
Mobile Radio	Business	$3.00	$6.00	$ 81
Mobile Unit	Business	$3.00	$6.00	$ 0
Internet				
E-Mail	Business	$3.00	$6.00	$ 87
	Residence	$1.50	$1.50	$ 0
URL	Business	$3.00	$12.00	$ 279
	Residence	$1.50	$12.00	$ 756
Privacy				
Nonpub	Business	$1.80	$3.00	$ 180,965
	Residence	$1.90	$3.00	$5,036,602
Nonlist	Business	$1.45	$2.00	$ 6,592
	Residence	$1.55	$2.00	$ 206,361

*Associated with Custom Solutions Package

TOTAL ANNUAL REVENUE IMPACT: $7,744,085

CUSTOM CALLING SERVICES

Residence Custom Calling

Service	Current Monthly Rate	Proposed Monthly Rate	Annual Revenue Impact
Caller ID-Name & Number	$5.95	$6.95	$3,172,971
Caller ID-Number	$5.50	$6.95	$ 7,167
U S WEST Receptionist With Caller ID-Name & Number	$10.95	$11.95	$ 111,709
U S WEST Receptionist With Caller ID-Number	$10.50	$11.95	$ 370

Annual Revenue Impact: $3,292,216

Business Custom Calling Services

Grandfather Business Custom Calling Packages found in Section 105.4.3, Pages 3-5 of the Exchange and Network Services Tariff filed with this rate case.

Annual Revenue Impact: ($37,388)

TOTAL ANNUAL REVENUE IMPACT: $3,254,828.

SCREENING SERVICES

Service	Current Monthly Rate	Proposed Monthly Rate	Current Nonrecurring Charge	Proposed Nonrecurring Charge
CustomNet				
MultiLine/Trunk	$0.25	$0.25	$371.00	$371.00
Indiv. Line				
Residence	$5.00	$0.25	$27.50	$12.50
Business	$5.00	$5.00	$27.50	$15.00
Annual Revenue Impact: ($336,654)				
Toll Restriction				
Residence	$0.00	$0.25	$6.00	$12.50
Business	$5.00	$5.00	$27.50	$15.00
Annual Revenue Impact: $1,053,651				
Billed Number Screening				
Residence	$0.00	$0.25	$0.00	$12.50
Business	$0.00	$0.00	$0.00	$15.00
Annual Revenue Impact: $4,093,353				
ScoopLine Access Restriction				
Withdraw Service				
900 Service Access Restriction				
Residence	$0.00	$0.25	$0.00	$12.50
Business	$0.00	$0.00	$0.00	$15.00
Annual Revenue Impact: $1,461,984				
10XXX1+/10XXX011+ Blocking				
Residence	$.10	$0.25	$3.00	$12.50
Business	$.10	$0.10	$3.00	$15.00
Annual Revenue Impact: $19,583				

TOTAL ANNUAL REVENUE IMPACT: $6,291,917

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN	)	DOCKET NO. AFFIDAVIT OF DAVID L. TEITZEL
STATE OF WASHINGTON	)	
COUNTY OF KING	)	
	) :)	SS

I, David L. Teitzel, of lawful age being first duly sworn, deposes and states:

1. My name is David L. Teitzel. I am Directory, Product and Market Issues for U S WEST Communications in Seattle, Washington.

2. Attached hereto and made a part hereof for all purposes is my testimony.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

David L. Teitzel

SUBSCRIBED AND SWORN to before me this 4th day of January, 1999.

Lee Annette Fortier
Notary Public

LEE ANNETTE FORTIER
NOTARY PUBLIC
COMMISSION EXPIRES 9-15-01
STATE OF WASHINGTON

My Commission Expires:
9/15/01

BEFORE THE ARIZONA CORPORATION COMMISSION

EXHIBIT
Q-13
Admitted

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN	)	DOCKET NO. _____

TESTIMONY OF

BARBARA M. WILCOX PH.D.

U S WEST COMMUNICATIONS

JANUARY 8, 1999

TESTIMONY INDEX

EXECUTIVE SUMMARY	I
IDENTIFICATION OF WITNESS	1
PURPOSE OF TESTIMONY	1
SWITCHED ACCESS SERVICE	3
Description of Switched Access Service	3
Structure of Switched Access Charges	5
Proposed Local Transport	7
Proposed Local Switching	9
Proposed Interconnection Charge	10
Proposed Carrier Directory Assistance	11
Switched Access Nonrecurring Charges	12
Switched Access Summary	13
PRIVATE LINE TRANSPORT SERVICES	13
Description of Private Line Services	13
Network Access Channel	14
Channel Performance	15
Transport Mileage	17
Optional Features and Functions	18
Nonrecurring Charges	19
Digital Data Service	20

Private Line Summary 21

PUBLIC ACCESS LINE (PAL) SERVICE 21

Description of PAL 21

Proposed Public Access Line 21

Proposed Directory Assistance 22

Customer-Owned Coin Operated Telephone (COCOT) Access Lines 23

PUBLIC ANNOUNCEMENT SERVICES 23

Description of Public Announcement Services 23

Scoopline^{SM} Proposal 24

PRICING FLEXIBILITY PROPOSAL 25

Competitive Zones 25

Pricing Flexibility for Wholesale Services 26

Pricing 30

CONCLUSIONS AND RECOMMENDATIONS 31

EXECUTIVE SUMMARY

The purpose of my Direct Testimony is to discuss and support price and structure revisions to U S WEST's switched access, private line transport and public access line services, and the withdrawal of Scoopline^{SM} service. My testimony also includes advocacy for pricing flexibility for these finished wholesale products, consistent with U S WEST Competitive Zone proposal.

Switched access service is provided by U S WEST to interexchange carriers for the purpose of connecting these carriers to their end-user customers via the local switched network. In 1995, significant price reductions and restructures of U S WEST's Arizona switched access prices were accomplished. In the present filing, U S WEST proposes to further restructure and reduce switched access prices. The net revenue impact of these proposals is a $5.0 million reduction in annual revenues.

Private line services are dedicated, direct connections between two or more points. U S WEST has completed a review of each of the individual price elements in the Private Line Transport Tariff, taking into consideration the current costs for each element, the price of competing services, and the need to meet the revenue requirements that exist in Arizona. The resulting price adjustments produce a net $6.3 million increase in private line and digital data service prices.

Public Access Line (PAL) services provide access to the switched telephone network for payphone service providers. U S WEST proposes to withdraw the obsolete customer-owned coin operated telephone service options and move the current customers to equivalent services offered in the PAL tariff. This change produces a net reduction of $3.1 thousand in annual revenues. U S WEST also proposes to increase the directory assistance prices for PAL

customers. The current prices are below cost. The revenue impact for increases in directory assistance charge to PAL customers is $1.7 million.

Scoopline^{SM} is an intraLATA public announcement service whereby U S WEST delivers calls and bills end-user customers on behalf of a sponsor. The end-user reaches the sponsor's information service by dialing a 976 or 676 telephone number. Local public announcement services are being displaced by interexchange carrier's 900 services, which can be offered nationwide. U S WEST proposes to discontinue offering Scoopline^{SM} service.

Competitive zones are areas in which U S WEST has competition for local telephone service. Mr. Teitzel describes U S WEST's proposal for pricing flexibility for retail products in competitive zones. The presence of competition in these zones also impacts U S WEST's finished wholesale services, such as switched access, private line, and PAL services. In competitive zones, U S WEST also proposes to introduce flexible pricing for wholesale services.

IDENTIFICATION OF WITNESS

Q. PLEASE STATE YOUR NAME, OCCUPATION, AND BUSINESS ADDRESS.

A. My name is Barbara M. Wilcox. I work for U S WEST Communications, Inc. ("U S WEST" or "Company"). My title is Director - Product and Market Issues, with responsibility for finished wholesale services. My business address is 1801 California St., Denver, Colorado.

Q. BRIEFLY OUTLINE YOUR EMPLOYMENT AND EDUCATIONAL BACKGROUND.

A. I have been a member of U S WEST's (formerly Mountain Bell's) staff since 1980, working in the areas of market research and analysis, pricing and product management.

Before joining Mountain Bell, I held college and university faculty positions and was a consultant in the fields of market research, behavioral research and psychology. I earned a B.A. degree magna cum laude in psychology from Colorado College. I earned M.A. and Ph.D. degrees in experimental psychology from Brown University as a National Science Foundation Fellow.

Q. HAVE YOU PREVIOUSLY TESTIFIED BEFORE THIS OR ANY OTHER COMMISSION?

A. Yes, I appeared before this Commission in the remand of Docket No. E-1051-93-183 and in Docket No. E-1051-97-024. I have filed written testimony and/or appeared as an expert witness for U S WEST Communications before the Public Utilities Commissions in Colorado, Iowa, Minnesota, Montana, Nebraska, New Mexico, Oregon, South Dakota, Utah, Washington and Wyoming. A more detailed description of my qualifications and experience is contained in my Exhibit BMW-1

PURPOSE OF TESTIMONY

Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY?

A. The purpose of my testimony is to present U S WEST Communication's changes affecting switched access, private line transport, public access line (PAL), and Scoopline^{SM} services. I also explain how U S WEST's proposal for pricing flexibility in competitive zones will be applied to these products and services.

I describe switched access service and how it allows long distance carriers to reach their customers via the local switched network; I review switched access price structure and price levels, their history and recent changes; and I present U S WEST's changes in switched access prices for Arizona and explain why these changes are needed in view of the changing telecommunications environment.

I describe private line services and U S WEST's proposals for changes in their prices. U S WEST's private line proposals affect the following price categories for analog private line, and digital data services:

- Network Access Channel
- Transport Mileage
- Channel Performance
- Optional Features and Functions

I describe public access line (PAL) services and explain U S WEST's proposals to simplify the PAL tariff as well as the price changes for directory assistance charges to PAL subscribers.

I describe U S WEST's Scoopline^{SM} public announcement service. Information providers have largely moved to alternative services with regional or national scope, and U S WEST is now withdrawing its intraLATA Scoopline^{SM} service.

Finally, I explain why U S WEST's competitive zone proposal encompasses finished wholesale services, as well as retail services. I describe how the proposal's pricing flexibility applies to switched access, private line and PAL services.

Q. HOW DO THE RECOMMENDATIONS IN YOUR TESTIMONY IMPACT ANNUAL REVENUES IN THIS RATE CASE FILING?

A. My recommendations produce the following revenue impacts. Switched access revenues decrease $5.0 million. Private line revenues increase $6.3 million. PAL revenues decrease $3.1 thousand. Directory assistance revenues for PAL will increase $1.7 million.

SWITCHED ACCESS SERVICE

Description of Switched Access Service

Q. WHAT IS SWITCHED ACCESS SERVICE AND TO WHOM IS IT SOLD?

A. Switched access is provided for the purpose of allowing providers of long distance services (interexchange carriers) to reach their customers (end-users) via U S WEST's local switched network. I will refer to the customer who places or receives the long distance call as the "end-user". I will refer to the customer who purchases switched access service in order to provide long distance service to end-users as the "long distance carrier", also known as an "interexchange carrier" (IXC). Long distance carriers can provide service either through their own facilities or by reselling someone else's service or facilities.

U S WEST provides to the long distance carrier, switched access transmission paths extending from the carrier's premises (point of presence or POP) through the telephone company's switched network within a Local Access Transport Area (LATA). (See Exhibit BMW-2). These paths provide end-users with access to long distance carriers for the purpose of initiating a long distance call and also provide a carrier with access to an end-user for the purpose of terminating a long distance call. These services are referred to as originating and terminating access. Both originating and terminating access are subject to switched access service charges, which cover the cost of routing and switching these calls. These charges also provide contribution in support of the general revenue requirements for telephone company operations in Arizona.

Originally, switched access service was designed to be sold by local exchange companies to interexchange carriers. Today, U S WEST's switched access service is still used by long distance carriers to reach many of their customers via U S WEST's local switched network. However, with the changes in the telecommunications industry, and the emergence of alternative providers, for local and other services, alternatives to U S WEST switched access services are continuously increasing. These alternatives include direct connection between the long distance carrier and its customers, which, can be provided via U S WEST's private line services or another provider's facilities. Private networks, originally built for data transmission, are also being used for local and long distance voice traffic. Wireless services, Internet telephony and e-mail provide substitutes for traditional long distance service. Competitive local exchange carriers offer direct competition to U S WEST's switched access service.

Q. WEREN'T SOME CHANGES MADE IN ARIZONA'S ACCESS CHARGES IN THE LAST RATE CASE?

A. Yes. A major restructure of access charges, as well as a sizable reduction in the overall prices of the access charges, was accomplished in Docket No. E-1051-93-183. These changes were implemented in 1995. The reductions decreased switched access charges approximately $3.4 million. In addition, a restructure of the local transport charges (Local Transport Restructure or LTR) was implemented, which brought the structure of Arizona's transport prices into consistency with the structure then current for interstate prices. The transport rates were disaggregated to align the charges with the manner in which the transport services are actually provisioned. Under this structure, customers pay for the transport services they actually use. Currently the switched access averaged weighted rate is 4.5 cents per minute.

Q. WERE ALL THE NEEDED CHANGES IN SWITCHED ACCESS CHARGES ACCOMPLISHED IN THE CHANGES YOU JUST DESCRIBED?

A. Many needed changes were accomplished, most notably the transport restructure and a decrease in prices. At the same time, the environment in which U S WEST operates has continued to change, and further structure and rate changes are now needed. New transport elements and adjustments to the transport structure are needed to remain consistent with the FCC's transport structure.

Structure of Switched Access Charges

Q. PLEASE EXPLAIN HOW THE ACCESS PRICES ARE CURRENTLY STRUCTURED IN ARIZONA.

A. Historically, there have been three categories of price elements for switched access service: (1) local switching, (2) local transport, and (3) carrier common line. A fourth charge, the interconnection charge, was added when Arizona's local transport charges were restructured in

1995. There are also installation (nonrecurring) charges and other miscellaneous charges and credits in the access tariff.

The local switching charge compensates U S WEST for switching the call. The local switching charge applies for each minute-of-use an end-user is connected through a telephone company end office (central office). This charge recovers traffic-sensitive costs associated with the central office switch and for incidental operator costs, such as call intercept.

The local transport charges compensate U S WEST for transporting the call between the central office serving the end-user (end office) and the interexchange carrier's point of presence (POP). The attached Exhibit BMW-3 shows the current structure of the transport charges. Usage-sensitive charges apply to tandem-switched transport, for which U S WEST experiences traffic-sensitive costs. These charges are applied on each tandem-switched minute-of-use at varying prices, depending on the distance of the actual transport. Monthly flat charges are applied for direct-trunked transport, also depending on the distance of the transport. Monthly flat charges apply to dedicated facilities, for which the costs are not sensitive to traffic volumes. There are also monthly flat charges for multiplexers and for entrance facilities connecting the carrier's POP with the serving wire center

The carrier common line (CCL) charge today provides revenue contribution in support of basic telephone service for end-users. There are no direct access costs associated with this price element since it is generally related to the recovery of U S WEST's non-traffic sensitive (NTS) costs associated with the ubiquitous provision of basic telephone service. The CCL applies to all access minutes-of-use except the usage associated with the closed ends of WATS and 800 service.

The interconnection charge (IC) was created as a result of Local Transport Restructure (LTR). The IC provides contribution to common, shared, and embedded costs and support of basic telephone service. This charge is applied to all intrastate switched access minutes-of-use.

Proposed Local Transport

Q. PLEASE DESCRIBE THE PROPOSED CHANGES FOR LOCAL TRANSPORT.

A. I propose to add four new elements to the local transport charges to more closely align with the FCC structure. The FCC added these new transport elements to the interstate switched access charges and made other associated transport changes in its 1996 Access Charge Reform Order. Additional transport price changes are also being made to update the tariff. The current and proposed prices are shown in Exhibit BMW-5.

Q. HOW WILL THE NEW TRANSPORT PRICES BE STRUCTURED?

A. The four new price elements are Tandem Trunk Port, Common Transport Multiplexing, and End Office Shared Port, associated with tandem-switched transport; and End Office Dedicated Trunk Port, which is associated with direct-trunked transport between serving wire center and end office (See Exhibit BMW-4 for new structure). In addition, the option to pay for tandem-switched transport between the access tandem and the serving wire center is replaced with the requirement to purchase direct-trunked transport. Any multiplexing associated with this direct-trunked transport to the tandem will also be charged for separately. Coincident with this change, tandem transmission mileage will now be measured between the access tandem and the end office. These changes are all consistent with the FCC's 1996 access reform structure.

Q. PLEASE DEFINE THE NEW PRICE ELEMENTS.

A. Tandem Trunk Port is provided for each dedicated trunk terminated on the serving wire center side of the access tandem when a customer has requested tandem routing. The cost of the tandem trunk port was previously included in the tandem switching cost. Under the new structure this cost is disaggregated from tandem switching and recovered in a separate price element. This charge will be assessed monthly for each trunk terminating on the tandem switch.

Common Transport Multiplexing equipment is used on the end office side of the access tandem when common transport is provided between the access tandem and the subtending end offices. Common transport multiplexing was previously included in tandem transmission charges on a minute-of-use basis and is being disaggregated. This new price element will be assessed on tandem switching minutes-of-use.

End Office Shared Port provides for the termination of common transport trunks to the end office. End office shared port was previously included as part of the local switching cost and will be disaggregated as well. This element will be assessed on tandem switching minutes-of-use.

End Office Dedicated Trunk Port provides for termination of a dedicated trunk at the end office when the customer has requested direct-trunked transport. End office dedicated trunk port was previously included in the local switching cost. Under the new structure this cost will be disaggregated from local switching and will become a separate price element. This charge will be assessed monthly for each trunk terminating on the end office switch.

Q. WHY IS U S WEST MAKING STRUCTURE CHANGES TO THE LOCAL TRANSPORT CHARGES?

A. The new elements and structure move U S WEST towards more pricing efficiency, directing cost recovery towards the cost causer. The new elements have already been introduced in U S WEST's interstate tariff, and this change will provide consistency between the state and interstate transport price structures.

Q. HOW WILL THIS NEW STRUCTURE BENEFIT THE LONG DISTANCE CARRIERS?

A. Because the new structure provides consistency with the FCC structure approved in the 1996 Access Reform Order, billing validation will be easier for the carriers. Also, the new structure is consistent with the carriers' requests to more directly align prices with costs.

Q. ARE THERE ANY OTHER PROPOSED CHANGES FOR LOCAL TRANSPORT?

A. Yes. The prices of various other transport elements are being adjusted in light of changes made in the interstate jurisdiction since interstate local transport restructure was established.

Q. DOES U S WEST PROPOSE ANY ADDITIONAL CHANGES?

A. Yes. U S WEST proposes to update the common channel signaling access capability (CCSAC) transport charges to be consistent with the switched access LTR structure. All transport price changes are shown on Exhibit BMW-5.

Proposed Local Switching

Q. PLEASE DESCRIBE THE PROPOSED CHANGES FOR LOCAL SWITCHING.

A. The local switching price structure will be bifurcated to allow for different prices for originating and for terminating traffic should the market require it.

Q. WHY IS U S WEST PROPOSING THE BIFURCATION OF LOCAL SWITCHING?

A. In the future, as new competition develops and carriers can substitute other services for switched access service, differing rates for originating and terminating switching may become necessary. The bifurcation of local switching to an originating and terminating minute-of-use structure will enhance pricing flexibility in the future.

Q. WILL BIFURCATING LOCAL SWITCHING EFFECT ITS CURRENT PRICE?

A. No. The price for local switching originating and terminating minutes-of-use are set equal to each other. The price for both originating and terminating local switching minutes-of-use will remain at its current price of 1.73 cents.

Proposed Interconnection Charge

Q. EXACTLY WHAT CHANGES ARE BEING PROPOSED FOR THE INTERCONNECTION CHARGE?

A. The interconnection charge is being reduced, thus producing a $5.0 million net reduction in switched access charges. This reduction will lower the switched access average weighted rate from 4.5 to 4.2 cents per minute.

Q. WHY IS A PRICE REDUCTION APPROPRIATE FOR SWITCHED ACCESS SERVICE AT THIS TIME?

A. Even though a significant price reduction was made in 1995, switched access continues to be priced at relatively high contribution levels. Since 1995, competition for telecommunications services has expanded in scope. Competition prevails, not just for long distance and private line services, but also extends to the core of telecommunications, to local exchange service. U S WEST seeks to price switched access at a level that provides contribution to the core business, and also keeps its prices competitive. In addition, end-user customers benefit through long distance price reductions since AT&T has an obligation to pass through its access cost reductions to end-users and other carriers are most likely to follow AT&T's lead. [1]

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[1] See Decision No. 55953, Docket No. U-2428-86-268, at p.26.

Q. HOW DOES COMPETITION FOR LOCAL EXCHANGE SERVICE IMPACT SWITCHED ACCESS?

A. Quite simply, there is direct impact because the carrier that supplies local exchange service to a given end-user customer also controls the switched access to that customer. Therefore, the price of switched access service is one of the ingredients in the economic analysis which determines how competitive U S WEST can be in the marketplace.

Proposed Carrier Directory Assistance

Q. PLEASE DESCRIBE CARRIER DIRECTORY ASSISTANCE.

A. Carrier directory assistance (DA) provides use of directory assistance access equipment and use of U S WEST's DA operators to provide telephone numbers to customers of long distance carriers.

Q. WHO ARE THE CUSTOMERS FOR CARRIER DIRECTORY ASSISTANCE?

A. Long distance carriers purchase directory assistance from U S WEST's access tariffs and resell it to their end-user customers.

Q. WHAT ARE THE PROPOSED CHANGES TO CARRIER DIRECTORY ASSISTANCE?

A. I am proposing to increase the charge per use for directory assistance to 35 cents per call. The revenue impact is approximately $5 thousand. Additionally, directory assistance transport charges are being changed.

Q. WHY IS THIS CHANGE NEEDED?

A. The current charge to carriers for DA is 22 cents, which is below its cost. An increase in price is needed to bring the charge of DA above the costs the company incurs to provide the service. Directory assistance transport charges are being changed to be consistent with switched access transport charge changes.

Switched Access Nonrecurring Charges

Q. PLEASE IDENTIFY THE PROPOSED NONRECURRING ELEMENTS THAT WILL BE CHANGING.

A. Selected nonrecurring charges are being increased to cover costs. In addition, U S WEST proposes to revise the maintenance of service charges and structure. This proposed change applies for both switched access and private line services.

Q. HOW IS MAINTENANCE OF SERVICE APPLIED TODAY?

A. When a customer reports a repair problem the Company first performs tests of U S WEST's facilities from the company's central office. If no trouble is found in these tests, U S WEST subsequently makes a visit to the customer's premises to isolate the problem. If no trouble is still found in the company's facilities, a premises work charge is assessed. The premises work charge is only charged if U S WEST dispatches a technician to the customer's premises.

Q. WHAT IS THE CHANGE THAT U S WEST PROPOSES TO MAKE IN THE APPLICATION OF THIS CHARGE?

A. U S WEST will apply a maintenance of service charge per half-hour when completed testing indicates that the repair problem is not in equipment or communication systems provided by U S WEST. The maintenance of service charges will apply whether a premises visit is made or not, and will be billed to the customer where the problem exists. Maintenance of service rates will

be introduced to replace the reference to premises work charges. Additionally, a dispatch charge will also apply if a technician is dispatched to the customer's premises. Of course, none of these charges will be assessed if trouble is found in U S WEST facilities or equipment.

Switched Access Summary

Q. WHAT IS THE NET IMPACT OF ALL THE PROPOSED CHANGES TO SWITCHED ACCESS SERVICES?

A. The overall net impact of price changes to switched access results in a $5.0 million reduction in annual revenues.

PRIVATE LINE TRANSPORT SERVICES

Description of Private Line Services

Q. WHAT ARE PRIVATE LINE TRANSPORT SERVICES?

A. Private line services are a collection of transport services that provide direct connections for customers between two or more locations. These connections are dedicated to the use of the customer purchasing the private line service. In my testimony, I discuss low-capacity private line services. Ms. Karen Stewart presents U S WEST's proposals for high-capacity private line services in her testimony.

Q. WHO ARE THE CUSTOMERS WHO BUY THESE SERVICES?

A. The majority of the customers buying private line services are businesses. A business customer may purchase a private line to connect two or more business locations or to connect their business with a long distance carrier (also known as special access service). A private line

service can be used for voice communications or for data transmission. Analog Private Line Services are available for transporting low speed data and alarm signals, and for provisioning voice grade services, including Foreign Exchange Service, Foreign Central Office and Telephone Answering Service. Digital Private Line Service, called DIGICOM I and DIGICOM II Services in Arizona, offers digital speeds ranging from 2.4 kilobits per second (kbps) up to and including 64 kbps. Generally, private line services are used in situations where large volumes of telecommunications traffic need to be carried between two or more fixed points.

Q. WHAT ARE THE BASIC SERVICE ELEMENTS THAT COMPRISE A PRIVATE LINE SERVICE?

A. See my Exhibit BMW-6, which is a typical 2-point Private Line circuit diagram. There are four basic elements that are used to provide private line services. All elements are not necessarily required for every private line configuration. The four elements are Network Access Channel, Channel Performance, Transport Mileage, and Optional Features and Functions. In the following sections I will describe these specific parts of private line services and the price changes that I am proposing.

Network Access Channel

Q. WHAT IS A NETWORK ACCESS CHANNEL?

A. A Network Access Channel (NAC) is the transmission path between the customer's premises or designated location and the U S WEST central office serving that location (serving wire center). These connections are used for all two- or four-wire private line services. A NAC is required for each customer location connected to a private line network. A two-point circuit has two NACs, and a multi-point circuit can have more than two NACs.

Q. WHAT ARE U S WEST'S PROPOSALS FOR NETWORK ACCESS CHANNEL RATES?

A. U S WEST proposes to establish the rate for a two-wire NAC at $28 per month, and the rate for a four-wire NAC at $56. The current rate is $11.50 for a two-wire and $23 for a four-wire channel. This price change is shown on Exhibit BMW-7.

Q. WHY IS U S WEST MAKING THIS PROPOSAL?

A. U S WEST's proposal increases NAC prices to raise rates above the price floor determined by total service long run incremental cost (TSLRIC) plus shared cost, improve contribution levels and to move toward pricing levels that are more reflective of both costs and market conditions.

Q. WHAT IS THE TOTAL REVENUE IMPACT OF U S WEST'S NETWORK ACCESS CHANNEL PROPOSALS?

A. The network access channel proposals for analog private line services will result in an overall annual increase in revenue of $9.2 million.

Channel Performance

Q. WHAT IS CHANNEL PERFORMANCE?

A. Channel performance is the rate element which covers the costs for electronic equipment that generates specific transmission performance characteristics of a given service. The charges vary by type of service (e.g., Narrowband, Voiceband/Data, etc.) and by configuration (e.g., two-point or multi-point, inter- or intra-wire center, etc.). Within these categories, channel performance elements are used to provide for specific transmission attributes required by the customer's equipment. For example, within the voice grade category several different channel performances are available. Each of these channel performance parameters represents different transmission and interface characteristics necessary to meet technical parameters of various customer premises equipment used in a private line circuit.

Q. PLEASE DESCRIBE U S WEST'S PROPOSALS FOR CHANNEL PERFORMANCE RATES AND YOUR SUPPORTING RATIONALE.

A. U S WEST proposes to increase certain channel performance rate elements so that they will be priced above the price floor. U S WEST also proposes to reduce prices on some channel performance rate elements. Overall, channel performance prices are being decreased. Details of U S WEST's proposals for channel performance are detailed in my Exhibit BMW-7.

Q. WHAT IS THE REVENUE IMPACT OF U S WEST'S CHANNEL PERFORMANCE PROPOSALS?

A. U S WEST's channel performance proposals will decrease annual revenue by $1.2 million.

Q. ARE ANY OTHER CHANGES BEING MADE REGARDING CHANNEL PERFORMANCE OFFERINGS?

A. Yes, I also propose to grandfather Local Area Data Service (LADS), and to eliminate the Voice Grade Basic service.

Q. WHAT IS LOCAL AREA DATA SERVICE?

A. LADS is a two-point dedicated private line service that is provisioned over metallic facilities. It is available on either a 2-wire or 4-wire basis, and can connect two points, no more that six route miles apart (3 miles per end from serving wire center) that are served by the same wire center. It offers a circuit that is suitable for data transmission over limited distances.

Q. WHY IS U S WEST PROPOSING TO GRANDFATHER LOCAL AREA DATA SERVICE?

A. With less than 175 circuits in service in Arizona, LADS has a very small market demand. It is essentially a "raw copper" circuit that was introduced years ago to meet a limited market for data

transmission between locations served by a common wire center. LADS circuits have the potential to be used to transmit data at speeds much higher than these circuits were ever intended to deliver. This unintended use can cause customer complaints when the circuit fails at these high speeds, and they also have the potential for causing interference with adjacent circuits along the same transmission path. Higher quality circuits are available for guaranteeing these high speed applications. Therefore, U S WEST proposes to grandfather LADS, thereby limiting it to the existing inventory of circuits.

Q. WHY IS U S WEST PROPOSING TO ELIMINATE VOICE GRADE BASIC SERVICE?

A. Voice grade basic service is a 2-point voice grade connection limited to connections between two locations served by the same wire center. Voice grade basic has little demand. There are only five circuits now in service in Arizona. No signaling is provided with this circuit. If this service is eliminated these 5 circuits will be converted to voice grade 32 service with no signaling, which at the proposed prices will result in a savings of $2 per month over voice grade basic.

Transport Mileage

Q. WHAT IS TRANSPORT MILEAGE?

A. Transport mileage rate elements cover the cost of the portion of a transmission path that lies between central offices and is used with all two- and four-wire interoffice private line circuits.

Q. WHAT COMPRISES TRANSPORT MILEAGE RATES?

A. Transport mileage rates include both a "fixed" rate element (a monthly dollar value that is constant within a mileage band regardless of the length of a circuit) and a "per-mile" rate element (a monthly value which varies according to the interoffice mileage of a circuit). There are currently four mileage bands for all Private Line Transport Services.

Q. WHAT ARE U S WEST'S PROPOSALS FOR TRANSPORT MILEAGE RATES AND THE CORRESPONDING RATIONALE?

A. U S WEST proposes to adjust prices for Arizona's transport mileage so they are more closely aligned with costs. This will be accomplished by increasing the "fixed" rate element and reducing the "per-mile" rate element for all mileage bands. Higher monthly rates are proposed for the three higher Audio Services bands in recognition of their greater bandwidth capacities. These proposed analog private line transport mileage changes are shown in Exhibit BMW-8.

Q. WHAT IS THE REVENUE IMPACT OF U S WEST'S TRANSPORT MILEAGE PROPOSALS?

A. The annual revenue impact of U S WEST's recurring transport mileage rate proposals is a decrease of $1.3 million.

Optional Features and Functions

Q. WHAT ARE OPTIONAL FEATURES AND FUNCTIONS?

A. Optional Features and Functions provide options to improve the quality or utility of a private line transport service to meet specific customer requirements. Examples of these options include bridging, conditioning, and transfer arrangements.

Q. WHAT PROPOSALS DOES U S WEST HAVE FOR OPTIONAL FEATURES AND FUNCTIONS?

A. U S WEST proposes to increase bridging rates for services that are below costs. Decreases are also being made to some bridging and conditioning options. The details of these proposals are shown on my Exhibit BMW-9.

Q. WHAT IS THE REVENUE IMPACT OF U S WEST'S PROPOSALS FOR OPTIONAL FEATURES AND FUNCTIONS?

A. The annual revenue effect of this portion of U S WEST's overall proposal is a net decrease of $65 thousand.

Nonrecurring Charges

Q. WHAT CHANGES ARE YOU PROPOSING FOR PRIVATE LINE NONRECURRING CHARGES?

A. The nonrecurring charges, which are applied when a customer installs or changes a private line service, are being simplified to be more consistent across services and to align prices more closely with costs. This involves both price increases and price decreases. The specific prices being changed are shown in my Exhibit BMW-10.

U S WEST also proposes to modify prices and price structure for some private line miscellaneous nonrecurring charges. The design change charge is being increased from $63 to $70. Prices for additional engineering and labor are being increased and simplified to just one half-hour charge for all half-hour increments. These miscellaneous nonrecurring changes are applicable to all private line services and they result in an additional annual revenue of $6. thousand, as shown on the last page of Exhibit BMW-10.

As I've already described under Switched Access Nonrecurring Charges, U S WEST is introducing charges for maintenance of service to replace the current reference to premises work charges. The maintenance of service charges displayed on page 3 of Exhibit BMW-5 will also apply to private line services.

Q. WHAT IS THE REVENUE IMPACT OF U S WEST'S PROPOSALS FOR NONRECURRING CHARGES?

A. The annual revenue effect of this portion of U S WEST's overall proposal is an increase of approximately $108 thousand.

Digital Data Service

Q. WHAT IS DIGITAL DATA SERVICE (DDS)?

A. Digital Data Service (DDS) is offered under the name DIGICOM I and DIGICOM II Service in Arizona. This proposal will combine DIGICOM I and II into the U S WEST regional standard Digital Data Service offering. It is a private line transport service providing point-to-point transmission of digital data at various speeds up to and including 64 kilobits per second. DDS is used in situations where a customer needs digital data transmission, but does not have large enough volumes of data to warrant use of a high-capacity service, such as DS1 Service which is capable of 1.54 megabits per second.

Q. IS U S WEST PROPOSING ANY CHANGES TO THE PRICES OF DIGITAL DATA SERVICE?

A. Yes, U S WEST is proposing to increase the monthly price for a network access channel from $31.50 to $56. DDS utilizes a four-wire NAC and this change will make all 4-wire NAC prices consistent with each other. This price increase will be partially offset by price reductions for channel performance at the higher data speeds. Transport mileage for DDS will be priced with one fixed and one per-mile price for all mileage bands, which overall will reduce DDS transport revenue. Proposed prices are shown on Exhibit BMW-11.

Q. WHAT IS THE REVENUE IMPACT OF THE CHANGES TO DDS?

A. The net effect is a $490 thousand decrease in annual revenues.

Private Line Summary

Q. WHAT IS THE TOTAL ANNUAL REVENUE IMPACT OF ALL U S WEST PRIVATE LINE PROPOSALS?

A. The net annual revenue impact of all of these private line price changes is a $6.3 million increase.

PUBLIC ACCESS LINE (PAL) SERVICE

Description of PAL

Q. PLEASE DESCRIBE PUBLIC ACCESS LINE SERVICE .

A. Public Access Line (PAL) Service provides telecommunications network access to Payphone Service Provider (PSP) pay telephones. PAL Service is provided under the categories of Basic and Smart PAL Service. Basic PAL Service is a voice grade line used by PSPs to connect "smart" pay telephone equipment to the U S WEST network. Smart PAL Service is a pay telephone access line with inherent coin control functions provided by the Company's central office. The Smart PAL is used by PSPs to connect "dumb" pay telephone equipment to the U S WEST Network.

Proposed Public Access Line

Q. WHAT CHANGES ARE BEING PROPOSED FOR PUBLIC ACCESS LINE SERVICE?

A. U S WEST proposes to eliminate two Basic PAL options; Coinless Subscriber Service – Step-by-Step Offices Outgoing Only and Coinless Subscriber Service – Step-by-Step Offices Two-way. These line options are no longer required, because Step-by-Step Offices have been eliminated in Arizona.

Existing customers will be converted to the equivalent service offering, Coinless Subscriber Service – ESS Offices, with no impact to their service or rates.

Proposed Directory Assistance

Q. ARE YOU PROPOSING OTHER CHANGES RELATIVE TO PUBLIC ACCESS LINES?

A. Yes, I am proposing that the price for Directory Assistance from PAL lines be increased from $.15 per call to $.60 per call. The service is purchased by payphone providers for the resale to their end user customers. As proposed, this service will be expanded to include access to national as well as local telephone numbers. In addition call completion service, in which the DA operator dials the call for customer, will be offered for alternately billed calls, i.e., calling card, third number, etc. Those calls will be priced at the proposed rate of $.85 per call. Long distance charges will apply to any completed long distance call.

Q. WHY ARE THESE CHANGES BEING MADE?

A. First of all the present price of $.15 is significantly below cost. It is also readily apparent, as stated in Mr. Teitzel's testimony, that other providers offer directory assistance products that include both local and national telephone numbers. Although their services include call completion, they are priced significantly higher than my proposed price. This proposal to combine local and national directory assistance into one product is consistent with the proposal for end-user directory assistance stated in Mr. Teitzel's testimony.

Q. WHAT IS THE REVENUE EFFECT OF THIS PROPOSED CHANGE?

A. This price change will increase annual revenue by $1.7 million.

Customer-Owned Coin Operated Telephone (COCOT) Access Lines

Q. ARE YOU PROPOSING ADDITIONAL CHANGES TO LINES THAT ARE SUBSCRIBED TO BY PAYPHONE SERVICE PROVIDERS?

A. Yes. U S WEST is proposing to withdraw the Customer-Owned Coin Operated Telephone (COCOT) Access Lines that currently exist in the Obsolete Exchange Services Section of the tariff.

Q. WHY ARE YOU PROPOSING TO WITHDRAW THE CUSTOMER-OWNED COIN OPERATED TELEPHONE (COCOT) ACCESS LINES FROM THE OBSOLETE TARIFF?

A. U S WEST's proposal to withdraw the COCOT Tariff is being made to benefit both U S WEST and the COCOT customer. U S WEST proposes to simplify the tariff and remove this offering that has been frozen to new customers since December, 1990. There are 545 lines, and equivalent service is available in the PAL tariff. More importantly, most of these customers would see a price decrease in their access line costs by converting to an equivalent service in the PAL tariff. All rates for the COCOT services and the equivalent PAL services are shown in Exhibit BMW-12.

Q. WHAT IS THE REVENUE IMPACT OF ELIMINATING COCOT LINES AND CONVERTING EXISTING CUTOMERS TO EQUIVALENT PAL SERVICES?

A. The net revenue impact is $3.1 thousand.

PUBLIC ANNOUNCEMENT SERVICES

Description of Public Announcement Services

Q. WHAT ARE PUBLIC ANNOUNCEMENT SERVICES?

A. U S WEST currently offers one public announcement service in Arizona. It is known as Scopline^{SM} Service. Scopline^{SM} Service consists of service and facilities for sponsor-provided pre-recorded announcements or interactive programs within the Phoenix and Tucson LATAs. This service enables an end-user client, for a charge, to dial a Scopline^{SM} telephone number and receive a Scopline^{SM} sponsor's pre-recorded announcement or to participate in an interactive program. As an integral part of the service, the Company will deliver calls and bill clients on behalf of the sponsor. In order to reach the information service, the client dials a 976 telephone number in the Phoenix LATA, or a 676 telephone number in the Tucson LATA.

Q. WHO ARE THE CUSTOMERS FOR SCOOPLINE^{SM}?

A. Information Providers subscribe to Scopline^{SM} service in order to provide information announcement or other interactive or enhanced services to their clients. The information provider is also known as the sponsor of the information service.

Q. PLEASE EXPLAIN THE STRUCTURE OF SCOOPLINE^{SM} SERVICE IN ARIZONA.

A. Scopline^{SM} service has two components. The first is the network access itself, consisting of the telephone line and its associated telephone number, usage, etc. The second component is a billing and collection service whereby U S WEST bills clients for their use of the information service and remits the money to the Scopline^{SM} provider.

Scopline^{SM} Proposal

Q. DESCRIBE THE PROPOSED CHANGES FOR SCOOPLINE^{SM} SERVICE.

A. U S WEST proposes to eliminate and remove from its tariff the Scopline^{SM} offering.

Q. WHY IS U S WEST PROPOSING TO ELIMINATE THE SERVICE?

A. The service is no longer meeting customers needs and should be discontinued. Information services are generally offered on a national or regional basis. U S WEST's Scoopline^{SM} service (like all of U S WEST's services) is limited by the LATA boundaries. Because U S WEST cannot offer a statewide, regional, or national service, there are very few information providers still subscribing to Scoopline^{SM} service.

Q. ARE THERE CURRENTLY CUSTOMERS SUBSCRIBED TO THE SERVICE?

A. There are currently only three subscribers to Scoopline^{SM}, with nine lines currently in service in Arizona. Those remaining customers have been made aware of U S WEST's intent to discontinue the service offering.

Q. WHAT ALTERNATIVES ARE AVAILABLE TO CURRENT SUBSCRIBERS OF SCOOPLINE^{SM}?

A. Interexchange carriers offer 900 services on a regional or national basis. These 900 services provide sponsors with the network access, telephone number, etc. that they need in order to offer their information services. Furthermore, 900 services offered by interexchange carriers are not geographically restricted like U S WEST's Scoopline^{SM} service.

PRICING FLEXIBILITY PROPOSAL

Competitive Zones

Q. WHAT ARE COMPETITIVE ZONES?

A. Competitive zones consist of the areas in which U S WEST experiences competition for local telephone service. Mr. David Teitzel provides more detailed information on U S WEST's competitive zone proposal in his testimony.

Q. WHY IS COMPETITIVE ZONES NECESSARY?

A. Competitive zones will help to focus on areas where competition actually exists. In each identified area, U S WEST needs to price its products and services flexibly to more effectively compete in the marketplace.

Q. WHAT WILL HAPPEN WHEN A COMPETITIVE ZONE HAS BEEN IDENTIFIED?

A. Within each wire center identified as having local competition, U S WEST can exercise its ability to more effectively compete by charging prices dictated in that marketplace. Mr. Teitzel has delineated the types of price changes U S WEST will be able to implement in competitive zones without prior regulatory review. Pricing flexibility will allow U S WEST to react quickly and set prices that are consistent with the competitive marketplace.

Pricing Flexibility for Wholesale Services

Q. WHAT IS MEANT BY PRICING FLEXIBILITY?

A. Pricing flexibility allows the company to strategically move prices upward and downward within a defined range as the marketplace dictates.

Q. WILL THE PROPOSED PRICE RANGES FOR PRICING FLEXIBILITY BE PRESENTED TO THE ARIZONA CORPORATION COMMISSION FOR APPROVAL?

A. The Arizona Corporation Commission will review and approve price floors and price ceilings proposed by U S WEST. U S WEST is asking for the establishment of those floors and ceilings in this rate case.

1 **Q. WHY IS PRICING FLEXIBILITY NECESSARY IN ARIZONA?**

2 A. As Mr. Teitzel describes, pricing flexibility is needed in Arizona due to the presence of competition
3 for all aspects of telephone service. Local service competition means that there is underlying
4 competition for wholesale services. Each time a competitive local provider gains an end-user
5 customer, U S WEST loses switched access or long distance revenue associated with that
6 customer for U S WEST.
7

8 **Q. ARE YOU SAYING THAT PRICING FLEXIBILITY IS ALSO NEEDED FOR WHOLESALE, AS**
9 **WELL AS RETAIL SERVICES IN THE COMPETITIVE ZONE?**

10 A. Yes. Finished wholesale services such as private line, switched access and public access lines
11 are subject to the same competitive pressures as retail services.
12

13 **Q. WHICH WIRE CENTERS ARE INCLUDED IN U S WEST'S REQUEST FOR PRICING**
14 **FLEXIBILITY FOR FINISHED WHOLESALE SERVICES?**

15 A. U S WEST is requesting pricing flexibility for finished wholesale services in all of the wire centers
16 listed by Mr. Teitzel as being competitive. Competition for both residence and business local
17 exchange service has direct impact on switched access, as well as other finished wholesale
18 services. Therefore, U S WEST's proposal is that any wire center that is declared competitive for
19 either residence or business services also is declared competitive for finished wholesale.
20

21 **Q. IS IT SAFE TO ASSUME THAT U S WEST WILL NOT SUFFER SIGNIFICANT COMPETITIVE**
22 **LOSSES UNTIL COMPETITIVE PROVIDERS ARE WELL ENTRENCHED IN THE LOCAL**
23 **TELEPHONE MARKET IN ARIZONA?**

24 A. No, it is not. U S WEST is experiencing competitive losses in its carrier access services in
25 Arizona today. Even before there were competitors for switched services, there was competition

for private line services. Competitive private line services bypass and replace both U S WEST's private line and switched access services.

Q. WHAT IS THE IMPACT OF COMPETITION ON U S WEST'S PRIVATE LINE BUSINESS?

A. Because U S WEST has no direct way of knowing how large the total private line market is, U S WEST has hired an outside research firm to assess the market in the Phoenix area. Based on customer interviews the pattern is clear. In the areas of the cities served by competitors, U S WEST's private line market share is continuously declining. Exhibit BMW-13 shows the results of that research for Phoenix, as well as for two other cities where the competition began a little earlier than in Phoenix. The pattern of declining market share is consistent in all three cities. Competitors are swiftly installing private line circuits, and these new circuits allow for the complete bypass of switched access and U S WEST private line services.

Q. IN WHAT WAY DOES THE COMPETITION FOR PRIVATE LINE SERVICES IMPACT SWITCHED ACCESS SERVICES?

A. As competition heats up for private line services, increased sales activity makes businesses more aware of their options, such as installing a private line circuit to connect with one or more long distance carriers. Price competition among private line providers makes it more economical for a business customer to install a dedicated private line circuit. In many cases, these new private line circuits replace switched basic exchange circuits, such as PBX trunks or 1FB lines. Market research shows that a very substantial amount of the growth in high capacity private line services in Phoenix in the fourth quarter of 1997 was accounted for by this kind of replacement of switched services (See Exhibit BMW-14). This tells us that competition is not only eroding U S WEST's market share for private line services, but at the same time is also impacting our basic switched services. Market research shows that less than half the long distance traffic going in and out of Phoenix today travels via switched access (See Exhibit BMW-15). The competitive pressures on

switched access service have intensified as competitors offer switched access, private line services, and local telephone service in Arizona.

Q. ARE THERE OTHER CONDITIONS WHICH WILL AFFECT ACCESS SERVICES AND REVENUES?

A. Yes. The ability of competitive providers to offer packaged local, and interlata and intralata long distance telephone services places increased pressure on the switched access market. By offering one-stop-shopping for local, intralata, and interlata calling, these companies make their services attractive to customers who don't want to deal with the complications of multiple suppliers. Furthermore, by combining local with long distance services they can totally cut U S WEST out of any switched access traffic that might otherwise go to or from these customers.

Q. ARE CURRENT COMPETITORS COMBINING LOCAL WITH LONG DISTANCE SERVICE IN ARIZONA?

A. Yes. ELI, e.spire (ACSI), and Cox are currently offering competitive local exchange service along with long distance services. Sixty-five companies have filed for certification as local service providers in Arizona, and 16 of these companies currently have approved certificates and tariffs. In addition, AT&T's merger with TCG means that AT&T will use TCG's facilities to speed its entry into the local market, and totally bypass U S WEST's local transport.

Q. HOW WILL THE ADVENT OF COMPETITION FOR LOCAL TELEPHONE SERVICE AFFECT SWITCHED ACCESS SERVICE?

A. As I discussed earlier in my testimony, there will be a substantial impact. Each time U S WEST loses an existing or potentially new end-user customer to a facilities-based competitive local service provider, the Company also loses the ability to collect switched access charges for long distance calls going to and from that end-user.

Q. IF U S WEST BEGINS LOSING SIGNIFICANT MARKET SHARE AND SWITCHED ACCESS REVENUES BEGIN TO DECLINE, WHAT IS THE IMPACT ON U S WEST AND ITS CUSTOMERS?

A. The impacts are potentially far-reaching. Because of the contribution margins contained in the switched access prices, the revenue stream produced by switched access service plays a significant role in U S WEST's ability to cover common and shared costs and to maintain its ubiquitous switched network. This creates a dilemma for the Company, because these revenues play a significant role in our ability to continue to provide basic telephone service under our obligations as carrier of last resort.

Q. YOU'VE DESCRIBED THE IMPACT OF COMPETITION ON SWITCHED ACCESS AND PRIVATE LINE SERVICES. DOES COMPETITION ALSO IMPACT PAL SERVICE?

A. Most definitely. If a competitive local exchange carrier offers basic telephone service in a given geographical area, it can also connect payphones in that area to its network. Competition for PAL services goes hand-in-hand with competition for local telephone service.

Q. HOW WILL PRICE FLEXIBILITY IN COMPETITIVE ZONES HELP IN THIS SITUATION?

A. The competitive zone proposal will allow U S WEST to compete with alternative providers by meeting their pricing proposals in the zones where they operate. At the same time, U S WEST will not be forced to immediately reduce wholesale prices statewide, thus avoiding unnecessary premature withdrawal of support for residential phone service. This proposal is an important step to allow responsible transition to a fully competitive marketplace.

Pricing

Q. WHAT PRICES WILL BE CHARGED IN THE COMPETITIVE ZONES FOR FINISHED WHOLESALE SERVICES?

A. The prices proposed in this filing would be the prices charged as U S WEST begins its pricing flexibility in the competitive zones.

Q. DOES THIS FILING INCLUDE CEILING LEVELS?

A. Yes. As Mr. Teitzel has explained, U S WEST is proposing price ceilings at two times the actual price. This ceiling will apply to finished wholesale services as well as retail services.

Q. PLEASE EXPLAIN HOW CUSTOMERS BENEFIT FROM PRICING FLEXIBILITY.

A. Customers will benefit in having an opportunity to pick and choose the best packaged and priced services that fit their specific needs. At the same time, the support for basic residential services that have traditionally come from switched access will not be immediately removed. This will enable U S WEST to continue to fulfill its carrier-of-last resort responsibilities and customers to continue to have affordable service.

CONCLUSIONS AND RECOMMENDATIONS

Q. PLEASE SUMMARIZE YOUR CONCLUSIONS.

A. U S WEST's proposals seek price changes and some structure changes for switched access, private line, PAL and SCOOPLINE^{SM} services. The structure and price levels assure cost coverage and alignment of prices for an increasingly competitive environment. The PAL and Scoopline^{SM} proposals will remove obsolete services and simplify the tariffs.

U S WEST's competitive zone proposal should be applied to finished wholesale services as well as retail services. In particular, switched access, private line and PAL services should be flexibly priced inside of competitive zones.

Q. WHAT DO YOU RECOMMEND TO THE COMMISSION?

A. I recommend that the Commission adopt U S WEST's proposals for switched access, private line, PAL and Scoopline[SM] services. Further, I recommend that U S WEST's competitive zone proposal be adopted in its entirety, including the application of pricing flexibility to finished wholesale services within the competitive zones.

Q. DOES THIS CONCLUDE YOUR TESTIMONY?

A. Yes, it does.

BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN	)	DOCKET NO. _____

EXHIBITS OF

BARBARA M. WILCOX PH.D.

U S WEST COMMUNICATIONS

JANUARY 8, 1999

INDEX OF EXHIBITS

DESCRIPTION	EXHIBIT
Qualifications and Experience: Barbara M. Wilcox	BMW-1
Switched Access Network Diagram	BMW-2
Current Switched Access Price Structure	BMW-3
Proposed Switched Access Price Structure	BMW-4
Arizona Current and Proposed Switched Access Prices	BMW-5
Private Line Diagram	BMW-6
Private Line Network Access Channel & Channel Performance Prices	BMW-7
Private Line Transport Mileage Prices	BMW-8
Private Line Optional Feature & Function Prices	BMW-9
Private Line Nonrecurring Prices	BMW-10
Digital Data Service Prices	BMW-11
Price Changes for COCOT Customers Being Converted to PAL Service	BMW-12
U S WEST Market Share for High Capacity Private Line Services Provided to End-Users	BMW-13
Sources of Growth for End-User High Capacity Private Line Services in Phoenix	BMW-14
Long Distance Minutes of Use in Phoenix	BMW-15

QUALIFICATIONS AND EXPERIENCE
Barbara M. Wilcox

EDUCATION

B.A. Magna cum laude (Liberal Arts and Psychology) Colorado College, 1963.
Ph.D. & M.A. (Experimental Psychology) Brown University, 1967 & 1965.
Graduate Study in Business, University of Texas at Dallas, 1977-1979.
Classes and seminars in marketing, pricing, economics, telecommunications, 1980-present.

EMPLOYMENT HISTORY

U S WEST Communications (Mountain Bell), Denver, Colorado: 1980 to present

Director, Product and Market Issues (present position)
Group Manager, State Access Pricing (1990-1995)
Product Manager (1987-1990)
Pricing Manager (1986-1987)
Demand and Market Analysis Group Leader (1983 -1986)
Demand Analyst (1981-1983)
Market Research Analyst (1980-1981)

University of Texas at Dallas: 1977 to 1978

Visiting Associate Professor of Psychology and Human Development

Bishop College, Dallas, Texas: 1967 to 1977

Acting Chairperson, Psychology Department (1973-1975, 1976-1977)
Associate Professor of Psychology (1972-1977)
Assistant Professor of Psychology (1967 to 1972)

Zale Learning Center, Dallas, Texas: 1974 - 1975

Research Director for Infant Day Care Program

CONSULTING

Trailways, Inc., Dallas, Texas
Abt Associates, Cambridge, Massachusetts

MEMBERSHIPS

American Marketing Association
American Psychological Association

HONORS

Phi Beta Kappa
Sigma Xi
National Science Foundation Fellow
Boettcher Scholar

PUBLICATIONS

Authored and co-authored papers published in:

Merrill-Palmer Quarterly
Journal of Experimental Child Psychology
Journal of Music Therapy

Editorial reviewer for:

Infant Behavior and Development
Journal of Experimental Child Psychology

TESTIMONY AND APPEARANCES BEFORE STATE REGULATORY BODIES

Arizona

Docket No. E-1051-93-183. Remanding of Decision No. 58927. In the Matter of the Application of U S WEST Communications for a Hearing to Determine the Earnings of the Company, the Fair Value of the Company for Rate Making Purpose, to Fix a Just and Reasonable Rate of Return Thereon and to Approve Rate Schedules Designed to Develop Such Return.

Docket No. E-1051-97-024. In the Matter of the Application of U S WEST Communications, Inc., Filing to Revise its Network Services Tariff. (Public Access Line Service.)

Colorado

I & S Docket No. 1766 Investigation and Suspension of Proposed Changes and Additions to Exchange and Network Services Tariff -- Telephone, Mountain States Telephone and Telegraph Company, Denver, Colorado 80202.

Docket No. 96S-257T. Application of U S WEST Communications, Inc. for Modification of its Rate and Service Regulation Program.

Docket Nos. 97F-175T, 97K-237T, 97F-212T. MCI Telecommunications Corporation, Complainant, vs. U S WEST Communications, Inc., Respondent and AT&T Communications of the Mountain States, Inc., Complainant, vs. U S WEST Communications, Inc., Respondent.

Docket No. 97R-173T. Proposed Amendments to the Rules Regulating Telecommunications Service Providers and Telephone Utilities, 4 CCR 723-2; and the Rules Regulating Operator Service Providers, 4 CCR 723-18.

Docket No. 98F-146T Colorado Payphone Association, a Colorado non-profit corporation, Complainant vs. U S WEST Communications, Inc., Respondent.

Iowa

Docket No. RPU-95-11. U S WEST Communications, Inc. Rate Rebalancing Proposal.

Docket No. RPU-69-3. U S WEST Communications, Inc. Proposed Tenant Solutions Tariff.

Minnesota

Docket No. P-999/C-93-90. Commission Solicitation of Comments Regarding Access Charges.

Montana

Docket Nos. 86.11.64 & 86.11.62 Sub 11 Application of the Mountain States Telephone and Telegraph Company for Authority to Establish Rates and for Approval of Generic Cost and Rate Design Methodology in Connection with the Implementation of its Comprehensive Rural Telephone Improvement Program.

Docket No. 88.1.2. Application of the Mountain States Telephone and Telegraph Company for Authority to Establish Rates and for Approval of Tariff Changes for Telecommunications Service..

Docket Nos. 90.12.86, 89.8.28, 89.8.29, 89.9.29, 90.5.32. Application of U S WEST Communications for Approval of an Alternative Form of Regulation and associated dockets.

Docket No. 94.1.6. Application of U S WEST Communications, Inc. for Approval of Tariffs Reducing Revenues by $6,032,749.16, Tariff Transmittal 94-5.

Docket No. D96.4.70. U S WEST Communications, Inc. Proposed Restructure of Carrier Common Line Charge for Intrastate Switched Access.

Docket No. D96.12.220. Application of U S WEST Communications, Inc. to Restructure its Regulated Telecommunications Service.

Nebraska

Docket No. C-1273. Application by the Nebraska Telephone Association for a Subscriber Line Charge.

Application No. C-1519. Emergency Petition of MCI Telecommunications Corporation and AT&T Communications of the Midwest, Inc., to Investigate Compliance of Nebraska LECs with FCC Payphone Orders.

Application No. C-1628. In the Matter of the Nebraska Public Service Commission on Its Own Motion, Seeking to Conduct an Investigation into Intrastate Access Charge Reform and Intrastate Universal Service Fund

Application No. C-1874. In the Matter of the Application of U S WEST Communications, Inc. for Authority to Increase its Residential Basic Local Exchange Rates Pursuant to Neb. Rev. Stat. Section 86-803(9).

New Mexico

Docket No. 95-778-TC. Application of Brooks Fiber Communications of New Mexico. Inc. for Certificate of Public Convenience and Necessity to Provide Intrastate Telecommunications Services Within the State of New Mexico.

Docket No. 96-461-TC. In the Matter of the Revision of the New Mexico Access Service Tariff.

Docket No. 97-69-TC. In the Matter of Compliance with Federal Regulations of Payphones.

North Dakota

North Dakota Legislative Council - Presentation to Regulatory Reform Review Commission on history and role of switched access charges. December 11, 1997.

Oregon

Docket UT 113. In the Matter of the Revised Rate Schedules Filed by GTE Northwest, Inc.
Docket UM 351. Investigation into the Cost of Providing Telecommunications Services.
Docket No. UT 125. Request of U S WEST Communications, Inc. for an Increase in Rates and Charges.

South Dakota

Docket TC 91-040A & B. Investigation into the adoption of a uniform access methodology and establishment of a state-wide pool.
Docket RM 92-001. Adoption of administrative rules for intrastate switched access service.
Docket RM 94-002. Adoption of revisions to administrative rules.
Docket No. TC 96-107. U S WEST Communications Switched Access Compliance Filing.
Docket No. TC 97-006 U S WEST Communications Smart PAL Tariff Filing.

Utah

Docket 94-049-08. Request of U S WEST Communications Inc. for an Increase in its Rates and Charges.
Docket 95-049-05. Request of U S WEST Communications Inc. for an Increase in its Rates and Charges.
Docket No. 97-049-08. Request of U S WEST Communications Inc. for an Increase in its Rates and Charges.

Washington

Docket UT-941464. Washington Utilities and Transportation Commission, Complainant v. U S WEST Communications, Inc., Respondent.
Docket UT-950200. Request of U S WEST Communications Inc. for the Increase in its Rate and Charges.
Docket No. UT-970658. MCI Telecommunications Corporation and AT&T Communications of the Pacific Northwest, Inc., Complainants, vs. U S WEST Communications, Inc., GTE Northwest, Inc. and United Telephone Company of the Northwest, Respondents.

Docket No. UT-970325. Petition for Investigation into the Cost of Universal Service and to Reform Intrastate Carrier Access Charges.

Wyoming

Docket No. 70000-TA-93. Application of U S WEST Communications, Inc. to Change or Restructure Local Exchange Rates, Intrastate Access Service Rates, Service Connection Charges and Certain Other Rates.

Docket No. 70000-TR-238, Phases 1 & 2., Docket No. 70000-TR-96-323. Price Regulation Plan of U S WEST Communications Inc.

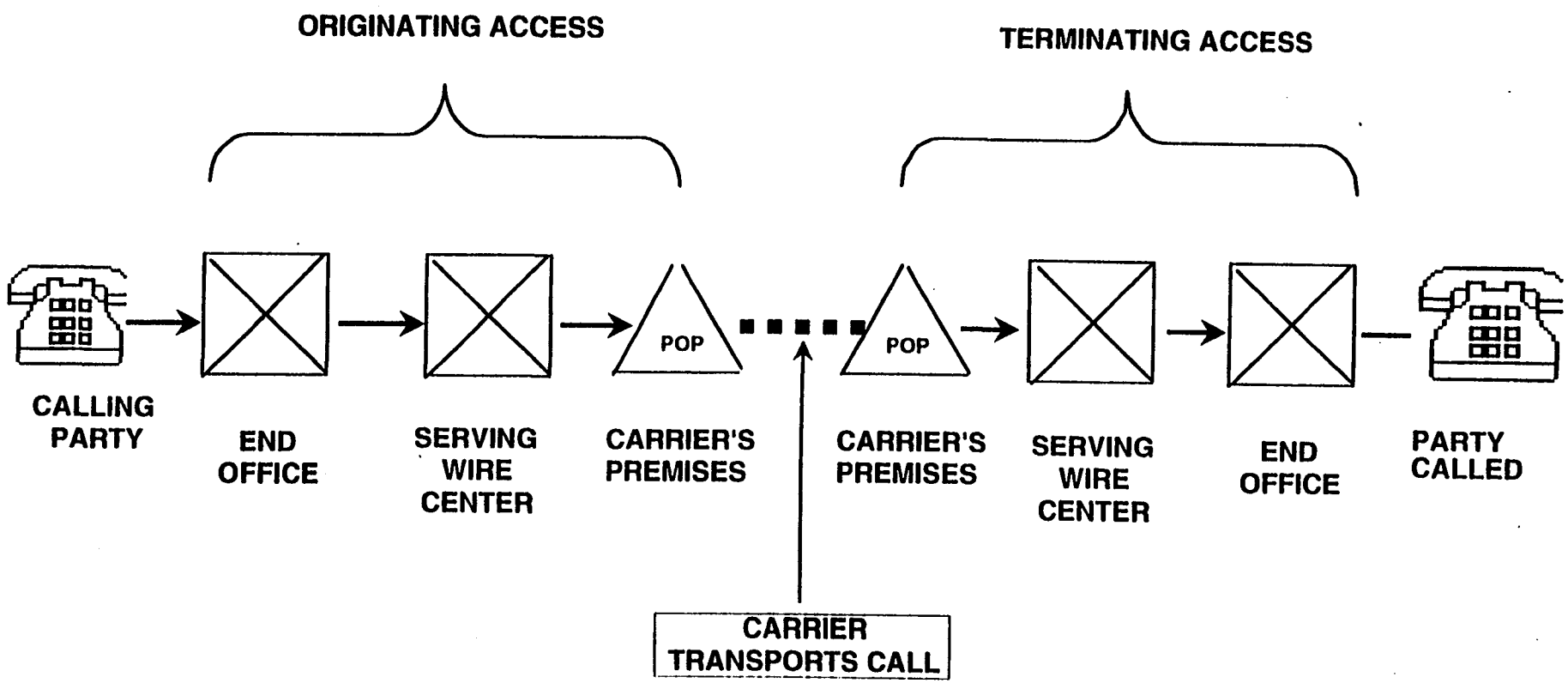
General Order No. 79. Commission's Investigation Regarding the Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Federal Telecommunications Act of 1996.

General Order No. 74. Investigation by the Wyoming Public Service Commission into the Appropriate Method for Calculating Intrastate Switched Access Charges and Regarding the Feasibility of Eliminating Intercompany Subsidies Among Wyoming Telephone Utilities.

Docket No. 70000-TR-98-420 Application of U S WEST Communications, Inc. for Authority to Implement Price Ceiling in Conjunction with its Proposed Wyoming Price Regulation Plan for Essential and Noncompetitive Telecommunications Services. (1998 Price Plan)

USWEST COMMUNICATIONS

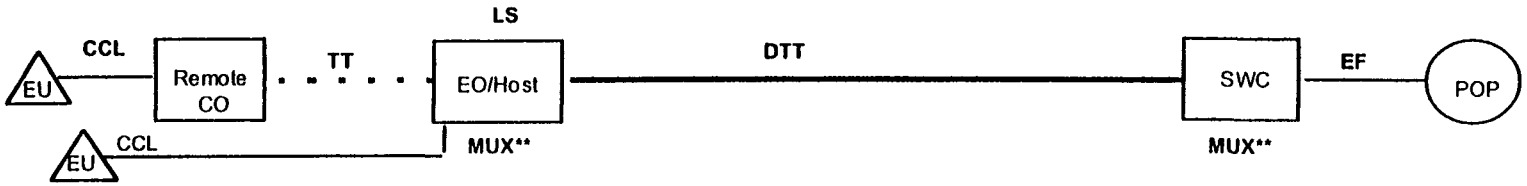
SWITCHED ACCESS NETWORK DIAGRAM



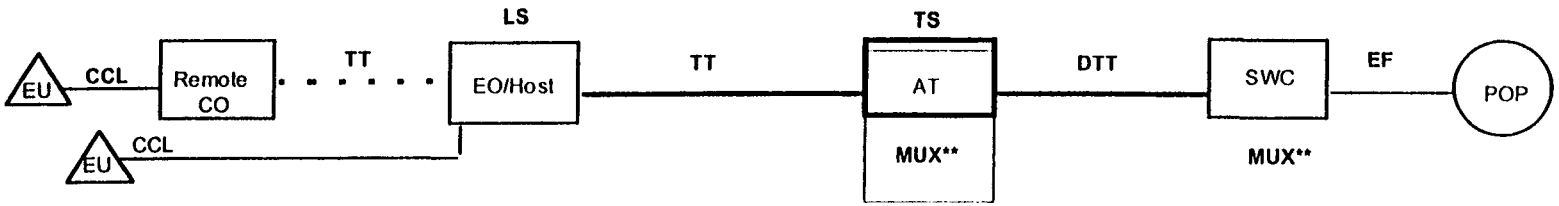
U S WEST COMMUNICATIONS

Current Switched Access Price Structure

DIRECT TRUNKED TRANSPORT



TANDEM SWITCHED TRANSPORT



POP	- Point of Presence
SWC	- Serving Wire Center
AT	- Access Tandem
EO	- End Office
EU	- End User

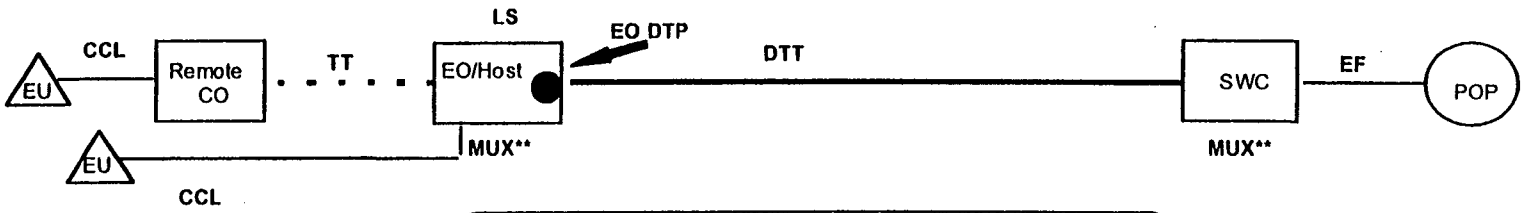
Rate Elements

EF	- Entrance Facility
DTT	- Direct Trunked Transport
TT	- Tandem Transmission
TS	- Tandem Switching
MUX**	- Optional Multiplexer
LS	- Local Switching
CCL	- Carrier Common Line

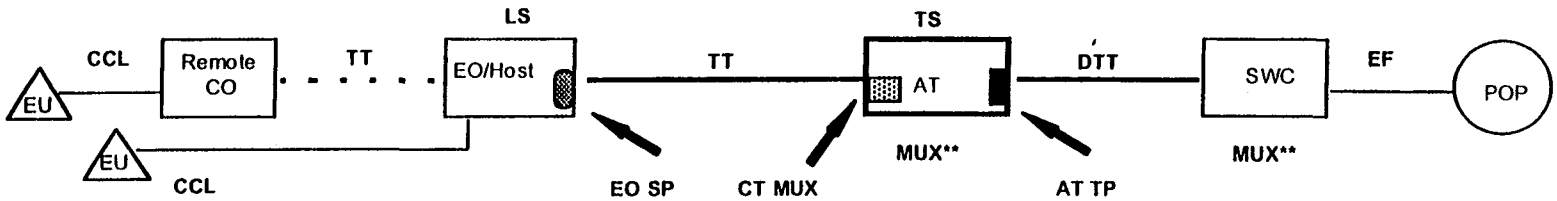
U S WEST COMMUNICATIONS

Proposed Switched Access Price Structure

DIRECT TRUNKED TRANSPORT



TANDEM SWITCHED TRANSPORT



POP - Point of Presence
SWC - Serving Wire Center
AT - Access Tandem
EO - End Office
EU - End User

Existing Rate Elements

EF - Entrance Facility
DTT - Direct Trunked Transport
TT - Tandem Transmission
TS - Tandem Switching
MUX** - Optional Multiplexer
LS - Local Switching
CCL - Carrier Common Line

Additional Rate Elements

EO DTP - End Office Dedicated Trunk Port
EO SP - End Office Shared Port
AT TP - Access Tandem Trunk Port
CT MUX - Common Transport Multiplexing

Arizona Current and Proposed Switched Access Prices

RECURRING CHARGES

DIRECT TRUNKED TRANSPORT	Current		Proposed	
	Fixed	Per Mile	Fixed	Per Mile
VOICE GRADE	Per Month	Per Month	Per Month	Per Month
0 MILE				
OVER 0 - 8 MILES	$12.55	$0.80	$25.96	$0.17
OVER 8 - 25 MILES	$12.15	$0.85	$25.96	$0.17
OVER 25 - 50 MILES	$9.50	$1.05	$25.96	$0.17
OVER 50 MILES	$8.50	$1.10	$32.45	$0.52

TANDEM SWITCHED TRANSPORT

		Per Minute		Per Minute
TANDEM TRANSMISSION	Per Minute	Per Mile	Per Minute	Per Mile
0 MILE				
OVER 0 - 8 MILES	$0.000431	$0.000024	$0.000199	$0.000020
OVER 8 - 25 MILES	$0.000480	$0.000025	$0.000224	$0.000020
OVER 25 - 50 MILES	$0.000490	$0.000025	$0.000242	$0.000022
OVER 50 MILES	$0.000551	$0.000027	$0.000265	$0.000023
		Per Minute		Per Minute
TANDEM SWITCHING		$0.006750		$0.005000
		Per Month		Per Month
ENTRANCE FACILITIES Voice Grade		$25.50		$63.45
		Per Minute		Per Minute
END OFFICE SHARED PORT		-		$0.001300
		Per Minute		Per Minute
COMMON TRANSPORT MULTIPLEXING		-		$0.000137
		Per Month		Per Month
TANDEM TRUNK PORT		-		$6.59
		Per Month		Per Month
END OFFICE DEDICATED TRUNK PORT		-		$9.01
		Per Minute		Per Minute
INTERCONNECTION CHARGE		$0.006212		$0.002127
LOCAL SWITCHING		Per Minute		Per Minute
Originating		$0.017300		$0.017300
Terminating		$0.017300		$0.017300
CARRIER COMMON LINE		Per Minute		Per Minute
Originating		$0.010000		$0.010000
Terminating		$0.024200		$0.024200
		Per Minute		Per Minute
MESSAGE UNIT CREDIT		($0.004013)		($0.000441)

COMMON CHANNEL SIGNALING ACCESS CHANNEL

			Fixed	Per Mile
DSO			Per Month	Per Month
0 MILE				
OVER 0 - 8 MILES			$25.96	$0.17
OVER 8 - 25 MILES			$25.96	$0.17
OVER 25 - 50 MILES			$25.96	$0.17
OVER 50 MILES			$32.45	$0.52
		Per Month		Per Month
STP PORT		$850.00		$465.00

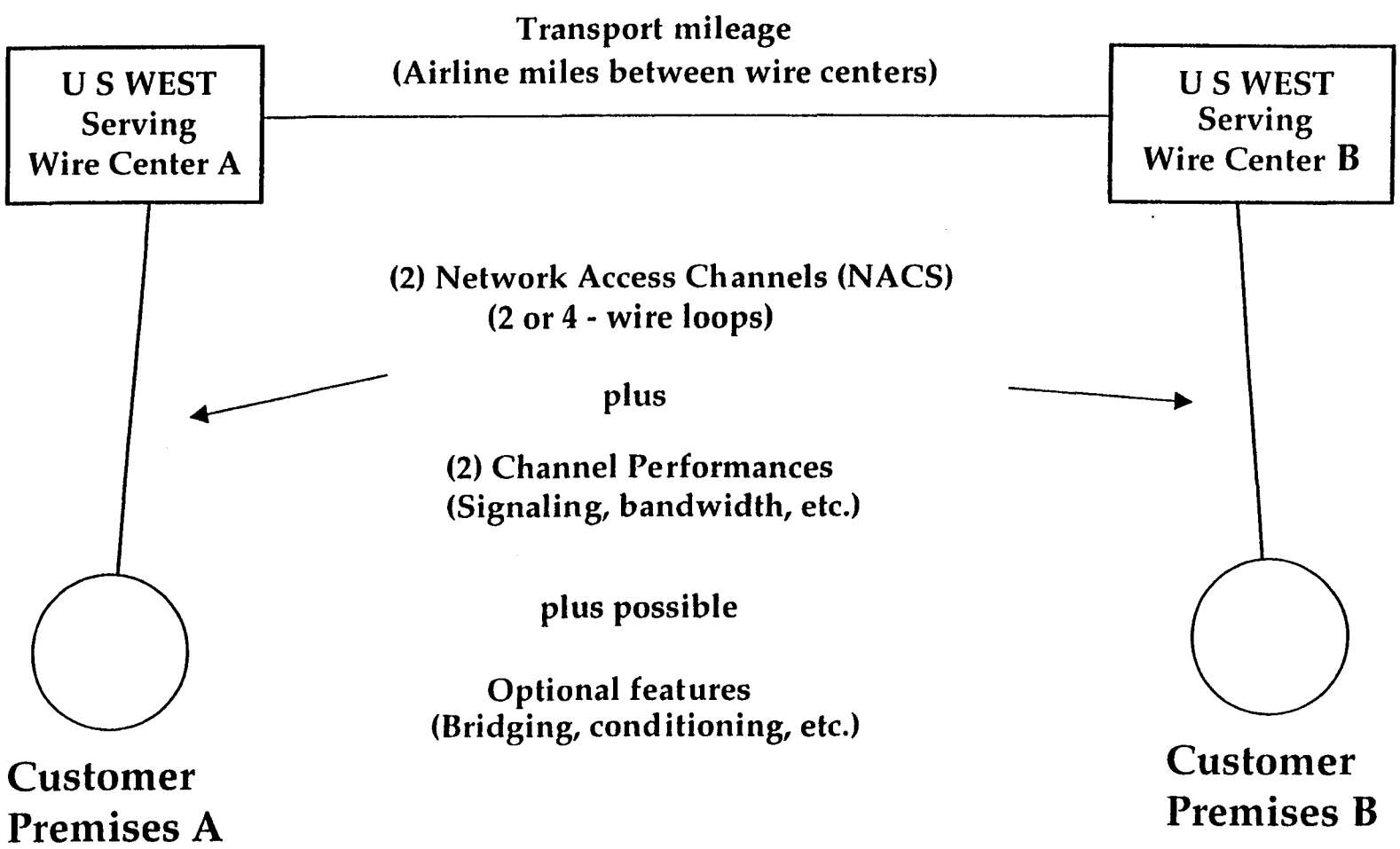
Arizona Current and Proposed Switched Access Prices

DIRECTORY ASSISTANCE	Current		Proposed	
DIRECT TRUNKED TRANSPORT	Fixed Per Month	Per Mile Per Month	Fixed Per Month	Per Mile Per Month
VG				
0 MILE				
OVER 0 - 8 MILES	$12.55	$0.80	$25.96	$0.17
OVER 8 - 25 MILES	$12.15	$0.85	$25.96	$0.17
OVER 25 - 50 MILES	$9.50	$1.05	$25.96	$0.17
OVER 50 MILES	$8.50	$1.10	$32.45	$0.52
TANDEM SWITCHED TRANSPORT				
TANDEM TRANSMISSION	Per Call	Per Call Per Mile	Per Call	Per Call Per Mile
0 MILE				
OVER 0 - 8 MILES	$0.000178	$0.000010	$0.000117	$0.000012
OVER 8 - 25 MILES	$0.000198	$0.000010	$0.000131	$0.000012
OVER 25 - 50 MILES	$0.000202	$0.000010	$0.000142	$0.000013
OVER 50 MILES	$0.000228	$0.000011	$0.000155	$0.000013
TANDEM SWITCHING	Per Call $0.002788		Per Call $0.002928	
COMMON TRANSPORT MULTIPLEXING	Per Call -		Per Call $0.000080	
TANDEM TRUNK PORT	Per Month -		Per Month $6.59	
INTERCONNECTION	Per Call $0.002566		Per Call $0.001245	
DA SERVICE CALL	Per Call $0.22		Per Call $0.35	
DA CREDIT	Per Call $0.015200		Per Call $0.019582	

Arizona Current and Proposed Switched Access Prices

NONRECURRING CHARGES	Current	Proposed
Additional Engineering		
Basic Time		
1st Half Hour	$23.00	$30.00
Each Add'l Half Hour	$23.00	$30.00
Overtime		
1st Half Hour	$29.00	$40.00
Each Add'l Half Hour	$29.00	$40.00
Additional Labor (Installation)		
Overtime		
1st Half Hour	$6.00	$9.00
Each Add'l Half Hour	$6.00	$9.00
Premium Time		
1st Half Hour	$11.00	$17.00
Each Add'l Half Hour	$11.00	$17.00
Additional Labor (Other)		
Basic Time		
1st Half Hour	$19.00	$28.00
Each Add'l Half Hour	$19.00	$28.00
Overtime		
1st Half Hour	$24.00	$36.00
Each Add'l Half Hour	$24.00	$36.00
Premium Time		
1st Half Hour	$29.00	$45.00
Each Add'l Half Hour	$29.00	$45.00
Additional Cooperative Acceptance Testing		
Basic Time		
1st Half Hour	$19.00	$28.00
Each Add'l Half Hour	$19.00	$28.00
Overtime Time		
1st Half Hour	$25.00	$36.00
Each Add'l Half Hour	$25.00	$36.00
Premium Time		
1st Half Hour	$31.00	$45.00
Each Add'l Half Hour	$31.00	$45.00
Nonscheduled Cooperative Testing		
Basic Time		
1st Half Hour	$19.00	$28.00
Each Add'l Half Hour	$19.00	$28.00
Overtime Time		
1st Half Hour	$24.00	$36.00
Each Add'l Half Hour	$24.00	$36.00
Premium Time		
1st Half Hour	$29.00	$45.00
Each Add'l Half Hour	$29.00	$45.00
Nonscheduled Manual Testing		
Basic Time		
1st Half Hour	$19.00	$28.00
Each Add'l Half Hour	$19.00	$28.00
Overtime Time		
1st Half Hour	$24.00	$36.00
Each Add'l Half Hour	$24.00	$36.00
Premium Time		
1st Half Hour	$29.00	$45.00
Each Add'l Half Hour	$29.00	$45.00
Maintenance of Service		
Basic Time - Each Half Hour	-	$27.00
Overtime - Each Half Hour	-	$36.00
Pemium Time - Each Half Hour	-	$45.00
Design Changes	$63.00	$70.00

Private Line Diagram



Private Line Network Access Channel and Channel Performance Prices

ELEMENT/SERVICE	USOC	PRESENT PRICE	PROPOSED PRICE
NETWORK ACCESS CHANNEL (NAC)			
2-WIRE	1DC2X	11.50	28.00
4-WIRE	1DC4X	23.00	56.00
NAC ANNUAL REVENUE EFFECT			
CHANNEL PERFORMANCE			
LOW SPEED DATA			
(END-LINK/MID-LINK)			
LS1	PCW3X	5.00	7.00
LS2	PCW4X	16.00	16.00
MT3	PJWAX	1.50	7.00
TG1	PCW5X	30.00	30.00
TG2	PCW6X	35.00	35.00
(END-TO-END)			
LS31 CONTROL	PCWSX	13.35	12.00
LS31 MCCULLOH	PCWTX	4.62	8.50
LS31 DC CHANNEL	PCWWX	1.50	6.00
LS31 TELEGRAPH			
0 - 75 BAUD	PCWUX	30.00	18.00
0 - 150 BAUD	PCWVX	35.00	20.00
VOICE GRADE			
(END-LINK/MID-LINK)			
VG1			
NO SIGNALING	PCWEX	7.50	8.00
LOOP START	PCWYX	18.70	18.50
GROUND START	PCWJX	14.70	15.00
VG2			
NO SIGNALING	PCWEX	8.05	10.00
LOOP START - LA	PCWAX	18.00	14.00

Private Line Network Access Channel and Channel Performance Prices

ELEMENT/SERVICE	USOC	PRESENT PRICE	PROPOSED PRICE
- LB	PCWBX	16.00	14.75
- LC	PCWCX	14.50	14.50
- LO	PJWCX	10.00	10.00
- LS	PJWHX	11.50	14.00
SF SIGNALING	PCWZX	21.15	18.00
MANUAL RINGDOWN	PCWFX	23.69	25.00
AUTO RINGDOWN	PCWGX	13.00	16.50
CODE-SELECT	PCWHX	10.50	22.50
VG3			
NO SIGNALING	PCWEX	9.50	7.45
LOOP START	PCWYX	21.00	20.00
GROUND START	PCWJX	21.00	17.00
E & M SIGNALING	PCWKX	21.50	19.00
SF SIGNALING	PCWZX	36.00	22.00
REVERSE BATTERY	PCW1X	11.00	11.00
TYPE - DX	PJWOX	15.10	15.00
TYPE - DY	PJWPX	13.90	15.00
VG5			
NO SIGNALING	PCWEX	5.18	10.00
DATA STREAM	PCWLX	21.00	16.00
VG6			
NO SIGNALING	PCWEX	13.80	10.00
DATA STREAM	PCWLX	21.00	16.00
VG7			
NO SIGNALING	PCWEX	9.50	10.00
LOOP START - LA	PCWAX	23.00	17.00
- LB	PCWBX	21.90	16.00
- LC	PCWCX	24.50	14.50
- LO	PJWCX	11.60	10.00
- LS	PJWHX	14.00	13.00

Private Line Network Access Channel and Channel Performance Prices

ELEMENT/SERVICE	USOC	PRESENT PRICE	PROPOSED PRICE
GROUND START	PCWJX	12.70	12.70
E&M SIGNALING	PCWKX	17.40	20.00
SF SIGNALING	PCWZX	22.10	22.00
TYPE - DX	PJWOX	12.75	15.00
TYPE - DY	PJWPX	12.75	15.00
VG8			
LOOP START	PCWYX	27.50	22.00
E&M SIGNALING	PCWKX	18.60	21.00
SF SIGNALING	PCWZX	17.50	22.00
VG-9			
NO SIGNALING	PCWEX	6.90	11.00
E&M SIGNALING	PCWKX	20.13	20.00
SF SIGNALING	PCWZX	17.50	17.50
VG10			
NO SIGNALING	PCWEX	4.65	10.00
DATA STREAM	PCWLX	21.00	17.00
VG12			
DATA STREAM (END-TO-END)	PCWLX	21.00	17.00
VG32			
NO SIGNALING	PCWEX	8.05	8.00
LOOP START - LA	PCWAX	18.00	12.00
- LB	PCWBX	16.00	12.00
- LC	PCWCX	14.50	10.00
- LG	PCW8X	18.50	15.00
- LO	PJWCX	10.00	8.00
- LS	PJWHX	11.50	9.50
MAN. RINGDOWN	PCWFX	10.50	8.00

Private Line Network Access Channel and Channel Performance Prices

ELEMENT/SERVICE	USOC	PRESENT PRICE	PROPOSED PRICE
AUTO RINGDOWN			
CODE SEL. RINGDN	PCWGX	13.00	8.00
VG33	PCWHX	10.50	8.00
NO SIGNALING			
E & M SIGNALING	PCWEX	9.50	9.50
REV BAT SIG	PCWKX	21.50	16.25
	PCW1X	7.90	10.00
VG36			
DATA STREAM	PCWLX	21.00	15.50
VOICE GRADE BASIC			
NO SIGNALING	PCWEX	3.00	9.00
LOCAL AREA DATA SERVICE (LADS)			
NO SIGNALING	PCWXX	5.45	8.00
(DSAS) DATAPHONE SELECT-A-STATION			
END TO END	PJW7X	14.00	15.00
END LINK MID LINK	PJW7X	14.20	15.00
AUDIO			
(END-LINK/MID-LINK)			
AP1	PJW1X	3.25	8.00
AP2	PJW2X	13.26	15.00
AP3	PJW3X	15.40	16.00
AP4	PJWBX	26.20	26.00
(END-TO-END)			
AP31	PCWNX	3.25	8.00
AP32	PCWOX	13.26	12.00
AP33	PCWQX	15.40	13.50
AP34	PJW5X	[illegible]	[illegible]

Private Line Network Access Channel and Channel Performance Prices

ELEMENT/SERVICE	USOC	PRESENT PRICE	PROPOSED PRICE
FX			
LOOP ST	PJWEX	24.42	18.00
GR ST	PJWKX	24.42	18.00
REV BAT	PJWLX	24.42	18.00
FCO			
LOOP ST	PJWFX	8.48	8.00
GR ST	PJWMX	8.48	8.00
REV BAT	PJWZX	19.25	8.00
EXCHANGE SERVICE EXTNS	PJWGX	6.50	9.50
TAS	PJWJX	5.85	9.50

Private Line Transport Mileage Prices

	ELEMENT	USOC	PRESENT PRICE	PROPOSED PRICE
TRANSPORT MILEAGE				
	Fixed-Over 0 to 8	FQYX1	17.00	17.00
	Fixed-Over 8 to 25	FQYX2	17.00	17.00
	Fixed-Over 25 to 50	FQYX3	17.00	17.00
	Fixed-Over 50	FQYX4	17.00	17.00
	Per Mi.-Over 0 to 8	3LBXA	1.00	0.65
	Per Mi.-Over 8 to 25	3LBXB	1.10	0.75
	Per Mi.-Over 25 to 50	3LBXC	1.45	1.00
	Per Mi.-Over 50	3LBXD	1.45	1.05
AUDIO				
AP 1 OR AP 31	Fixed-Over 0 to 8	FQYX1	17.00	17.00
	Fixed-Over 8 to 25	FQYX2	17.00	17.00
	Fixed-Over 25 to 50	FQYX3	17.00	17.00
	Fixed-Over 50	FQYX4	17.00	17.00
	Per Mi.-Over 0 to 8	3LBXA	1.00	0.65
	Per Mi.-Over 8 to 25	3LBXB	1.10	0.75
	Per Mi.-Over 25 to 50	3LBXC	1.45	1.00
	Per Mi.-Over 50	3LBXD	1.45	1.05
AP 2 OR AP32	Fixed-Over 0 to 8	FQYX1	34.00	34.00
	Fixed-Over 8 to 25	FQYX2	34.00	34.00
	Fixed-Over 25 to 50	FQYX3	34.00	34.00
	Fixed-Over 50	FQYX4	34.00	34.00
	Per Mi.-Over 0 to 8	3LBXA	1.00	0.85
	Per Mi.-Over 8 to 25	3LBXB	1.10	1.00
	Per Mi.-Over 25 to 50	3LBXC	1.45	1.05
	Per Mi.-Over 50	3LBXD	1.45	1.15

Private Line Transport Mileage Prices

	ELEMENT	USOC	PRESENT PRICE	PROPOSED PRICE
AP3 OR AP 33	Fixed-Over 0 to 8	FQYX1	51.00	51.00
	Fixed-Over 8 to 25	FQYX2	51.00	51.00
	Fixed-Over 25 to 50	FQYX3	51.00	51.00
	Fixed-Over 50	FQYX4	51.00	51.00
	Per Mi.-Over 0 to 8	3LBXA	1.00	0.85
	Per Mi.-Over 8 to 25	3LBXB	1.10	1.00
	Per Mi.-Over 25 to 50	3LBXC	1.45	1.05
	Per Mi.-Over 50	3LBXD	1.45	1.15
AP4 OR AP 34	Fixed-Over 0 to 8	FQYX1	112.00	110.00
	Fixed-Over 8 to 25	FQYX2	112.00	110.00
	Fixed-Over 25 to 50	FQYX3	112.00	110.00
	Fixed-Over 50	FQYX4	112.00	110.00
	Per Mi.-Over 0 to 8	3LBXA	1.00	0.85
	Per Mi.-Over 8 to 25	3LBXB	1.10	1.00
	Per Mi.-Over 25 to 50	3LBXC	1.45	1.05
	Per Mi.-Over 50	3LBXD	1.45	1.15

Private Line Optional Feature Function Prices

ELEMENT/SERVICE	USOC	PRESENT PRICE	PROPOSED PRICE
LOW SPEED DATA			
MCCULLOH BRIDGING	B5NHF	3.80	3.80
TELEGRAPH BRIDGING			
0 TO 75 BAUD	B5NJF	4.60	22.00
0 TO 150 BAUD	B5NKF	47.00	60.00
DIRECT BRIDGING	BMW	2.85	2.85
VOICE GRADE			
RESISTIVE BRIDGING			
TWO-WIRE	B5NA2	7.48	6.00
FOUR-WIRE	B5NA4	8.95	7.00
BRIDGE LIFTER	BLBV2	1.00	2.00
SPLIT FREQ BRDGNG			
TWO-WIRE	B5NVB	3.60	7.50
FOUR-WIRE	B5NVC	12.20	9.25
PASSIVE BRIDGING	B5NVP	5.25	6.25
SUMMATION BRIDGING	B5NVS	5.85	8.25
CONDITIONING, PER NAC			
END LINK - MID LINK			
C CONDITIONING	X1CPT	8.90	8.50
DATA CAPABILITY	XDCPT	1.00	1.00
IMPROVED ATTENUATION DISTORTION	UHW	0.40	0.50
IMPROVED ENVELOPE DELAY DISTORTION	UHY	23.20	15.00

Private Line Optional Feature Function Prices

	END-TO-END			
	C1	O1B	8.90	5.00
	C2	O2B	17.17	5.00
	C4	O4B	51.52	10.00
	D1	O1D	17.17	5.00
	DATA ENHANCEMENT	3BE	2.00	2.00
	EFFECTIVE 4 WIRE	HBD	18.60	12.00
	EQ LVL PATH LOSS	CRP	5.80	5.00
	IMPROVED RETURN LOSS	1QA2W	12.90	9.00
	IMPROVED TERMINATION	CP6	4.70	4.25
DSAS	2-WIRE BRIDGING	DSK	6.40	7.00
	4-WIRE BRIDGING	DSP	15.10	15.00
AUDIO SERVICE				
	AUDIO BRIDGING			
	AP1/31	BCNPT	4.00	6.00
	AP2/32	BCNPT	5.20	6.00
	AP3/33	BCNPT	22.80	6.00
	AP4/34	BCNPT	14.85	12.00

	USOC	PRESENT PRICE	PROPOSED PRICE
LOW SPEED DATA:			
SERVICE PROVISIONING			
INITIAL	SCH	261.00	305.00
SUBSEQUENT	SCHAX	136.00	165.00
CHANNEL PERFORMANCE (END LINK/MID LINK)			
LS1 - Same Wire Center	PCW3X	80.00	75.00
LS2 - Same Wire Center	PCW4X	82.00	75.00
MT3	PJWAX	79.00	75.00
TG1	PCW5X	84.00	75.00
TG2	PCW6X	83.00	75.00
CHANNEL PERFORMANCE (END TO END)			
LS31 CONTROL- Same Wire Ctr	PCWSX	80.00	75.00
LS31 MCCULLOH- Same Wire Ctr	PCWTX	80.00	75.00
LS31 DC CHANNEL	PCWWX	79.00	75.00
LS31 TELEGRAPH			
0 - 75 BAUD	PCWUX	83.00	75.00
0 - 150 BAUD	PCWVX	88.00	75.00
VOICE GRADE			
SERVICE PROVISIONING			
INITIAL	SCH	261.00	305.00
SUBSEQUENT	SCHAX	136.00	165.00
CHANNEL PERFORMANCE (END LINK/MID LINK)			
VG1			
NO SIGNALING	PCWEX	82.00	80.00
LOOP START	PCWYX	90.00	80.00
GROUND START	PCWJX	91.00	80.00
VG2			
NO SIGNALING	PCWEX	80.00	80.00
LOOP START - LA	PCWAX	92.00	80.00
- LB	PCWBX	94.00	80.00
- LC	PCWCX	94.00	80.00
-LO	PJWCX	91.00	80.00
- LS	PJWHX	91.00	80.00
SF SIGNALING	PCWZX	93.00	80.00

	USOC	PRESENT PRICE	PROPOSED PRICE
MANUAL RINGDOWN	PCWFX	98.00	80.00
AUTO RINGDOWN	PCWGX	94.00	80.00
CODE-SELECT	PCWHX	98.00	80.00
VG3			
NO SIGNALING	PCWEX	77.00	80.00
LOOP START	PCWYX	91.00	80.00
GROUND START	PCWJX	91.00	80.00
E&M SIGNALING	PCWKX	95.00	80.00
SF SIGNALING	PCWZX	93.00	80.00
REVERSE BATTERY SIGNALLING	PCW1X	101.00	80.00
DUPLEX SIGNALLING - DX	PJWOX	90.00	80.00
DUPLEX SIGNALLING - DY	PJWPX	90.00	80.00
VG5			
NO SIGNALING	PCWEX	76.00	80.00
DATA STREAM	PCWLX	102.00	90.00
VG6			
NO SIGNALING	PCWEX	80.00	80.00
DATA STREAM	PCWLX	97.00	90.00
VG7			
NO SIGNALING	PCWEX	77.00	75.00
LOOP START - LA	PCWAX	91.00	80.00
- LB	PCWBX	91.00	80.00
- LC	PCWCX	91.00	80.00
-LO	PJWCX	92.00	80.00
- LS	PJWHX	94.00	80.00
GROUND START	PCWJX	90.00	80.00
E&M SIGNALING	PCWKX	97.00	80.00
SF SIGNALING	PCWZX	93.00	80.00
DUPLEX SIGNALLING - DX	PJWOX	90.00	80.00
DUPLEX SIGNALLING - DY	PJWPX	90.00	80.00
VG-8			
LOOP START	PCWYX	95.00	80.00
E&M SIGNALING	PCWKX	92.00	80.00
SF SIGNALING	PCWZX	92.00	80.00
VG-9			
NO SIGNALING	PCWEX	78.00	75.00
E&M SIGNALING	PCWKX	96.00	80.00
SF SIGNALING	PCWZX	92.00	80.00

	USOC	PRESENT PRICE	PROPOSED PRICE
VG-10			
NO SIGNALING	PCWEX	75.00	75.00
DATA STREAM	PCWLX	100.00	95.00
VG-12			
DATA STREAM	PCWLX	96.00	95.00
CHANNEL PERFORMANCE (END TO END)			
VOICE GRADE BASIC			
NO SIGNALING	PCWEX	50.00	50.00
VG32			
NO SIGNALING	PCWEX	77.00	65.00
LOOP START - LA	PCWAX	90.00	70.00
- LB	PCWBX	90.00	70.00
- LC	PCWCX	90.00	70.00
- LG	PCW8X	91.00	70.00
- LO	PJWCX	92.00	70.00
- LS	PJWHX	91.00	70.00
MANUAL RINGDOWN	PCWFX	89.00	70.00
AUTO RINGDOWN	PCWGX	94.00	70.00
CODE-SELECT	PCWHX	90.00	70.00
VG33			
NO SIGNALING	PCWEX	76.00	65.00
E & M	PCWKX	93.00	80.00
REVERSE BATTERY	PCW1X	98.00	80.00
VG36			
DATA STREAM	PCWLX	96.00	90.00
DATAPHONE SELECT-A-STATION (DSAS)			
SERVICE PROVISIONING			
INITITAL	SCH	261.00	305.00
CHANNEL PERFORMANCE	PJW7X	77.00	80.00
AUDIO			
SERVICE PROVISIONING			
INITITAL	SCH	261.00	305.00
SUBSEQUENT	SCHAX	136.00	165.00

Private Line Nonrecurring Prices

	USOC	PRESENT PRICE	PROPOSED PRICE
CHANNEL PERFORMANCE (END LINK/MID LINK)			
AP-1 (3.5 KHZ)	PJW1X	90.00	85.00
AP-2 (5.0KHZ)	PJW2X	90.00	85.00
AP-3 (8.0 KHZ)	PJW3X	90.00	85.00
AP-4 (15.0KHZ)	PJWBX	90.00	85.00
CHANNEL PERFORMANCE (END-END)			
AP31 (3.0 KHZ)	PCWNX	90.00	85.00
AP 32 (5.0 KHZ)	PCWOX	90.00	85.00
AP 33 (8.0 KHZ)	PCWQX	90.00	85.00
AP34 (15.0 KHZ)	PJW5X	90.00	85.00
EXCHANGE SERVICE EXTENSIONS (ESE)			
SERVICE PROVISIONING			
INITIAL	SCH	261.00	305.00
SUBSEQUENT	SCHAX	136.00	165.00
CHANNEL PERFORMANCE	PJWGX	50.00	45.00
FOREIGN EXCHANGE (FX) AND FOREIGN CENTRAL OFFICE (FCO)			
SERVICE PROVISIONING			
INITIAL	SCH	261.00	305.00
SUBSEQUENT	SCHAX	136.00	165.00
CHANNEL PERFORMANCE			
FX LOOP START	PJWEX	97.00	80.00
FX GROUND START	PJWKX	97.00	80.00
FX REV BATTERY	PJWLX	102.00	80.00
FCO LOOP START	PJWFX	97.00	80.00
FCO GROUND START	PJWMX	97.00	80.00
FCO REV BATTERY	PJWZX	102.00	80.00
TELEPHONE ANSWERING SERVICE (TAS)			
SERVICE PROVISIONING			
INITIAL	SCH	261.00	305.00
SUBSEQUENT	SCHAX	136.00	165.00
CHANNEL PERFORMANCE	PJWJX	76.00	75.00
TRANSPORT MILEAGE (ALL SERVICES)			

	USOC	PRESENT PRICE	PROPOSED PRICE
MILE BAND OVER 0-8	FQYX1	51.00	70.00
MILE BAND OVER 8-25	FQYX2	51.00	70.00
MILE BAND OVER 25-50	FQYX3	51.00	70.00
MILE BAND OVER OVER 50	FQYX4	51.00	70.00
OPTIONAL FEATURES			
LOW SPEED DATA			
BRIDGING			
MCCULLOH	B5NHF	2.15	5.00
TELEGRAPH 75 BAUD	B5NJF	4.32	8.00
150 BAUD	B5NKF	6.15	9.00
DIRECT	BMW		3.00
VOICE			
BRIDGING			
RESISTIVE 2-WIRE	B5NA2	8.50	8.00
RESISTIVE 4-WIRE	B5NA4	7.00	9.00
SPLIT FREQUENCY 2-WIRE	B5NVB	5.00	6.75
SPLIT FREQUENCY 4-WIRE	B5NVC	4.00	5.50
PASSIVE	B5NVP	5.00	6.50
SUMMATION	B5NVS	2.75	5.00
BRIDGE LIFTER	BLBV2	3.50	5.50
TRANSFER ARRANGEMENT 2-WIRE	USY2X	5.00	5.00
TRANSFER ARRANGEMENT 4-WIRE	USY4X	7.00	8.00
AUDIO BRIDGING			
AP1/AP31	BCNPT	4.00	5.50
AP2/AP32	BCNPT	4.00	5.50
AP3/AP33	BCNPT	4.00	5.50
AP4/AP34	BCNPT	4.00	5.50
CONDITIONING			
TYPE C	X1CPT	20.00	22.50
TYPE D	XDCPT	19.00	22.50
C1	O1B	20.00	22.50
C2	O2B	20.00	22.50
C4	O4B	20.00	22.50

	USOC	PRESENT PRICE	PROPOSED PRICE
D1	O1D	19.00	22.50
IMPROVED ATTENUATION DISTORTION	UHW	17.00	10.00
IMPROVED ENVELOPE DELAY DISTORTION	UHY	16.00	10.00
DATA ENHANCEMENT	3BE	19.00	22.50
EFFECTIVE 4 WIRE	HBD	13.00	8.00
EQUAL LVL ECHO PAT LOSS	CRP	12.00	8.00
IMPROVED RET LOSS	1QA2W	12.00	8.00
IMPROVED TERMINATION	CP6	12.00	8.00
DATA CHAN TERM EQPT			
CO POWERED	LBA	61.00	61.00
CUST POWERED	LBD	61.00	61.00
DATAPHONE SELECT-A-STATION (DSAS)			
BRIDGING			
PORT TERMINATION 2-WIRE	DSK	4.00	10.00
PORT TERMINATION 4-WIRE	DSP	4.00	10.00
MISCELLANEOUS NONRECURRING CHARGES			
DESIGN CHANGE CHARGE	H28	63.00	70.00
ADDITIONAL ENGINEERING PER 1/2 HR.			
BASIC	AEQXX	23.00	30.00
OVERTIME	AEQOX	29.00	40.00
ADDITIONAL LABOR AT INSTAL. PER 1/2 HR.			
OVERTIME	ALFOX	6.00	9.00
PREMIUM	ALFPX	11.00	17.00
ADDITIONAL LABOR OTHER PER. PER 1/2 HR.			
BASIC TIME	ALGXX	19.00	28.00
OVERTIME	ALGOX	24.00	36.00
PREMIUM TIME	ALGPX	29.00	45.00

Digital Data Service Prices

ELEMENT	USOC	PRESENT PRICE	PROPOSED PRICE
RECURRING:			
NETWORK ACCESS CHANNEL (NAC)			
DDS (4-WIRE)	1DC4X	31.50	56.00
CHANNEL PERFORMANCE			
(END-LINK/MID-LINK)			
2.4 kbit/s	PJWQX	46.00	35.00
4.8 kbit/s	PJWRX	46.00	35.00
9.6 kbit/s	PJWSX	62.00	45.00
19.2 kbit/s	PMW7X	71.00	50.00
56 kbit/s	PJWTX	80.00	55.00
64 kbit/s	PM2LX	80.00	55.00
(END-TO-END)			
2.4 kbit/s	PJWUX	46.00	35.00
4.8 kbit/s	PJWVX	46.00	35.00
9.6 kbit/s	PJWWX	62.00	45.00
19.2 kbit/s	PMW8X	71.00	50.00
56 kbit/s	PJWYX	80.00	55.00
64 kbit/s	PM2KX	80.00	55.00
CHANNEL PERFORMANCE SUBTOTAL			
TRANSPORT MILEAGE			
PRESENT:			
FIXED-LESS THAN 1 MILE			
2.4 kbit/s	XUQ1X	15.00	
4.8 kbit/s	XUQ1X	20.00	
9.6 kbit/s	XUQ1X	30.00	
19.2 kbit/s	XUQ1X	40.00	
56 kbit/s	XUQ1X	45.00	
64 kbit/s	XUQ1X	50.00	
FIXED-1 THRU 25 MILES			

Digital Data Service Prices

ELEMENT		USOC	PRESENT PRICE	PROPOSED PRICE
	2.4 kbit/s	XUQ2X	55.00	
	4.8 kbit/s	XUQ2X	55.00	
	9.6 kbit/s	XUQ2X	65.00	
	19.2 kbit/s	XUQ2X	90.00	
	56 kbit/s	XUQ2X	110.00	
	64 kbit/s	XUQ2X	110.00	
FIXED-OVER 25 MILES				
	2.4 kbit/s	XUQ3X	60.00	
	4.8 kbit/s	XUQ3X	60.00	
	9.6 kbit/s	XUQ3X	80.00	
	19.2 kbit/s	XUQ3X	100.00	
	56 kbit/s	XUQ3X	110.00	
	64 kbit/s	XUQ3X	120.00	
PER MI-1 THRU 25 MILES				
	2.4 kbit/s	1LN42	0.78	
	4.8 kbit/s	1LN42	1.11	
	9.6 kbit/s	1LN42	1.20	
	19.2 kbit/s	1LN42	1.20	
	56 kbit/s	1LN42	1.20	
	64 kbit/s	1LN42	1.20	
PER MI-OVER 25 MILES				
	2.4 kbit/s	1LN43	0.95	
	4.8 kbit/s	1LN43	0.95	
	9.6 kbit/s	1LN43	0.95	
	19.2 kbit/s	1LN43	0.95	
	56 kbit/s	1LN43	0.95	
	64 kbit/s	1LN43	0.95	
PROPOSED, ALL SPEEDS (QUANTITIES DIVIDED AMONG PROPOSED MILEAGE BANDS)				
FIXED-OVER 0 TO 8 MILES		FQYX1		60.00

Digital Data Service Prices

ELEMENT	USOC	PRESENT PRICE	PROPOSED PRICE
FIXED-OVER 8 TO 25 MILES	FQYX2		60.00
FIXED-OVER 25 TO 50 MILES	FQYX3		60.00
FIXED-OVER 50 MILES	FQYX4		60.00
PER MILE-OVER 0 TO 8 MILES	3LBXA		1.00
PER MILE-OVER 8 TO 25 MILES	3LBXB		1.00
PER MILE-OVER 25 TO 50 MILES	3LBXC		1.00
PER MILE-OVER 50 MILES	3LBXD		1.00
		TRANSPORT MILEAGE SUBT	
		SUBTOTAL RECURRING	
NONRECURRING:			
SERVICE PROVISIONING			
INITIAL	SCH		240.00
SUBSEQUENT	SCHAX		170.00
CHANNEL PERFORMANCE	PJWWX	370.50	105.00
	PMW8X	370.50	105.00
	PJWYX	370.50	105.00
	PJWWX	345.50	105.00
	PJWYX	345.50	105.00
		SUBTOTAL NONRECURRING	

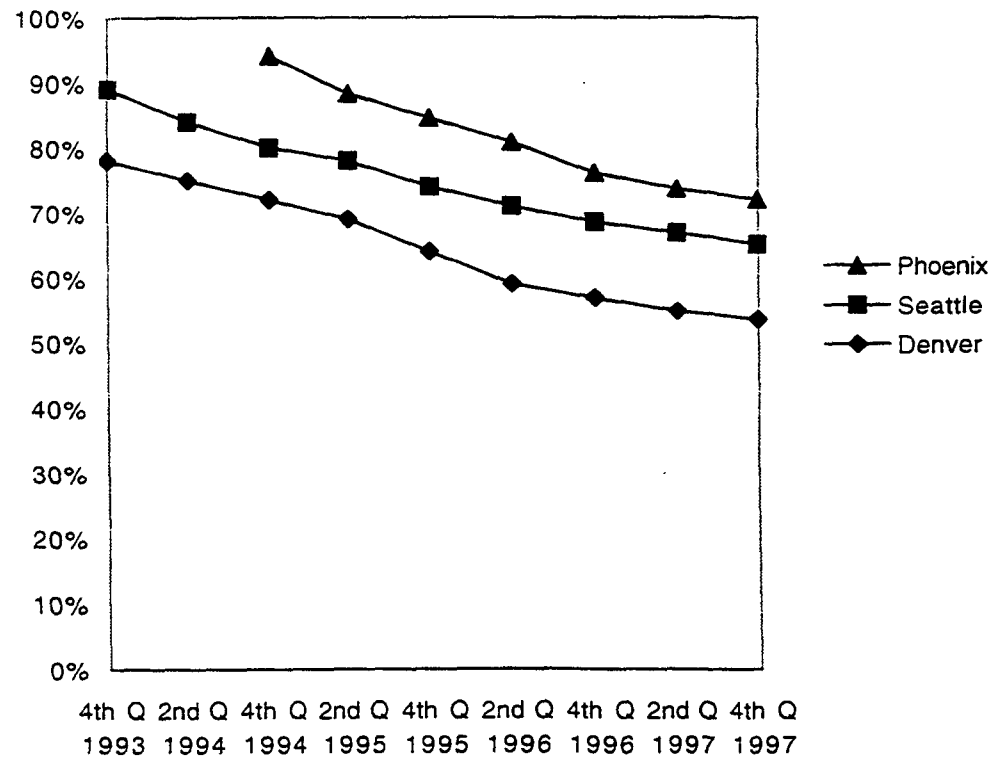
PRICING CHANGES FOR COCOT CUSTOMERS BEING CONVERTED TO PAL SERVICE

CURRENT SERVICE AND PRICE		SERVICE AND PRICE AFTER CONVERSION	
Measured Guestline	$19.35	Measured Guestline	$19.66
Measured Full Resale	$16.85	Measured Full Resale	$17.16
Measured Full Resale with Fraud Protection	$19.35	Measured Full Resale with Fraud Protection	$19.66
Flat Guestline	$54.75	Flat Guestline	$44.81
Flat Full Resale	$53.25	Flat Full Resale	$42.31
Flat Full Resale with Fraud Protection	$55.75	Flat Full Resale with Fraud Protection	$44.81

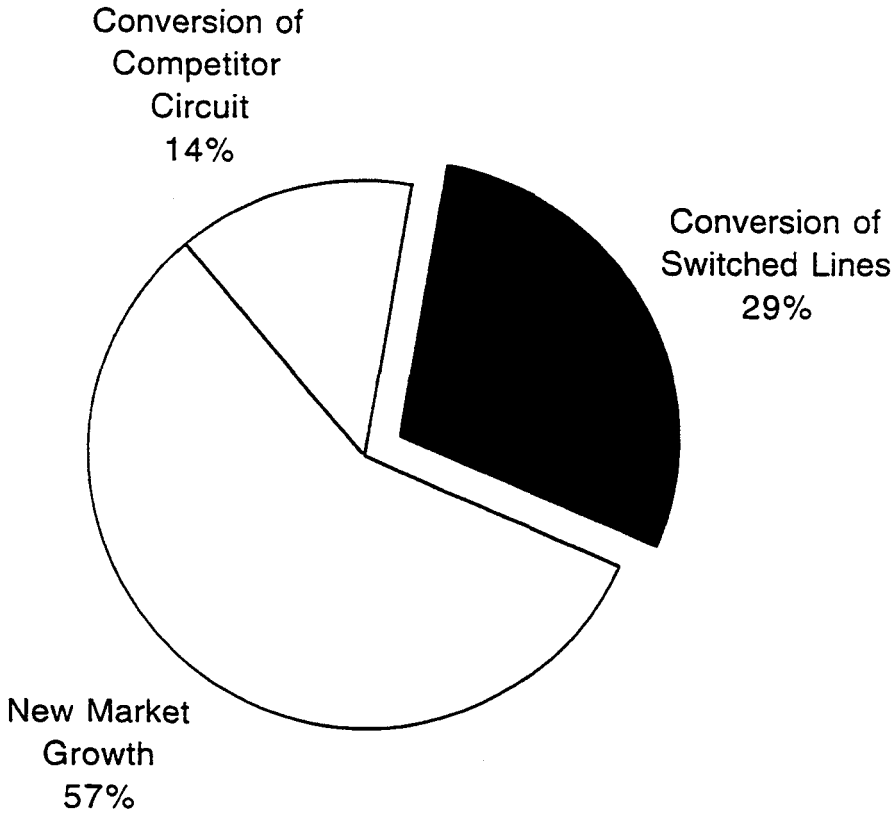
MEASURED USAGE

• Intra Wire Center – Band A $0.03 (initial min)/$0.01 (add. min)	$0.05 (initial min)/$0.015 (add. min)
• Inter Wire Center 0 to 25 miles – Band B $0.05 (initial min)/$0.015 (add. min)	$0.05 (initial min)/$0.015 (add. min)
• Inter Wire Center 25 to 55 miles – Band C $0.06 (initial min)/$0.02 (add. min)	$0.05 (initial min)/$0.015 (add. min)

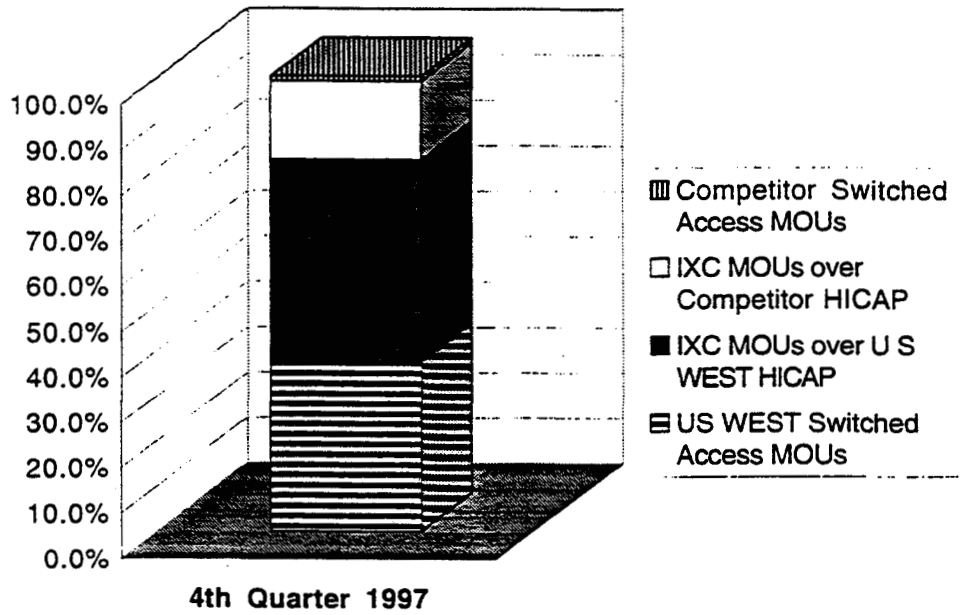
U S WEST Market Share for High Capacity Private Line Services Provided to End Users



Sources of Growth for End User High Capacity Private Line Services in Phoenix



Long Distance Minutes of Use in Phoenix



BEFORE THE ARIZONA CORPORATION COMMISSION

IN THE MATTER OF THE APPLICATION OF U S WEST COMMUNICATIONS, INC., A COLORADO CORPORATION, FOR A HEARING TO DETERMINE THE EARNINGS OF THE COMPANY, THE FAIR VALUE OF THE COMPANY FOR RATEMAKING PURPOSES, TO FIX A JUST AND REASONABLE RATE OF RETURN THEREON AND TO APPROVE RATE SCHEDULES DESIGNED TO DEVELOP SUCH RETURN	)	DOCKET NO. AFFIDAVIT OF BARBARA M. WILCOX
STATE OF COLORADO)	)	
COUNTY OF DENVER	)	
	) :)	SS

Barbara M. Wilcox, of lawful age being first duly sworn, deposes and states:

1. My name is Barbara M. Wilcox. I am Director – Product and Market Issues of U S WEST Communications in Denver, Colorado.

2. Attached hereto and made a part hereof for all purposes is my testimony.

3. I hereby swear and affirm that my answers contained in the attached testimony to the questions therein propounded are true and correct to the best of my knowledge and belief.

Barbara M. Wilcox
Barbara M. Wilcox

SUBSCRIBED AND SWORN to before me this 17th day of December, 1998.

Maija Beck
Notary Public

My Commission Expires:
May 8, 2000