

PUBLIC UTILITIES COMMISSION
MAILED

(Decision No. C91-497)

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BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

* * *

INVESTIGATION AND SUSPENSION OF)
PROPOSED CHANGES IN TARIFFS --)
COLORADO PUC NO. 5 -- TELEPHONE,) DOCKET NO. 90S-544T
THE MOUNTAIN STATES TELEPHONE AND)
TELEGRAPH COMPANY, DENVER, COLORADO)
80202.)

INVESTIGATION AND SUSPENSION OF)
PROPOSED CHANGES IN TARIFFS --) DOCKET NO. 91M-118T
U S WEST COMMUNICATIONS, INC.,)
PURSUANT TO ADVICE LETTER NO. 2173) INITIAL COMMISSION DECISION ON
AMENDED.) PHASE I, APPROVING STIPULATION

April 11, 1991

Appearances: Russell P. Rowe, Esq.;
Robert L. Connelly, Jr., Esq.; and
Laurie J. Bennett, Esq., Denver, Colorado, for
U S WEST Communications, Inc.;

Dudley P. Spiller, Jr., Esq., Denver,
Colorado, for the Colorado Municipal League
and the Colorado Cable Television Association;

T. Larry Barnes, Esq., Denver, Colorado, for
AT&T Communications of the Mountain States,
Inc.;

Thomas Quinn, Esq., for the Colorado Public
Interest Research Group;

Stephanie K. Walsh, Esq., for the Department of
Defense and Other Federal Executive Agencies;

Sue Weiske, Esq., for MCI Telecommunications
Corporation;

Mary Will, Esq., for Public Service Company of
Colorado;

Terry Parrish, Pro Se;

Neil L. Tillquist, First Assistant Attorney General and Deborah S. Waldbaum, Assistant Attorney General for the Office of Consumer Counsel; and

Mark W. Gerganoff, Assistant Attorney General and Mana L. Jennings-Fader, Assistant Attorney General for the Staff of the Public Utilities Commission.

STATEMENT

BY THE COMMISSION:

PROCEDURAL HISTORY OF PHASE I

This formal rate proceeding commenced when The Mountain States Telephone and Telegraph Company, d/b/a U S WEST Communications, Inc., hereinafter referred to as "U S WEST", filed its Advice Letter No. 2173 on September 14, 1990. That advice letter was accompanied by 239 tariff sheets. The filing proposed to implement increases and decreases in rates and charges for services and products U S WEST provides. It was stated in that advice letter that U S WEST needed \$108.7¹ million more in revenue annually, but that the tariffs accompanying the advice letter would increase revenues by approximately \$70.2 million annually. The Commission entered its Decision No. C90-1244 on September 19, 1990. That decision suspended the effective date of the tariff sheets accompanying Advice Letter No. 2173, until February 27, 1991, or further order of the Commission, and set the tariff sheets for hearing, to begin with a prehearing conference to be held on November 2, 1990.

The following entities and persons intervened on the date indicated:

The Office of Consumer Counsel (OCC)	September 19, 1990
The Staff of the Commission (Staff)	September 27, 1990
The Department of the Army and other Federal Executive Agencies (DOA)	October 1, 1990
MCI Telecommunications Corporation (MCI)	October 9, 1990
Stroh Ranch Communications, Ltd., Partnership	October 2, 1990

¹ This figure was subsequently changed by U S WEST as follows: September 19, 1990, to \$108.5 million; September 28, 1990, to \$107.021 million; December 31, 1990, to \$101.715 million; and finally on March 9, 1991, to \$109.3 million. These changes did not alter the proposed tariffs, or the amount of increased revenues they would result in, if allowed to go into effect.

Colorado Payphone Association, Tele-matic Corp., and Western Paytel	October 3, 1990
The Colorado Municipal League (League)	October 4, 1990
US Sprint Communications Company, Ltd., Partnership	October 17, 1990
The City of Aurora	October 18, 1990
AT&T	October 19, 1990
Ski Country USA	October 22, 1990
Colorado Network, Inc./Metropolitan Fiber Systems, Inc.	October 22, 1990
Bijou Telephone Coop Association, Inc.	October 23, 1990
Wiggins Telephone Association	October 24, 1990
Nucla-Naturita Telephone Company	October 24, 1990
Agate Mutual Telephone Company, Inc.	October 24, 1990
Farmers Telephone Company, Inc.	October 25, 1990
Columbine Telephone Company	October 25, 1990
Phillips County Telephone Company	October 25, 1990
Public Service Company of Colorado	October 25, 1990
Colorado Association of Realtors	October 25, 1990
Terry Parrish	October 25, 1990
Big Sandy Telecommunications, Inc.	October 26, 1990
Eastern Slope Rural Telephone Association, Inc.	October 26, 1990
Colorado Cable Television Association (CCTA)	October 26, 1990
Delta County Tele-Comm, Inc.,	October 29, 1990
Eagle Telecommunications, Inc.	October 29, 1990
Colorado Public Interest Research Group (COPIRG)	January 16, 1991

The Commission held hearings for the receipt of public testimony on: October 4, 1990, in Fort Collins; October 15, 1990, in Arapahoe County; October 18, 1990, in Westminster; October 25, 1990, in Denver; November 1, 1990, in Colorado Springs; November 8, 1990, in Pueblo; November 19, 1990, in Grand Junction; and on November 16, 1990, in Fort Collins. Public testimony hearings were held by one or more of the Commissioners.

The prehearing conference scheduled for November 2, 1990, was held by the Commissioners. As a result of the prehearing conference, Decision No. C90-1499 was released on November 9, 1990. That decision set hearing dates for the receipt of evidence for issues involved in Phase I,² to commence March 4, 1991, and continuing on March 5, 6, 7, 11, 12, 13, 14, 18, 19, 20, and 21, with March 15 and 22, 1991, reserved. It also set two additional prehearing conferences, one to be held February 1, 1991, and one to be held on February 26, 1991. A procedural schedule for Phase I was also established. Decision

² Rate proceedings can be heard in phases, with Phase I being used to determine revenue requirements and Phase II being used to determine rate design or spread of the rates.

No. C90-1499 also ordered that Docket No. 89I-597T be consolidated with Docket No. 90S-544T. However, it was noted that this docket would be more likely to be involved in Phase II issues.

The February 1 and 26, 1991, prehearing conferences were held by Chief Administrative Law Judge Robert E. Temmer, to whom the matter had been assigned by the Commission. Decision Nos. R91-183-I and R91-278-I were issued following the prehearing conferences.

Certain other procedural hearings were also held by the judge. Decision No. R91-155 was issued February 11, 1991, after a procedural hearing held on January 28, 1991. It granted the motion of U S WEST for acceptance of amendments to Advice Letter No. 2173, which had been filed on December 14, 1990. An effect of that decision was to approve a change in the proposed effective date of tariff sheets accompanying the advice letter, but having the effective date remain subject to suspension, and thereby changing the suspension period from an ending date of February 27, 1991, as stated in Decision No. C90-1244, to an ending date of June 26, 1991. The Commission will in this Decision further suspend that effective date to September 24, 1991, but, as stated in the amended advice letter, a final order on Phase II, the rate spread phase, will be issued no later than September 20, 1991, and a final order will be issued no later than May 24, 1991, in Phase I.

The hearing was commenced on Monday March 4, 1991, at 9:00 a.m. It was announced as a preliminary matter that U S WEST, the Staff, the OCC, the League, and the CCTA had entered into a stipulation resolving all issues in the case, which had been signed that morning. Several other stipulations had been signed earlier by some of those same parties resolving certain issues. One was dated February 12, 1991, and it was entered into between U S WEST, the Staff, and the OCC. That stipulation had an addendum dated February 18, 1991. There was also a stipulation dated February 25, 1991, between U S WEST and Staff. The February 12, 1991, stipulation with its addendum and a copy of an adoption notice by the DOA was marked and admitted into evidence as Exhibit No. 1. The February 25, 1991, stipulation was marked and admitted into evidence as Exhibit No. 2. The March 4, 1991, stipulation titled "Second Stipulation" was marked for identification and admitted into evidence as Exhibit No. 3. (A copy of the February 12, 1991, stipulation, its addendum, and the DOA adoption is incorporated in the Second Stipulation as Exhibit A, and a copy of the February 25, 1991, stipulation is incorporated as Exhibit B.) A copy of Exhibit No. 3, without the certificate of service for the DOA adoption, is attached as Appendix A to this decision. The hearing was recessed on March 4, 1991, to resume on March 8, 1991, at 1:00 p.m. The hearing was resumed at that time. Exhibit Nos. 4 through 46 were marked and admitted into evidence. Statements were made on the record concerning the terms and purposes for which the exhibits were offered. Attached to this decision as Appendix B is a list setting forth the number and title of each of those exhibits.

The DOA filed a statement of position concerning the stipulations on March 7, 1991. The parties at the hearing on March 8, 1991, that had not entered into the stipulation did not object to it, and did not offer any evidence. Also on March 7, 1991, the OCC had filed an objection to the Amended Advice Letter No. 2173, Rider 1, which had been filed pursuant to Decision No. R91-155. The objection related to proposed exclusions from the proposed across the board increase. U S WEST was directed to submit its position in writing by the close of business March 12, 1991. Any party wishing to submit objections to that position was given until the close of business on March 15, 1991, to file them. U S WEST submitted its position on March 12, 1991. The OCC, the Colorado Payphone Association, the League, the CCTA, and the Staff filed objections. U S WEST filed on March 22, 1991, a Motion for Permission to File a Response to these Objections and the Proposed Response. Staff filed its response in opposition on April 5, 1991. The responses of U S WEST and Staff have been considered. U S WEST was also directed to file by the close of business on March 12, 1991: an explanation of the variance between cash working capital figure shown in Exhibit No. 4 and the cash working capital figure in Exhibit No. 3; and certain financial exhibits. U S WEST filed its working capital explanation on March 12, 1991, but by inadvertence the financial exhibits were not filed until March 14, 1991. The matter was taken under advisement on March 8, 1991. All of the remaining days scheduled for hearing for Phase I were vacated.

FINDINGS OF FACT AND CONCLUSIONS THEREON

Based upon all the evidence, the following facts are found and conclusions thereon are drawn.

1. Exhibit No. 3 is a stipulation that settles all issues in the Phase I portion of this rate case with the exception of whether or not certain services should be exempted from an across the board increase as proposed in the tariff rider. That issue will be decided in this decision, along with the question of whether or not to approve the stipulations that the parties have entered into to settle the issues in Phase I.

2. The second stipulation (Exhibit No. 3) if approved, would authorize U S WEST to increase rates resulting in increased revenues per year of \$32.7 million. This constitutes a reduction of \$76.6 million from U S WEST's contention that it needed a revenue increase of some \$109.3 million per year. Exhibit No. 4 shows the reductions associated with each area the stipulations settle. A copy of Exhibit No. 4 is attached as Appendix D to this decision.

3. Rule 83(a) of our Rules of Practice and Procedure, which are published at 4 CCR 23-1, provides: "Any two or more parties may offer into evidence as an exhibit, a written stipulation as to any fact or matter in issue of substance or procedure. The Commission shall enter

an order approving or disapproving any stipulation offered into evidence as an exhibit, or may recommend modification as a condition for approval." To determine whether or not to approve the stipulation, the Commission must determine whether or not it is fair and reasonable and in the public interest. In this particular matter, that means the Commission must decide whether a rate increase for U S WEST of \$32.7 million per year would be just and reasonable. At the outset, it must be stated that even though U S WEST contended that it needed a revenue increase in excess of \$100 million per year, it proposed to increase revenues by \$70.2 million per year in the tariffs that it filed. The explanation for this was given by James A. Smith, Vice President-Colorado as follows: "I decided that incorporating in rates more than \$70.2 million would result in a price increase for basic exchange service that would be too great at this time. . . ." (Exhibit No. 5, page 10) This means that the agreed upon revenue increase is \$37.5 million less than originally proposed by U S WEST, and shows that U S WEST considered the impact of a rate increase on its customers, an important factor in any rate proceeding.

4. Phase I is the revenue requirements portion of this rate case. In order to evaluate the reasonableness of the stipulation, defining the term "revenue requirement" will be helpful. Staff witness Eric L. Jorgenson defined it as follows: "The revenue requirement is the amount of money that the utility needs from the operation of its regulated services in order for the company to cover above-the-line expenses and a fair and reasonable rate of return on its rate base on a test year basis . . ." (Exhibit No. 38, page 2) Thus, a determination of a fair and reasonable rate of return on rate base, the rate base, and the appropriate above-the-line expenses for the regulated services needs to be made.

5. The rate of return used by the parties in Exhibit No. 3 for purposes of calculating the revenue requirement was based on a rate of return on equity of 12.5 percent. (Paragraph 11 of Exhibit No. 3.) U S WEST has agreed to request that its authorized rate of return on equity be set at 13.5 percent, (paragraph 12 of Exhibit No. 3) a reduction of 20 basis points below the 13.7 percent previously approved by this Commission, and 100 basis points below the 14.5 percent it originally requested in this proceeding. The parties' agreement to use a 12.5 percent return on equity, rather than 13.5 percent, will reduce the revenue requirement in this proceeding by approximately \$13,000,000. This is a one-time extraordinary efficiency offset solely for the purpose of determining revenue requirements in this proceeding. This would give U S WEST the opportunity, through efficiency, to earn the requested 13.5 percent return on equity without increasing rates. It gives the ratepayers the benefit of a substantial reduction in revenue requirements. The capital structure agreed to for this proceeding is 40.2 percent debt, with an embedded cost of 9.04 percent, and 59.8 percent equity. Using this capital structure, and the requested

13.5 percent return on equity would result in an authorized return on rate base of 11.71 percent. This capital structure was a change from a proposal to use a 39.8 percent debt and 60.2 percent equity capital structure. Dropping the request from 14.5 to 13.5 percent rate of return on equity and using the actual capital structure reduces the revenue requirement by approximately \$14.1 million. The admitted evidence in the record suggests that a range of rates of return on equity from 14 to 15 percent would be reasonable and that an overall rate of return on rate base from 12.04 percent to 12.6 percent would be reasonable (Exhibit Nos. 6 and 7.) It would be fair and reasonable to establish U S WEST's authorized rate of return on equity at 13.5 percent, as requested, and its return on rate base at 11.71 percent.

In total, approximately \$27.1 million of the reduction in the requested rate increase is attributable to reductions in the rate of return on equity and some capital structure changes, yet U S WEST will still be authorized a fair and reasonable rate of return, will have the ability through efficiency to increase its earnings, and the ratepayers will receive the benefits of reduced revenue requirements.

6. The stipulations (Exhibit Nos. 1, 2, and 3) contain a number of agreements on adjustments and expenses that relate to determining rate base and above-the-line expenses.³ All of those agreements are found to be reasonable and in the public interest. The result is that the average rate base for the test year is \$1,366,393,000. The available net operating earnings, partially adjusted by the stipulation are \$121,809,000. Applying a rate of return (based on a 13.5 percent return on equity) of 11.71 percent to the rate base shows required earnings of \$159,965,000, and shows there is a deficiency of \$38,156,000. Increasing this figure to account for taxes and other considerations, and adjusting it for the efficiency offset and other provisions in the stipulation establish a revenue increase requirement of approximately \$32,713,000. See Appendix C to this decision. Authorizing this increase in revenue would give U S WEST the opportunity to earn its requested rate of return, pursuant to the stipulation.

7. Testimony has been received in this proceeding from members of the public. The Commission is mindful that to determine whether or not this settlement is fair and reasonable, the effect on customers is an important element. It is found that the increase agreed to is consistent with that consideration. It keeps the increase to a level that provides a real, but reduced, impact on ratepayers, especially in view of the one

³ Attached to this decision as Appendix D is a copy of Exhibit No. 4, which shows the approximate revenue requirement impact of these agreements. See note 1 above for an explanation of the number shown for original filing in Appendix D.

time efficiency offset of \$13,000,000. Under § 40-3-101, C.R.S., all charges must be just and reasonable. The stipulation entered into is in the public interest, is fair and reasonable and will result in rates that are just and reasonable.

8. U S WEST proposed that the increase in revenues authorized in Phase I be recovered pending the completion of Phase II, by an across the board increase as a surcharge to all rates and charges except for: public telephone service; billing and collection services; access services; message telecommunications services; operator handled surcharges; wide area telecommunications services; measured service usage charges and message rate service unit charges for measured and message lines; complex customer premises wire; and non-recurring charges. On March 12, 1991, U S WEST voluntarily eliminated billing and collection services and operator handled surcharges from the list of exceptions. The only category that was not objected to by one of the parties was "access services." There is a legal reason⁴ why that category should not be raised. The only objection to eliminating public telephone service (coin telephones) was that an exemption from the surcharge should also be granted for public access line service if that exemption was allowed, otherwise it should not be allowed. The argument is that if that is not done, competitive disadvantages will occur. Any reason, other than a legal requirement for exemption or impossibility, should be considered in Phase II, the rate design portion. Using that standard, the only exemptions from the across the board surcharge would be public telephone service, because it is not possible to do a percentage increase, and access services, because there is a legal prohibition. No other exemptions should be allowed, as all of the reasons advanced, with the exception of an argument related to notice,⁵ are matters that should be considered in Phase II. The notice argument raised is without merit since the required notice informs customers that rates may be higher, lower, or different from those proposed, and § 40-3-111, C.R.S., gives this Commission the authority to set the rates.

CONCLUSIONS AND SUMMARY

Some of the parties have entered into a stipulation which settles all issues in Phase I, and, if approved, would result in an approximate \$32.7 million per year rate increase. Other parties in this proceeding did not object to this stipulation and did not present any

⁴ See § 40-15-105, C.R.S., which contains a limit on increases in access charges.

⁵ The argument was that since U S WEST did not originally propose an increase in message telecommunications services, there may have been a failure of notice which would make an increase unlawful.

evidence in opposition to it. The stipulation is fair and reasonable, and it is in the public interest that it be approved without modification. It will result in rates that will be just and reasonable. The Commission congratulates the parties who entered in the stipulation for recognizing the interrelationship of their interests. As we have stated in other forums, a healthy community requires full and fairly priced telecommunications services; and full and fairly priced telecommunications services can only be provided by a healthy company. Where parties with diverse viewpoints take an active role in fashioning the specific realization of such general principals, frequently everyone can benefit. Pending Phase II of this proceeding an across-the-board increase should be authorized, with the exceptions of public telephone service and access services. The Commission will order that the tariff sheets to implement the increase become effective on May 1, 1991.

INITIAL DECISION OF THE COMMISSION

The Commission finds that because of the time schedule agreed to for this matter, i.e., having a final decision on Phase I entered no later than May 24, 1991, that due and timely execution of its functions imperatively and unavoidably requires that the recommended decision of the administrative law judge be omitted and that this be the initial decision. The Commission requests that if any party to this proceeding intends to file an application for rehearing, reargument, or reconsideration, that it be filed no later than April 22, 1991. The Commission will no later than April 30, 1991, rule on any such application.

THEREFORE THE COMMISSION ORDERS THAT:

1. The stipulations entered into by certain parties in this proceeding, Exhibit Nos. 1, 2, and 3 admitted into evidence, are approved without modification.

2. U S WEST Communications, Inc., is authorized to file tariff sheets, to reflect a general rate schedule adjustment rider on an across-the-board percentage basis to all tariffs that are currently on file with the Commission with the exception of public telephone service and access services, which will produce, on an annual basis, incremental revenues in the amount of \$32,713,000. Said tariff sheets shall have an effective date of May 1, 1991, shall be filed on not less than one day's notice, shall refer to this decision number, and shall by their terms expire on September 24, 1991.

3. The tariff sheets filed with Advice Letter No. 2173 and as revised by Advice Letter No. 2173-Amended are hereby suspended until September 24, 1991, or further Order of the Commission.

4. This Decision is the initial Decision of the Commission and is a final Decision subject to the procedural provisions of §§ 40-6-114 and 40-6-115, C.R.S.

5. The 20-day time period provided for by § 40-6-114(1), C.R.S., to file an application for rehearing, reargument, or reconsideration begins on the first day after the mailing or serving of this Decision and Order. The Commission encourages that any such filings be made by April 22, 1991.

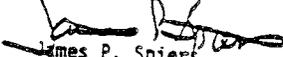
This Decision is effective immediately.

DONE IN OPEN MEETING April 11, 1991.

(S E A L)



ATTEST: A TRUE COPY


James P. Spiers
Executive Secretary

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

ARNOLD H. COOK

GARY L. NAKARADO

CHRISTINE E. M. ALVAREZ

Commissioners

BEFORE THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

* * *

RE: INVESTIGATION AND SUSPENSION)
OF PROPOSED CHANGES IN TARIFFS)
FILED BY THE MOUNTAIN STATES)
TELEPHONE AND TELEGRAPH COMPANY)
D/B/A U S WEST COMMUNICATIONS, INC.)
IN ADVICE LETTER NO. 2173)

I & S DOCKET NO.
90S-544T

Exh. No.	3
Appl. No.	90S-544T
Witness	
Date	3/4/91

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SECOND STIPULATION

U S WEST Communications, Inc. ("USWC"), the Colorado Office of Consumer Counsel ("OCC"), the Staff of the Colorado Public Utilities Commission ("Staff"), the Colorado Municipal League ("CML"), the Colorado Cable Television Association ("CCTA") and such other parties to Phase I of Docket No. 90S-544T ("Phase I") presently pending before the Colorado Public Utilities Commission ("Commission") who choose to enter into this Second Stipulation ("Second Stipulation") (collectively "Parties" or individually "Party") hereby enter into the Second Stipulation resolving among these Parties all issues in Phase I and request that the Commission enter an order approving it pursuant to Rule 83(a) of the Commission's Rules of Practice and Procedure:

1. On February 12, 1991, USWC, the OCC and the Staff entered into a Stipulation resolving some of the issues in Phase I, and this was supplemented by an Addendum thereto, signed on February 19 - 20, 1991. Copies of these two documents are attached hereto collectively as Exhibit "A" ("Stipulation"). Subsequently, on February 25, 1991, the United States Department of Defense ("DOD") executed and thereby agreed to the terms of the Stipulation. On February 25, 1991 USWC and the Staff entered into a Stipulation ("Allocations Stipulation"),

resolving the issue of the appropriate segregation in Phase I of assets and expenses between the regulated and deregulated products and services of USWC. A copy of the Allocations Stipulation is attached hereto as Exhibit "B". The parties who execute the Second Stipulation agree that the adjustments, rates of return and revenue requirement set forth in the Stipulation, Allocations Stipulation and the Second Stipulation, collectively and aggregated, constitute a full, final and complete resolution of all issues raised by the Parties in Phase I.

2. The Parties agree that the appropriate level of depreciation expense for USWC is as set forth in the prefiled testimony of USWC; provided, however, the adjustment to this depreciation expense level set forth in the prefiled testimony of the OCC -- specifically, the amortization of the depreciation reserve deficiency over approximately 7.1 years, as opposed to five (5) years, as proposed by USWC -- is accepted. The appropriate dollar amount of this adjustment to USWC's revenue requirement set forth in its prefiled testimony ("Revenue Requirement") is approximately (\$5,800,000).

3. The Parties agree to continue the current accounting treatment of Post Retirement Medical Benefits set forth in the OCC's and Staff's prefiled testimony. The dollar amount of this adjustment to the Revenue Requirement is approximately (\$5,500,000).

4. The Parties agree to the adjustment to the amortization of Retirement Plan expenses set forth in the prefiled testimony of the Staff and the OCC. The appropriate dollar amount of this adjustment to the Revenue Requirement is approximately (\$1,400,000).

5. The Parties agree to the Directory revenue imputation set forth in USWC's prefiled testimony. The dollar amount of any additional adjustment to the Revenue Requirement is \$0.

6. The Parties agree to the treatment of employee compensation, including incentive plans, set forth in USWC's prefiled testimony. The dollar amount of any additional adjustment to the Revenue Requirement is \$0.

7. The Parties agree to the accounting treatment of capitalized leases set forth in USWC's prefiled testimony. The dollar amount of any additional adjustment to the Revenue Requirement is \$0.

8. The Parties agree that the Revenue Requirement should be adjusted by (\$9,000,000). This adjustment reflects a partial recognition of the Rent Compensation adjustment and the Affiliated Interests Transactions adjustment set forth in the prefiled testimony of the Staff and the OCC, respectively, and shall constitute the only adjustments to the Revenue Requirement due to these factors.

9. The Parties agree that 3.3% is the appropriate productivity factor for USWC. This factor is proposed in Staff's prefiled testimony. The Parties further agree that the only productivity adjustment to the Revenue Requirement is a one-time adjustment as set forth in Paragraph 10.

10. The Parties agree that the Revenue Requirement should be reduced to reflect a one-time productivity adjustment attributable to USWC's retirement plan commonly known as "5+5". The approximate dollar amount of this adjustment to the Revenue Requirement, which is similar

to the adjustment set forth in the OCC's prefiled testimony, is approximately (\$3,600,000).

11. The Parties agree to an adjustment to the Revenue Requirement in the exact amount of (\$13,000,000). This adjustment is a one-time, extraordinary efficiency offset solely for the purpose of determining the Revenue Requirement. The effect of this adjustment is to approximate a revenue requirement which would result from an authorized return on equity for USWC of 12.5%. The Parties acknowledge that this adjustment is in specific consideration of the agreements of the Parties contained in Paragraph 12.

12. The Parties agree that they have differences of opinion as to the proper return on equity for USWC. Nevertheless, the Parties have been able to resolve their differences on this issue. In consideration of the agreement of the Parties to set rates based on a 12.5 % return on equity for USWC, OCC withdraws its testimony on rate of return submitted by Basil Copeland, and USWC withdraws the rebuttal testimony on return on equity of William L. Bauhard and Roger A. Morin. Furthermore, USWC agrees to modify its position in this Docket to request that its return on equity be set at 13.5 percent, 20 basis points below its currently authorized return on equity. The OCC and Staff agree not to oppose this requested return on equity of 13.5 percent and further agree that for a period of one year from the date of the approval of the Second Stipulation, neither will challenge USWC's earnings up to the point where the return on equity is 13.5%. USWC does not by stipulating hereto agree that the OCC has any legal ability to challenge USWC's rate of return in any subsequent

proceeding. The foregoing notwithstanding, nothing contained in Paragraph 12 will prevent the Staff or the OCC from offering in Docket No. 90A-665T proposals regarding the quality of USWC's service which, potentially, could have an impact on the return on equity of USWC as authorized by the Commission in this Docket. The approximate dollar amount of this adjustment, including a capital structure update, to the Revenue Requirement is (\$14,000,000).

13. The Parties agree that USWC's actual capital structure is the appropriate capital structure to use in determining USWC's authorized return on investment. USWC's current actual capital structure is 40.2% debt and 59.8% equity. USWC's embedded debt cost is 9.04%. If the requested 13.5 % return on equity is ordered, USWC's authorized return on rate base would be 11.71%.

14. USWC agrees to file with the Commission on or before January 31, 1992, an application for permission to proceed with Phase Two of the Rural Facilities Improvement Program.

15. USWC agrees that it will not withdraw its Application in Docket No. 90A-665T, if at all, prior to the completion of hearings in that Docket.

16. USWC agrees that in the event a form of alternative regulation is not implemented as the result of a final order entered in Docket No. 90A-665T, it will have the burden of proof as to the issue of the adequacy of USWC's service in any show cause proceeding or complaint case before the Commission in which the adequacy of USWC's service is an issue and which is commenced prior to January 1, 1994. In addition, in the event Staff challenges USWC's expenditures on

support services (e.g., computers and other similar property) USWC will have the burden of proof.

17. USWC agrees that when it chooses to do any of the following things, it will, during the first month they occur, specifically note them in the surveillance reports it submits to the Commission, including an acceptable amount of detail, either on a separate schedule or by adding a paragraph(s) to the cover letter accompanying the report:

- (a) Booking the results of an FCC pronouncement;
- (b) Booking a new or changed Financial Accounting Standards Board (FASB) pronouncement;
- (c) Using new jurisdictional off-book account codes; or
- (d) Proposing amortization of over \$1,000,000 on a total Colorado basis.

18. USWC agrees to the following future actions with respect to Shared Network Facilities Agreements ("SNFA"):

- (a) The Commission's assertion of jurisdiction over the intrastate portion of Shared Network Facilities;
- (b) The Commission determining that SNFA revenues, expenses and investments be ^{add removed} ~~reviewed~~ prior to Part 36 jurisdictional separations;
RB
DWA RB *ADD* *EMH* *APP*
- (c) The Commission ordering USWC and The American Telephone and Telegraph Company ("AT&T") to file their "Cost Methodology for the Shared Use of Multifunction Facilities (Standard Costing Manual)"; and
- (d) The consideration by the Commission of SNFA on a stand-alone basis - i.e., that SNFA revenues, expenses and investments should

not be considered by the Commission in setting rates for USWC's Part 2 and Part 3 services and products.

19. The Parties agree that the recommendation in USWC's prefiled testimony that the Commission consider an energy conservation incentive in Phase I is withdrawn. This issue is more appropriately addressed in Docket No. 90A-665T.

20. The Parties agree that the adjusted and final Revenue Requirement is \$32,700,000.

21. Each of the Parties agrees that it will not cross-examine any of the other Parties' witnesses on the issues which have been resolved in the Second Stipulation. The Parties agree that the prefiled testimony of their witnesses on each of the issues resolved in the Second Stipulation, to the extent inconsistent with the agreements reached herein, shall be deemed, and is hereby, withdrawn. Without limiting or affecting the generality of this withdrawal, USWC specifically withdraws Page 1, lines 20-25 through Page 10, line 22 of the Rebuttal Testimony of J. D. Harris. All witnesses of the parties will support all aspects of the settlement embodied in the Second Stipulation; provided that any witness cross-examined by a non-party to the Second Stipulation is not precluded from referencing positions taken in the withdrawn testimony in direct response to such cross-examination, but in no event shall such witness contradict or impeach his express support of the accommodations reached in the Second Stipulation. Subject to Commission approval, the Parties waive the personal appearances of all of their witnesses and stipulate to the

admissibility in evidence of the prefiled testimony of each Party's witnesses in toto or as modified by the terms of this Paragraph.

22. The Parties agree that the Second Stipulation represents a compromise of disputed claims. As such, evidence of conduct or statements made in negotiations and discussions in connection with the Second Stipulation shall not be admissible. The Parties agree that nothing contained in the Second Stipulation shall constitute any precedent, admission, concession, acknowledgement or agreement which may be used by or against any of the Parties in any subsequent proceeding before the Commission or otherwise; provided, however, nothing contained herein shall preclude any of the Parties from making reference to the Second Stipulation in any subsequent proceeding for the purpose of illustrating how certain adjustments were resolved in this Docket. In addition, the Parties agree that this Stipulation is valid and binding for purposes of Phase II of this Docket.

23. The Second Stipulation is an integrated whole, and any of the Parties may withdraw, but no party shall be deemed automatically to have withdrawn, simply because the Commission changes any of its terms and conditions.

24. The Parties agree that the Second Stipulation is in the public interest and that all of its terms and conditions are fair, just and reasonable.

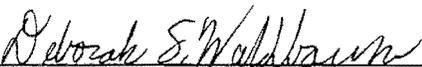
DATED this ____ day of _____, 1991.

APPROVED AS TO FORM:

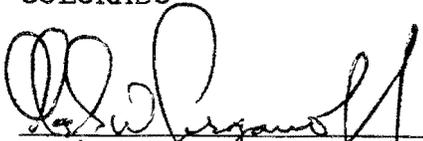
U S WEST Communications, Inc.


 Russell P. Rowe, #2443
 Robert L. Connelly, Jr., #14894
 Laurie J. Bennett, #13145
 1005 17th Street, Suite 200
 Denver, Colorado 80202
 (303) 896-4322

OFFICE OF CONSUMER COUNSEL

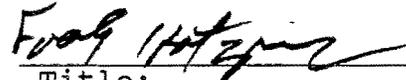

 Deborah Waldbaum, Esq. (#10742)
 1580 Logan Street, Suite 700
 Denver, Colorado 80203
 (303) 894-2121

STAFF OF THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

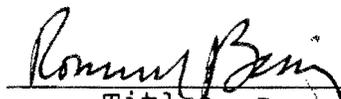

 Mark W. Gerganoff, #13240
 Assistant Attorney General
 Regulatory Law Section
 110 Sixteenth Street, 3rd Floor
 Denver, Colorado 80202
 (303) 620-4161

APPROVED, READ AND ACCEPTED:

U S WEST COMMUNICATIONS, INC.

BY: 
 Title: DIRECTOR - COLORADO REGULATORY

OFFICE OF CONSUMER COUNSEL

BY: 
 Title: Director

STAFF OF THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

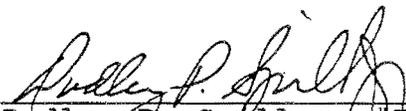
BY: 
 Title: Principal Financial Analyst

APPROVED AS TO FORM:

APPROVED, READ AND ACCEPTED:

COLORADO MUNICIPAL LEAGUE AND
COLORADO CABLE TELEVISION
ASSOCIATION

BY:


Dudley F. Spiller, #7908
1401 17th Street, #1100
P.O. Box 17180 TA
Denver, Colorado 80217
(303) 534-1200

STIPULATION

U S WEST Communications, Inc. ("USWC"), the Office of Consumer Counsel ("OCC"), and the Staff of the Colorado Public Utilities Commission ("Staff") (hereinafter referred to collectively as "the parties"), hereby enter into the following stipulation with respect to certain issues raised in Docket No. 90S-544T.

1. This Stipulation among USWC, the OCC and the Staff resolves some, but not all, of the issues in this Docket. The parties, or some of them, may enter into one or more additional stipulations resolving additional issues in this Docket. The agreements set forth in this Stipulation will not be affected in any manner if further stipulations are not reached. If further stipulations are reached, the interrelationships, if any, between them and this Stipulation or any components hereof will be addressed in such further stipulations.

2. Separations. The parties agree to the following changes to USWC's pro forma separations adjustment, as set forth in the prefiled testimony of the Staff as supported by the OCC, with an approximate dollar amount of \$2.2 million:

a. The changes in intrastate results due to changes in FCC 47 C.F.R. Part 36 separations factors should be measured using an annual study based upon the sum of the twelve monthly studies;

b. The secondary separations impact upon miscellaneous revenues, customer deposits, land development contracts and special construction contracts should also be captured; and

c. When adjusting for new depreciation rates and separation changes, the impacts should be separately measured.

3. Shared Network Facilities Agreement ("SNFA"). The parties agree that the revenues, expenses and plant associated with property leased by USWC to American Telephone & Telegraph Co. ("AT&T") will be removed from the revenue requirement in accordance with the Staff's prefiled testimony. The Staff agrees to remove the portion of the foregoing adjustment that represents reversal of USWC's prior period adjustment to the shared network facilities leased from AT&T. The approximate dollar amount of this adjustment is \$.1 million.

4. 47 C.F.R. Part 64. The parties agree to apply the methodology used by the Federal Communications Commission ("FCC"), as expressed in the Order released June 21, 1990 in CC Docket No. 90-320, to the FCC regulated and nonregulated allocations for Accounts 6426 and 6362, as proposed in the prefiled testimony of the OCC. The approximate dollar amount of this adjustment is \$1.7 million.

5. Investment Tax Credit ("ITC") Amortization. The parties agree to the pro forma adjustment to ITC amortization set forth in USWC's prefiled testimony, with an approximate dollar amount of \$2.1 million. USWC agrees to seek a Private Letter Ruling from the Internal Revenue Service ("IRS") to ensure that this adjustment conforms to the normalization requirements of the Internal Revenue Code as it relates to the ITC. All parties will participate in the process, including filing written comments with the IRS. In the event that the IRS determines that USWC's methodology violates the normalization provisions of the code, USWC will amend the Rural Facilities Improvement Program ("RFIP") rider or Switched and Facilities Enrichment Program ("SAFE") rider in an amount sufficient to offset the revenue requirement impact of the foregoing pro forma adjustment to ITC amortization; and, USWC will refund any amounts collected as a result of the foregoing up until the implementation of the offset, plus interest at the then effective customer deposit rate. This will be a one time amendment which will remain in effect until the next general rate case.

6. Cash Working Capital ("CWC"). The parties agree with the calculation of the CWC component of rate base set forth in the prefiled testimony of the Staff. This calculation applies a net expense/revenue lag to cash operating expenses. The following contested CWC issues are also resolved by this Stipulation:

- a. The cash impact of interest expense payments will be excluded from the calculation of the CWC allowance.
- b. The statutory tax payment schedule will be used to calculate the lag for state and federal income taxes.

The approximate dollar amount of the adjustments associated with CWC is \$1.6 million.

7. Employee Benefits. The parties agree to accept the adjustment contained in USWC's prefiled testimony to normalize employee benefits due to updated information provided by USWC. The approximate dollar amount of this adjustment is \$0.00.

8. Merger Costs. The parties agree to a disallowance of the merger costs included in the test year as proposed in the Staff's and OCC's prefiled testimony. The approximate dollar amount of this adjustment is \$15,000.

9. Deregulation Audit. The parties agree to the pro forma adjustment contained in USWC's prefiled testimony to recognize the costs of the CPA audit of USWC's cost allocation manual. The approximate dollar amount of this adjustment is \$0.00.

10. Customer Deposits. The parties agree to the pro forma adjustment set forth in the OCC's prefiled testimony to reflect the 7.5% customer deposit rate ordered by the Commission. The approximate dollar amount of this adjustment is \$20,000.

11. PUC Assessment. The parties agree to the pro forma adjustment set forth in the prefiled testimony of the OCC to reflect the 1990 PUC assessment levels. The approximate dollar amount of this adjustment is (\$2,000).

12. Advertising. The parties agree that Corporate Image advertising (Account 6722) will be placed below the line for ratemaking purposes. Remaining advertising expense will be placed above the line for ratemaking purposes. The approximate dollar amount of this adjustment is \$2.6 million.

13. Contributions, Membership Fees and Association Dues. Contributions, memberships, and association dues shall be placed below the line for ratemaking purposes, as set forth in the prefiled testimony of the Staff and supported in part by the prefiled testimony of the OCC. The approximate dollar amount of this adjustment is \$1 million.

14. Abandoned Projects. The costs of abandoned projects shall be placed below the line for ratemaking purposes as proposed in the prefiled testimony in the OCC. The approximate dollar amount of this adjustment is \$30,000.

15. Antitrust Expenses. The parties accept the antitrust expense adjustment set forth in the prefiled testimony of the Staff and supported by the prefiled testimony of the OCC. The approximate dollar amount of this adjustment is \$3 million.

16. Tax Rate. The parties agree to use a blended 5.25% state tax rate in calculating the revenue requirement.

17. Interest Synchronization. The parties agree that in computing pro forma taxes, the interest expense will be synchronized to the pro forma rate base and composite cost of debt adopted by the Commission or as otherwise stipulated by the parties.

18. All of the adjustments referenced in paragraphs 2-17 are to the revenue requirement set forth in the USWC's prefiled testimony. USWC will update Supplemental Exhibit of G. Y. Fleming, p. 1, Appendix A, B, and C (filed December 31, 1990), Staff will update Morris-Exhibits 1, 2 and 3, and OCC will update Exhibit (DEP-1), Schedules 1, 2 and 3, to conform with the agreements reflected herein. These updated exhibits will be filed by February 22, 1991.

19. Each of the parties agrees that it will not cross-examine any of the other parties' witnesses on the issues which have been resolved in this Stipulation. USWC agrees that it will not file rebuttal testimony or conduct discovery of Staff and OCC witnesses on the issues resolved in this Stipulation. The parties agree that the prefiled testimony of their witnesses on each of the issues resolved in this Stipulation, to the extent inconsistent with the agreements reached herein, shall be deemed, and is hereby, withdrawn. All witnesses of the parties will support all aspects of the settlement embodied in this Stipulation; provided that any witness cross-examined by a non-party to this Stipulation is not precluded from referencing positions taken in the withdrawn testimony in direct response to such cross-examination, but in no event shall such witness contradict or impeach his express support of the accommodations reached in the Stipulation.

20. The parties agree that this Stipulation represents a compromise of disputed claims. As such, evidence of conduct or statements made in negotiations and discussions in connection with this Stipulation shall not be admissible. The parties agree that nothing contained in this Stipulation shall constitute any precedent, admission, concession, acknowledgment or agreement which may be used by or against any of the parties in any subsequent proceeding before the Commission or otherwise; provided, however, nothing contained herein shall preclude any of the parties from making reference to this Stipulation in any subsequent proceeding for the purpose of illustrating how certain adjustments were resolved in this Docket. In addition, the Parties agree that this Stipulation is valid and binding for purposes of Phase II of this Docket.

21. The parties agree that this Stipulation is in the public interest and that all of its terms and conditions are fair, just and reasonable.

22. This Stipulation is an integrated whole, and any of the parties may withdraw, but is not deemed automatically to have withdrawn, if the Commission materially changes any of its terms or conditions.

Entered into this 12th day of February, 1991, by:

U S WEST COMMUNICATIONS, INC.

BY: Fred Hatzger 2-12-91

STAFF OF THE PUBLIC UTILITIES COMMISSION

BY: Eric R. Ferguson 2-12-91

OFFICE OF CONSUMER COUNSEL

BY: Ronald Biny 2/12/91

ADDENDUM

U S WEST Communications, Inc. ("USWC"), the Office of Consumer Counsel ("OCC"), and the Staff of the Colorado Public Utilities Commission ("Staff") (hereinafter referred to collectively as "the parties") hereby enter into the following Addendum to the Stipulation, signed by the parties on February 12, 1991, in Docket No. 90S-544T (the "Stipulation").

1. This Addendum supplements the terms of the Stipulation and is in no way inconsistent therewith. All terms contained in paragraphs 1 through 22 of the Stipulation are applicable to this Addendum, and are incorporated herein by reference.

2. The parties agree that, consistent with Section 40-3-105(3), C.R.S., no adjustment for employee revenue concessions shall be made to the revenue requirement filed by USWC. The OCC will update Exhibit (DEP-1), Schedule 3, to conform with this Agreement, and will incorporate this update into its filing of updated exhibits by February 22, 1991 as provided in paragraph 18 of the Stipulation.

Entered into this 19/20 day of February, 1991, by:

U S WEST COMMUNICATIONS, INC.

BY: Fred Hotz 2-19-91

STAFF OF THE PUBLIC UTILITIES COMMISSION

BY: Eric Ferguson 2-20-91

OFFICE OF CONSUMER COUNSEL

BY: Ronny Brix 2/19/91

BEFORE

THE COLORADO PUBLIC UTILITIES COMMISSION

RECEIVED
FEB 26 '91

RE: INVESTIGATION AND SUSPENSION
OF PROPOSED CHANGES IN TARIFFS;
FILED BY THE MOUNTAIN STATES
TELEPHONE AND TELEGRAPH COMPANY
D/B/A U S WEST COMMUNICATIONS, INC.
IN ADVICE LETTER NO. 2173

I & S DOCKET NO.
90S-544T

MR - COLO.
LAW DEPT

NOW COMES the Department of Defense (DOD), and All Other Federal Executive Agencies (FEA), through undersigned counsel, and states that DOD/FEA adopts the Stipulation previously entered into by US West Communications, Inc., the Staff of the Public Utilities Commission, and the Office of Consumer Counsel, dated February 12, 1991, in I & S Docket No. 90S-544T. In so stating, DOD/FEA agrees to be bound by the provisions of said Stipulation.

Respectfully submitted,


JAMES E. ARMSTRONG
Chief



STEPHANIE K. WALSH
Trial Attorney

Regulatory Law Office
Office of The Judge Advocate General
Department of the Army
Litigation Center
901 North Stuart Street, Suite 400
Arlington, VA 22203-1837

For

THE DEPARTMENT OF DEFENSE
and
ALL OTHER FEDERAL EXECUTIVE AGENCIES

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

STIPULATION AND SETTLEMENT AGREEMENT

Docket No. 90S-544T

RE: INVESTIGATION AND SUSPENSION OF PROPOSED CHANGES IN TARIFFS
FILED BY THE MOUNTAIN STATES TELEPHONE AND TELEGRAPH COMPANY,
D/B/A U S WEST COMMUNICATIONS, INC. IN ADVICE LETTER NO. 2173.

Docket No. 89I-597T

RE: INVESTIGATION OF TARIFFS FILED BY U S WEST COMMUNICATIONS,
INC., DENVER, COLORADO PURSUANT TO ADVICE LETTER NO. 2119, DATED
AUGUST 4, 1989.

Staff of the Public Utilities Commission of the State of Colorado ("Commission") and U S WEST Communications, Inc. ("USWC"), respectfully submit this Stipulation and Settlement Agreement ("Agreement") for approval by the Public Utilities Commission of the State of Colorado ("Commission") pursuant to Rule 83 of the Commission's Rules of Practice and Procedure.

Staff and USWC agree as follows:

1. USWC will cause to be filed in the above-captioned docket amended testimony and exhibits which effect a segregation of assets, revenues, and expenses between USWC's regulated and deregulated products and services, which results in the earned rate of return for USWC's deregulated services and products equaling the earned rate of return for USWC's regulated services

and products.

2. To effect the segregation referred to in paragraph No. 1, above, USWC will amend its testimony and exhibits to reflect an increase in net income for regulated products and services on or before March 4, 1991. The amount of this adjustment is slightly less than \$2,300,000. However, the parties agree that, for the sake of convenience and simplicity, the adjustment reflected in USWC's amended filing will be rounded to \$2,300,000.

3. The testimony and exhibits of Bruce H. Armstrong and the issues framed therein filed in the above-captioned docket on or about January 25, 1991 and February 22, 1991 are hereby withdrawn and will not be put into evidence in the above-captioned docket in Phase I. The issues raised therein will be addressed in Docket No. 89M-404T at a later date and may be raised in Phase II of the above-captioned docket.

4. Staff makes no acknowledgement or admission regarding the cost-segregation results or methodologies of USWC as used in the above-captioned docket.

5. USWC will not submit a rebuttal position to the testimony and exhibits referenced in paragraph No. 3, above, and the Staff will not cross-examine USWC witness Dallas Elder in

Phase I of the above-captioned docket.

6. This Agreement will not be used as precedent for Phase II of the above-captioned docket or Docket No. 89M-404T. However, this Agreement may be used in any docket to demonstrate how certain issues were resolved.

7. This Agreement does not settle all outstanding issues in the above-captioned docket. It represents a compromise of only some of the outstanding issues.

8. In the event the Commission does not approve this Agreement in its entirety, it shall be null and void for all purposes.

9. This Agreement is in the public interest and all of its terms and conditions are fair, just and reasonable.

FOR USWC:

Fran Hutzler 2/25/91

FOR STAFF:

W. W. Walling 2/25/91

APPROVED AS TO FORM ONLY:

Richard Bergant 2/25/91

<u>Exhibit Number</u>	<u>Description or Title</u>
1.	Stipulation, Addendum, and Adoption (February 19, 1991, Stipulation)
2.	Stipulation and Settlement Agreement (February 25, 1991)
3.	Second Stipulation (March 4, 1991)
4.	Roll Down of Revenue Requirement
5.	James A. Smith Direct Testimony
6.	Direct Testimony of William L. Bauhard
7.	Direct Testimony of Roger A. Morin
8.	Direct Testimony of Merrye J. McGilvray
9.	Direct Testimony of Joseph T. Dwyer
10.	Direct Testimony of Patrick J. Quinn
11.	Direct Testimony of Laurits R. Christensen
12.	Direct Testimony of Dallas R. Elder
13.	Confidential Exhibit No. 1 to Testimony of Dallas R. Elder
14.	Supplemental Testimony of Dallas R. Elder
15.	Direct Testimony of Jerrold L. Thompson
16.	Direct Testimony of Jerry D. Harris
17.	Direct Testimony of Garrett Y. Flemming
18.	Updated Exhibits to Direct Testimony of Garrett Y. Flemming
19.	Supplement Testimony of Garrett Y. Flemming
20.	Updated Supplemental Exhibit to the Prefiled Testimony of Garrett Y. Flemming
21.	Rebuttal Testimony of James A. Smith
22.	Rebuttal Testimony of Mike A. Hudson

Exhibit Number

Description or Title

23. Rebuttal Testimony of Katherine L. Flemming
24. Rebuttal Testimony of Joseph T. Dwyer
25. Rebuttal Testimony of Teresa S. Anderson
26. Rebuttal Testimony of Laurits R. Christensen
27. Rebuttal Testimony of Jerry D. Harris
28. Rebuttal Testimony of James E. Farmer
29. Rebuttal Testimony of Thomas J. Flaherty
30. Rebuttal Testimony of Arthur G. Overturf
31. Rebuttal Testimony of Garrett Y. Fleming
32. Testimony and Exhibits of Ronald J. Binz
33. Testimony and Exhibits of David E. Peterson
34. Confidential Testimony and Exhibits of David E. Peterson
35. Testimony and Exhibits of Michael L. Arndt
36. Confidential Testimony and Exhibits of Michael L. Arndt
37. Testimony and Exhibits of Paul R. McDaniel
38. Direct Testimony and Exhibits of Eric L. Jorgenson
39. Direct Testimony and Exhibits of Ken Morris
40. Direct Testimony and Exhibit of Warren Wendling
41. Direct Testimony and Exhibit of Frank C. Schaffer
42. Direct Testimony and Exhibits of Diane L. Wells
43. Direct Testimony and Exhibits of Gerald Enright
44. Direct Testimony and Exhibit of Frank D. Gonzales, Jr.

Exhibit Number

Description or Title

- 45. Direct Testimony and Exhibits of Dale C. Cunningham
- 46. Direct Testimony and Exhibits of Bruce S. Mitchell

MARCH 14 2012 10

U S WEST COMMUNICATIONS
 COLORADO INTRASTATE OPERATIONS
 TEST YEAR ENDED MARCH 1990

Final Stipulation March 4, 1991
 Additional Revenue Requirement

(In Thousands of Dollars)

1. Average Net Investment	1,366,393
2. Rate of Return on Rate Base (13.5% on Equity)	0.1171
3. Total Earnings Required (L.1 * L.2)	\$159,965
4. Earnings Available	121,809
5. Additional Earnings Requirement (L.3 - L.4)	\$38,156
6. Combined Revenue Requirement for this Docket and the Average Test Year RFIP Investment and Expenses (L.5 * 1.6318)	\$62,263
7. Rent Compensation/Affiliated Interests	(9,000)
8. Efficiency Offset	(13,000)
9. Subtotal After Second Stipulation (L.6+L.7+L.8)	40,263
10. Offset Attributable to Rolling the RFIP Rider into Base Rates	(7,900)
11. Additional Revenue Requirement (L.9 + L.10)	\$32,363
12. Five Year Amortization of Lifeline	350
13. Total Proposed Revenue Requirement (L.11 + L.12)	\$32,713

U S WEST COMMUNICATIONS
 COLORADO INTRASTATE OPERATIONS
 TEST YEAR ENDED MARCH 1990
 INCOME STATEMENT - SUMMARY OF ADJUSTMENTS
 (In Thousands of Dollars)

	A	B	C=A+B
	Revised Company As Of Feb. 22, 1991	Total Settled (Page 2, Col. F)	Final Stipulation As Of Mar. 4, 1991
1. Local Service	474,076	0	474,076
2. Access Service	83,031	0	83,031
3. Long Distance Network Service	132,837	0	132,837
4. Billing & Collection	3,184	0	3,184
5. Miscellaneous Revenue	113,752	0	113,752
6. Total Operating Revenue	806,880	0	806,880
7. Maintenance	155,387	(7,719)	147,668
8. Engineering	16,885	(439)	16,446
9. Network Operations	15,468	(1,093)	14,375
10. Network Administration	7,876	(83)	7,793
11. Access Expense	8,469	0	8,469
12. Other	2,162	(8)	2,154
13. Total Cost of Services (L.6 thru L.11)	206,247	(9,342)	196,905
14. Customer Operations	96,829	(2,328)	94,501
15. Corporate Operations	124,264	(2,389)	121,875
16. Property & Other Taxes	38,266	0	38,266
17. Uncollectibles	12,304	0	12,304
18. Total Selling & General (L.14 thru L.17)	271,663	(4,717)	266,946
19. Other Income & Expense	748	0	748
20. Depreciation and Amortization	195,778	(5,911)	189,867
21. Total Operating Expense (Lines 13+18+19+20)	674,436	(19,970)	654,466
22. Operating Income (L.6-L.21)	132,444	19,970	152,414
23. Federal Income Taxes	17,257	6,374	23,631
24. State Income Taxes	5,944	1,030	6,974
25. Total Income Taxes	23,201	7,404	30,605
26. Net Operating Income (L.22-L.25)	109,243	12,566	121,809
27. Nonoperating Expense	0	0	0
28. Net Operating Earnings (Line 26 - Line 27)	109,243	12,566	121,809
29. Other Charges - Net	(4,003)	0	(4,003)
30. Interest Charges Construction	3,682	0	3,682
31. Interest On Debt	48,848	0	48,848
32. Net Income (L.28-29+30-31)	68,080	12,566	80,646

U S WEST COMMUNICATIONS
 COLORADO INTRASTATE OPERATIONS
 TEST YEAR ENDED MARCH 1990
 INCOME STATEMENT - SUMMARY OF ADJUSTMENTS
 (In Thousands of Dollars)

	A	B	C	D	E	F=A thru E
	Settled State Deregulated Products	Settled Depreciation	Settled Post Retirement Benefits	Settled Retirement Plan Amortization	Settled Productivity Adjustment	Total All Adjustments
1. Local Service						0
2. Access Service						0
3. Long Distance Network Service						0
4. Billing & Collection						0
5. Miscellaneous Revenue						0
6. Total Operating Revenue	0	0	0	0	0	0
7. Maintenance	(3,678)		(3,122)		(919)	(7,719)
8. Engineering					(439)	(439)
9. Network Operations					(1,093)	(1,093)
10. Network Administration					(83)	(83)
11. Access Expense					0	0
12. Other					(8)	(8)
13. Total Cost of Services (L.6 thru L.11)	(3,678)	0	(3,122)	0	(2,542)	(9,342)
14. Customer Operations			(1,664)		(664)	(2,328)
15. Corporate Operations			(610)	(1,379)	(400)	(2,389)
16. Property & Other Taxes						0
17. Uncollectibles						0
18. Total Selling & General (L.14 thru L.17)	0	0	(2,274)	(1,379)	(1,064)	(4,717)
19. Other Income & Expense						0
20. Depreciation and Amortization		(5,911)				(5,911)
21. Total Operating Expense (Lines 13+18+19+20)	(3,678)	(5,911)	(5,396)	(1,379)	(3,606)	(19,970)
22. Operating Income (L.6-L.21)	3,678	5,911	5,396	1,379	3,606	19,970
23. Federal Income Taxes	1,185	1,844	1,739	444	1,162	6,374
24. State Income Taxes	193	292	283	73	189	1,030
25. Total Income Taxes	1,378	2,136	2,022	517	1,351	7,404
26. Net Operating Income (L.22-L.25)	2,300	3,775	3,374	862	2,255	12,566
27. Nonoperating Expense						0
28. Net Operating Earnings (Line 26 - Line 27)	2,300	3,775	3,374	862	2,255	12,566
29. Other Charges - Net						0
30. Interest Charges Construction						0
31. Interest On Debt						0
32. Net Income (L.28-29+30-31)	2,300	3,775	3,374	862	2,255	12,566

U S WEST COMMUNICATIONS
 COLORADO INTRASTATE OPERATIONS
 TEST YEAR ENDED MARCH 1990
 AVERAGE RATE BASE - SUMMARY OF ADJUSTMENTS

(In Thousands of Dollars)

	A	B	C=A+B
	Revised Company As Of Feb. 22, 1991	Final Settled Depreciation	Final Stipulation As Of Mar. 4, 1991
1. Plant In Service	2,469,838	0	2,469,838
2. Property Held for Future Use	4	0	4
3. Depreciation Reserve	686,927	(2,956)	683,971
4. Materials and Supplies	16,008	0	16,008
5. Allowance for Cash Working Capital	(24,398)	0	(24,398)
6. Accumulated Deferred Income Taxes	390,880	1,023	391,903
7. Customer Deposits	3,667	0	3,667
8. Other Assets & Liabilities	15,518	0	15,518
9. Average Rate Base (L.1+2+4+5-3-6-7-8)	1,364,460	1,933	1,366,393

U S WEST COMMUNICATIONS
 COLORADO INTRASTATE OPERATIONS
 ROLLDOWN OF REVENUE REQUIREMENT
 TEST YEAR APRIL 1989 - MARCH 1990

	Revenue Requirement Impact
1. Original Filing	109.3
2. Separations	(2.3)
3. Remove SNFA	(0.2)
4. Advertising Expense	(2.6)
5. Miscellaneous Deductions	(0.7)
6. Merger Costs (See Note #1)	0.0
7. Cash Working Capital	(2.4)
8. Antitrust Adjustment	(2.9)
9. Part X (Inside Wire)	(1.7)
10. Customer Deposits (See Note #2)	0.0
11. PUC Assessment (See Note #3)	0.0
12. Association Dues	(0.3)
13. Interest Synchronization	0.3
14. Revenue Requirement After First Stipulation (L.1 + L.2 thru L.13)	96.5
15. Return on Equity to 13.5% (Includes Capital Structure Update)	(14.1)
16. State Dereg Allocation	(3.8)
17. Depreciation	(5.8)
18. Post Retirement Benefits	(5.5)
19. Amortization of EMTP & 5+5 Retirement Plans	(1.4)
20. Productivity Adjustment	(3.6)
21. Subtotal (L.14 + L.15 thru L.20)	62.3
22. Affiliated Interests/Rent Compensation	(9.0)
23. Efficiency Offset	(13.0)
24. Revenue Requirement After Second Stipulation (L.21 + L.22 + L.23)	40.3
25. RFIP Rider	(7.9)
26. Lifeline Amortization	0.3
27. Final Stipulated Revenue Requirement (L.24 + L.25 + L.26)	32.7

NOTES: (whole dollars)
 (1) Merger Costs = (\$15,000)
 (2) Customer Deposits = (\$20,000)
 (3) PUC Assessment = \$2,000

Ext. No. 4
 Appl. No. _____
 Witness _____
 Date 3-2-91
 1166