

QWEST CORP

FORM 10-Q (Quarterly Report)

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

**[X] QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the Quarterly Period Ended June 30, 1997

OR

**[] TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934**

For the transition period from _____ to _____

Commission File Number 1-3040

U S WEST Communications, Inc.

A Colorado Corporation IRS Employer No. 84-0273800

1801 California Street, Denver, Colorado 80202

Telephone Number (303) 896-3099

THE REGISTRANT, A WHOLLY OWNED SUBSIDIARY OF U S WEST, INC., MEETS THE CONDITIONS SET FORTH IN GENERAL INSTRUCTION H(1)(a) and (b) OF FORM 10-Q AND IS THEREFORE FILING THIS FORM WITH REDUCED DISCLOSURE FORMAT PURSUANT TO GENERAL INSTRUCTION H(2).

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes X No ___

Form 10-Q - Part I U S WEST Communications, Inc.

FORM 10-Q
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**CONSOLIDATED STATEMENTS OF
OPERATIONS (Unaudited) U S WEST COMMUNICATIONS, INC.**

	Three Months Ended June 30, 1997	Three Months Ended June 30, 1996	Six Months Ended June 30, 1997	Six Months Ended June 30, 1996
Dollars in millions				
Operating revenues:				
Local service	\$ 1,151	\$ 1,179	\$ 2,382	\$ 2,324
Interstate access service	678	626	1,365	1,248
Intrastate access service	200	189	400	379
Long-distance network services	240	278	490	568
Other services	219	168	398	329
Total operating revenues	2,488	2,440	5,035	4,848
Operating expenses:				
Employee-related expenses	842	864	1,648	1,677
Other operating expenses	374	373	824	762
Taxes other than income taxes	95	97	200	192
Depreciation and amortization	524	513	1,046	1,024
Total operating expenses	1,835	1,847	3,718	3,655
Income from operations	653	593	1,317	1,193
Interest expense	93	101	189	204
Gains on sales of rural telephone exchanges	29	49	47	49
Other income (expense) - net	(18)	2	(40)	(15)
Income before income taxes and cumulative effect of change in accounting principle	571	543	1,135	1,023
Provision for income taxes	218	208	433	391
Income before cumulative effect of change in accounting principle	353	335	702	632
Cumulative effect of change in accounting principle - net of tax	-	-	-	34
NET INCOME	\$ 353	\$ 335	\$ 702	\$ 666

See Notes to Consolidated Financial Statements.

Form 10-Q - Part I**CONSOLIDATED BALANCE SHEETS**

(Unaudited) U S WEST COMMUNICATIONS, INC.

Dollars in millions	June 30, 1997	December 31, 1996
-----	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 98	\$ 92
Accounts and notes receivable - net	1,537	1,550
Inventories and supplies	131	109
Deferred tax asset	177	152
Prepaid and other	64	57
	-----	-----
Total current assets	2,007	1,960
	-----	-----
Gross property, plant and equipment	32,583	32,451
Less accumulated depreciation	18,954	18,522
	-----	-----
Property, plant and equipment - net	13,629	13,929
Other assets	821	743
	-----	-----
Total assets	\$ 16,457	\$ 16,632
	-----	-----

See Notes to Consolidated Financial Statements.

Form 10-Q - Part I

CONSOLIDATED BALANCE SHEETS

(Unaudited), continued U S WEST COMMUNICATIONS, INC.

Dollars in millions	June 30, 1997	December 31, 1996
-----	-----	-----
LIABILITIES AND SHAREOWNER'S EQUITY		
Current liabilities:		
Short-term debt	\$ 159	\$ 834
Accounts payable	1,036	998
Employee compensation	268	308
Dividends payable	354	307
Advanced billing and customer deposits	278	250
Other	1,026	754
	-----	-----
Total current liabilities	3,121	3,451
	-----	-----
Long-term debt	5,320	5,375
Postretirement and other postemployment benefit obligations	2,349	2,347
Deferred income taxes	827	807
Deferred credits and other	569	592
Contingencies (See Note C to the Consolidated Financial Statements)		
Shareowner's equity:		
Common shares - one share without par value, owned by parent	7,888	7,677
Cumulative deficit	(3,617)	(3,617)
	-----	-----
Total shareowner's equity	4,271	4,060
	-----	-----
Total liabilities and shareowner's equity	\$ 16,457	\$ 16,632
	=====	=====

See Notes to Consolidated Financial Statements.

**CONSOLIDATED STATEMENTS OF
CASH FLOWS (Unaudited) U S WEST COMMUNICATIONS, INC.**

Dollars in millions	Six Months Ended June 30, 1997	Six Months Ended June 30, 1996

OPERATING ACTIVITIES		
Net income	\$ 702	\$ 666
Adjustments to net income:		
Depreciation and amortization	1,046	1,024
Gains on sales of rural telephone exchanges	(47)	(49)
Cumulative effect of change in accounting principle	-	(34)
Deferred income taxes and amortization of investment tax credits	(14)	(4)
Changes in operating assets and liabilities:		
Restructuring payments	(45)	(74)
Postretirement medical and life costs, net of cash fundings	5	(30)
Accounts receivable	12	45
Inventories, supplies and other current assets	(40)	(23)
Accounts payable and accrued liabilities	310	(83)
Other adjustments - net	77	18
	-----	-----
Cash provided by operating activities	2,006	1,456
	-----	-----
INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(831)	(1,259)
Proceeds from sales of rural telephone exchanges	28	111
Proceeds from (payments on) disposals of property, plant, and equipment	4	(7)
	-----	-----
Cash (used for) investing activities	(799)	(1,155)
	-----	-----
FINANCING ACTIVITIES		
Net (repayments of) proceeds from short-term debt	(669)	302
Repayments of long-term debt	(85)	(245)
Dividends paid on common stock	(656)	(630)
Equity infusions from U S WEST Communications Group	209	148
	-----	-----
Cash (used for) financing activities	(1,201)	(425)
	-----	-----
CASH AND CASH EQUIVALENTS		
Increase (decrease)	6	(124)
Beginning balance	92	191
	-----	-----
Ending balance	\$ 98	\$ 67
	=====	=====

See Notes to Consolidated Financial Statements.

U S WEST COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Six Months Ended June 30, 1997 and 1996

(Dollars in millions)

(Unaudited)

A. Summary of Significant Accounting Policies

Basis of Presentation. U S WEST Communications, Inc. (the "Company") is incorporated under the laws of the State of Colorado and is an indirect, wholly owned subsidiary of U S WEST, Inc. ("U S WEST").

The Consolidated Financial Statements have been prepared by the Company, pursuant to the interim reporting rules and regulations of the Securities and Exchange Commission ("SEC"). Certain information and footnote disclosures normally accompanying financial statements prepared in accordance with generally accepted accounting principles ("GAAP") have been condensed or omitted pursuant to such SEC rules and regulations. In the opinion of the Company's management, the Consolidated Financial Statements include all adjustments, consisting of only normal recurring adjustments, necessary to present fairly the financial information set forth therein. It is suggested that the Consolidated Financial Statements be read in conjunction with the financial statements and notes thereto included in the Company's Form 10-K for the year ended December 31, 1996.

Financial Instruments. Synthetic instrument accounting is used for interest rate and foreign currency swaps if the index, maturity, and amount of the instrument match the terms of the underlying debt. Net interest accrued is recognized over the life of the instruments as an adjustment to interest expense and is a component of cash provided by operating activities. Any gain or loss on the termination of an instrument, which qualifies for synthetic instrument accounting, would be deferred and amortized over the remaining life of the original instrument.

Hedge accounting is used for forward contracts which qualify as hedges of future debt issues. To qualify for hedge accounting, the contracts must have a high inverse correlation to the exposure being hedged, and reduce the risk or volatility associated with changes in interest rates. Qualified contracts are carried at market value with gains and losses recorded with the related debt and amortized as yield adjustments. Any gain or loss on the termination of a contract, which qualifies for hedge accounting, would be deferred and accounted for with the related transaction. The Company does not use derivative financial instruments for trading purposes.

U S WEST COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

(Unaudited)

New Accounting Standards. In 1998, U S WEST will adopt Statement of Financial Accounting Standards ("SFAS") No. 130, "Reporting Comprehensive Income" and SFAS No. 131, "Disclosures about Segments of an Enterprise and Related Information." SFAS No. 130 requires that the components of and the total amount for comprehensive income be displayed in the financial statements. Comprehensive income includes net income and all changes in equity during a period that arise from nonowner sources, such as foreign currency items and unrealized gains and losses on certain investments in equity securities. Among other things, SFAS No. 131 requires detailed operating segment information of an enterprise on an annual and interim period basis. The effects of adopting both SFAS No. 130 and 131 are being evaluated.

B. Rural Telephone Exchanges Held for Sale

In conjunction with its rural telephone exchange sales program, the Company sold certain rural telephone exchanges for pretax gains of \$47. The carrying value of the remaining rural telephone exchanges held for sale approximates \$75 at June 30, 1997. The remaining rural telephone exchanges held for sale are expected to be disposed of in the latter half of 1997 and first-quarter 1998. In accordance with SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," the Company has stopped depreciating the exchanges held for sale.

C. Contingencies

There are pending regulatory actions in local regulatory jurisdictions that call for price decreases, refunds or both.

On May 1, 1996, the Oregon Public Utilities Commission ("OPUC") approved a stipulation terminating prematurely the Company's alternative form of regulation ("AFOR") plan, and it then undertook a review of the Company's earnings. In May 1997, the OPUC ordered the Company to reduce its annual revenues by \$97, effective May 1, 1997, and to issue a one-time refund, including interest, of approximately \$102 to reflect the revenue reduction for the period May 1, 1996 through April 30, 1997. The one-time refund is for interim rates which became subject to refund when the Company's AFOR plan was terminated on May 1, 1996.

U S WEST COMMUNICATIONS, INC.
NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
(Dollars in millions)

(Unaudited)

The Company filed an appeal of the order and asked for an immediate stay of the refund with the Oregon Circuit Court for the County of Marion ("Oregon Circuit Court"). On June 26, 1997, the Oregon Circuit Court granted the Company's request for a stay, pending a full review of the OPUC's order. The Oregon Circuit Court is scheduled to hear arguments on the appeal in December 1997.

The one-time refund and cumulative amount of revenues collected subject to refund, including interest, as of June 30, 1997, totals approximately \$121.

In 1996, the Washington State Utilities and Transportation Commission ("WUTC") acted on the Company's 1995 rate request. The Company had sought to increase revenues by raising rates primarily for basic residential services over a four-year period. Instead of granting the Company's request, the WUTC ordered \$91.5 in annual net revenue reductions, effective May 1, 1996.

Based on the WUTC ruling, the Company filed a lawsuit with the King County Superior Court (the "Court") for an appeal of the order, a temporary stay of the ordered rate reduction and an authorization to implement a revenue increase. The Court declined to change the WUTC order. The Company appealed the Court's decision to the Washington State Supreme Court (the "State Supreme Court") which, on January 22, 1997, granted a stay of the order, pending the State Supreme Court's full review of the appeal. Oral arguments were heard in June 1997. The Company is waiting a decision by the State Supreme Court.

Effective May 1, 1996, the Company began collecting revenues subject to refund. The cumulative amount of revenues collected subject to refund as of June 30, 1997, including interest, is approximately \$135.

In another proceeding, the Utah Supreme Court remanded a Utah Public Service Commission ("PSC") order to the PSC for hearing, thereby establishing two exceptions to the rule against retroactive ratemaking: 1) unforeseen and extraordinary events, and 2) misconduct. The PSC's initial order denied a refund request from interexchange carriers and other parties related to the Tax Reform Act of 1986. The potential exposure, including interest, at June 30, 1997, is approximately \$160.

The Company has accrued \$113 at June 30, 1997, which represents its estimated liability for state regulatory proceedings. It is possible that the ultimate liability could exceed the recorded liability by an amount up to \$300. The Company continues to monitor and evaluate the risks associated with its state regulatory environment, and will adjust estimates as new information becomes available.

Form 10-Q - Part I**Item 2. Management's Analysis of the Results of Operations (Dollars in millions)**

Some of the information presented in or in connection with this report constitutes "forward-looking statements" within the meaning of the Private Securities Litigation Reform Act of 1995. Although the Company believes that its expectations are based on reasonable assumptions within the bounds of its knowledge of its business and operations, there can be no assurance that actual results will not differ materially from its expectations. Factors that could cause actual results to differ from expectations include: (i) different than anticipated competition from new entrants into the local exchange and intraLATA toll markets, (ii) changes in demand for the Company's products and services, including optional custom calling features, (iii) different than anticipated employee levels, capital expenditures, and operating expenses as a result of unusually rapid, in-region growth, (iv) the gain or loss of significant customers, (v) pending regulatory actions in state jurisdictions, and (vi) regulatory changes affecting the telecommunications industry, including changes that could have an impact on the competitive environment in the local exchange market.

RESULTS OF OPERATIONS - SIX MONTHS ENDED JUNE 30, 1997 COMPARED WITH 1996

Following are details of the Company's reported net income, normalized to exclude the effects of certain nonoperating items.

	Six Months Ended June 30, 1997	Six Months Ended June 30, 1996	Increase (Decrease) Dollars	Increase (Decrease) Percent
Reported net income	\$ 702	\$ 666	\$ 36	5.4
Adjustments to reported net income:				
Gains on sales of rural telephone exchanges	(29)	(30)	1	(3.3)
Cumulative effect of change in accounting principle (1)<F1>	-	(34)	34	-
Current year effect of change in accounting principle (1)<F1>	-	(10)	10	-
Normalized income	\$ 673	\$ 592	\$ 81	13.7

<F1>

(1) Effective January 1, 1996, the Company adopted Statement of Financial Accounting Standards ("SFAS") No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of."

During 1997, the Company's normalized income increased \$81, or 13.7 percent, to \$673. Earnings before interest, taxes, depreciation, amortization and other ("EBITDA") increased \$146, or 6.6 percent, to \$2,363. EBITDA excludes gains on sales of certain rural telephone exchanges. The Company believes EBITDA is an important indicator of the operational performance of its businesses. EBITDA, however, should not be considered as an alternative to operating or net income as an indicator of the performance of the Company's business or as an alternative to cash flows from operating activities as a measure of liquidity, in each case determined in accordance with GAAP.

Form 10-Q - Part I**Item 2. Management's Analysis of the Results of Operations (Dollars in millions), continued**

The increases are primarily due to higher demand for services and continued cost control efforts which accelerated in the latter half of 1996. These increases were partially offset by an accrual to recognize the Company's estimated state regulatory liabilities. (See "Contingencies") The Company anticipates net income growth will continue to be partially offset by increased costs related to growth initiatives and interconnection requirements, and the impacts of access reform and price cap regulation. (See "Regulatory Environment")

Effective January 1, 1996, the Company adopted SFAS No. 121, "Accounting for the Impairment of Long-Lived Assets and for Long-Lived Assets to be Disposed Of," which, among other things, requires that companies no longer record depreciation expense on assets held for sale. Adoption of SFAS No. 121 resulted in a 1996 one-time gain of \$34 (net of tax of \$22), related to the cumulative effect of change in accounting principle.

Operating Revenues

An analysis of operating revenues follows:

	Six Months Ended June 30, 1997	Six Months Ended June 30, 1996	Demand	Price Changes	Lower Refunds	Other	Increase (Decrease) Dollars	Increase (Decrease) Percent
Local service	\$ 2,382	\$ 2,324	\$ 198	\$ (14)	\$ 17	\$ (143)	\$ 58	2.5
Interstate access	1,365	1,248	138	(10)	3	(14)	117	9.4
Intrastate access	400	379	25	5	-	(9)	21	5.5
Long-distance network	490	568	(47)	(5)	-	(26)	(78)	(13.7)
Other services	398	329	-	-	-	69	69	21.0
	-----	-----	-----	-----	-----	-----	-----	-----
Total	\$ 5,035	\$ 4,848	\$ 314	\$ (24)	\$ 20	\$ (123)	\$ 187	3.9
	=====	=====	=====	=====	=====	=====	=====	=====

Local Services Revenues. Local service revenues increased \$58, or 2.5 percent, to \$2,382, primarily as a result of access line growth and increased demand for new product and service offerings, and existing central office features. Total reported access lines increased 616,000, or 4.1 percent, during the past 12 months, of which 249,000 was attributable to second lines. Second line installations increased 26.7 percent. Access lines grew 686,000, or 4.6 percent, when adjusted for sales of approximately 70,000 rural telephone access lines during the past twelve months.

Form 10-Q - Part I

Item 2. Management's Analysis of the Results of Operations (Dollars in millions), continued

Partially offsetting the increase is a \$91 accrual to recognize the Company's estimated state regulatory liabilities. (See "Contingencies") Also partially offsetting the increase was a \$30 reclassification of public telephone revenues to other services revenues. The reclassification was in conjunction with the Federal Communications Commission's ("FCC") payphone orders, which took effect April 15, 1997, as mandated by the Telecommunications Act of 1996 (the "Telecommunications Act"). Lower wireless interconnection access prices, also mandated by the Telecommunications Act, reduced local service revenues by \$27.

Excluding the non-recurring effects of the regulatory accrual and the public telephone revenues reclassification, local service revenues increased 6.8 percent. (See "Contingencies")

Interstate Access Revenues. Higher interstate access revenues resulted from increased demand for private line services, access line growth and an increase of 6.3 percent in billed interstate access minutes of use. The increase was partially offset by the effects of price reductions and accruals of \$22 for refunds to interexchange carriers. The refunds relate to a one-time \$22 exogenous cost adjustment ordered by the FCC as a condition of granting the Company's waiver from price cap sharing rules for the first half of 1997. (See "Regulatory Environment") True-ups of \$18 to the 1996 price cap sharing accruals partially offset the one-time \$22 exogenous cost adjustment.

The Company anticipates future interstate access revenue growth will be negatively impacted by the FCC's recent orders to restructure the access charge system and its current price cap plan. (See "Regulatory Environment")

Intrastate Access Revenues. Intrastate access revenues increased largely as a result of an increase of 10.5 percent in billed intrastate minutes of use and increased demand for private line services.

Long-distance Network Service Revenues. Long-distance network service revenues decreased 13.7 percent primarily due to the effects of competition and the implementation of multiple toll carrier plans ("MTCPs") in Iowa and Nebraska in 1996, and in Iowa, Oregon and Washington in first-quarter 1997. The MTCPs essentially allow independent telephone companies to act as toll carriers. During 1997, the MTCPs reduced long-distance revenues by \$29, which was offset by increased intrastate access revenues of \$3, and decreased other operating expenses (i.e., access expense) of \$23.

Excluding the effects of the MTCPs, long-distance network service revenues decreased by 8.6 percent. Erosion of long-distance network service revenues will continue due to the loss of exclusivity of 1+ dialing in Minnesota and Arizona, effective in February and April 1996, respectively, and continued dial-around activity in other states within the Company's 14 state region. The Company is responding to competitive losses through competitive pricing of intraLATA long-distance services and increased promotional efforts to retain customers.

Form 10-Q - Part I**Item 2. Management's Analysis of the Results of Operations (Dollars in millions), continued**

Other Services Revenues. Other services revenues increased largely due to the second-quarter 1997 \$30 reclassification of public telephone revenues from local service revenues. Also contributing to the increase was interim compensation revenue from interexchange carriers as a result of the FCC's payphone orders which took effect April 15, 1997. The amount of interim compensation may change as a result of the District of Columbia Court of Appeals recent review and remand of the FCC's payphone orders. Increases in voice messaging, inside wire maintenance and billing and collection services revenues also contributed to higher other services revenues.

Future revenues may be affected by pending regulatory actions in federal and local regulatory jurisdictions.

Costs and Expenses

	Six Months Ended June 30, 1997	Six Months Ended June 30, 1996	Increase (Decrease) Dollars)	Increase (Decrease) Percent
Employee-related expenses	\$ 1,648	\$ 1,677	(29)	(1.7)
Other operating expenses	824	762	62	8.1
Taxes other than income taxes	200	192	8	4.2
Depreciation and amortization	1,046	1,024	22	2.1
Interest expense	189	204	(15)	(7.4)
Gains on sales of rural telephone exchanges	47	49	(2)	(4.1)
Other expense	40	15	25	-
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Employee-Related Expenses. Employee-related expenses decreased \$29, or 1.7 percent, primarily due to lower salaries and wages, overtime, and conference and travel expenses. Salaries and wages decreased primarily as a result of employee reductions totaling 3,795 during the last twelve months. However, this decrease was largely offset by the effects of inflation-driven wage increases. The reduction in overtime, and conference and travel expenses is primarily the result of continued cost control efforts which accelerated in the latter half of 1996. Partially offsetting the decreases were higher contract labor costs and an increase in the postretirement benefits accrual. The increase in contract labor is primarily due to additional costs for system development work and the launch of new products and services, and sales efforts associated with a first-quarter 1997 promotion of caller identification.

Other Operating Expenses. Other operating expenses increased \$62, or 8.1 percent. The increase was predominantly a result of higher advertising costs, of which approximately \$30 is attributable to a advertising promotion of caller identification in first-quarter 1997, and a reserve adjustment associated with billing and collection activities performed for interexchange carriers. Also contributing to the increase was additional network software purchases, increased professional

Form 10-Q - Part I**Item 2. Management's Analysis of the Results of Operations (Dollars in millions), continued**

fees and repair costs associated with flooding in North Dakota. Costs related to the growth initiatives also contributed to the increase. Partially offsetting the increases were lower materials and supplies as a result of continued cost control efforts and reduced access expense (primarily related to the implementation of the MTCPs in 1996 and 1997).

Taxes Other Than Income Taxes. Taxes other than income taxes increased primarily due to increased use and gross receipt taxes. Partially offsetting were decreased property taxes due to favorable tax valuations and mill levies, as compared with 1996.

Depreciation and Amortization. Increased depreciation and amortization expense was attributable to the effects of a higher depreciable asset base partially offset by lower depreciation rates for certain classes of plant.

Interest Expense. Interest expense decreased primarily due to lower average debt levels and interest rates as compared to 1996. Partially offsetting the decrease in interest expense was a decrease in the amount of interest capitalized resulting from a lower average balance of telecommunications plant under construction.

Gains on Sales of Rural Telephone Exchanges. During 1997, the Company sold selected rural telephone exchanges in Iowa, South Dakota, Nebraska and Idaho for a pretax gain of \$47 and an after tax gain of \$29. The 1996 gains were a result of sales in North and South Dakota.

Other Expense. Other expense increased primarily due to additional interest expense associated with the Company's interstate sharing liabilities and state regulatory liabilities.

Provision for Income Taxes

	Six Months Ended June 30, 1997	Six Months Ended June 30, 1996	Percent Change
Provision for income taxes	\$ 433	\$ 391	10.7
Effective tax rate	38.1%	38.2%	-
-----	-----	-----	-----

The increase in the provision for income taxes resulted primarily from higher pretax earnings and lower amortization of the investment tax credit.

Restructuring Charge

During the six-month period ended June 30, 1997, the restructuring reserve decreased \$45 to a balance of \$78. Reserve usage is primarily a result of expenditures for 380 employee separations during the first half of 1997 and systems development costs. The restructuring plan is expected to be substantially complete by the end of 1997. Management continues to evaluate the remaining reserve balance and employee separations.

Form 10-Q - Part I**Item 2. Management's Analysis of the Results of Operations (Dollars in millions), continued****CONTINGENCIES**

There are pending regulatory actions in local regulatory jurisdictions that call for price decreases, refunds or both.

On May 1, 1996, the Oregon Public Utilities Commission ("OPUC") approved a stipulation terminating prematurely the Company's alternative form of regulation ("AFOR") plan, and it then undertook a review of the Company's earnings. In May 1997, the OPUC ordered the Company to reduce its annual revenues by \$97, effective May 1, 1997, and to issue a one-time refund, including interest, of approximately \$102 to reflect the revenue reduction for the period May 1, 1996 through April 30, 1997. The one-time refund is for interim rates which became subject to refund when the Company's AFOR plan was terminated on May 1, 1996.

The Company filed an appeal of the order and asked for an immediate stay of the refund with the Oregon Circuit Court for the County of Marion ("Oregon Circuit Court"). On June 26, 1997, the Oregon Circuit Court granted the Company's request for a stay, pending a full review of the OPUC's order. The Oregon Circuit Court is scheduled to hear arguments on the appeal in December 1997.

The one-time refund and cumulative amount of revenues collected subject to refund, including interest, as of June 30, 1997, totals approximately \$121.

In 1996, the Washington State Utilities and Transportation Commission ("WUTC") acted on the Company's 1995 rate request. The Company had sought to increase revenues by raising rates primarily for basic residential services over a four-year period. Instead of granting the Company's request, the WUTC ordered \$91.5 in annual net revenue reductions, effective May 1, 1996.

Based on the WUTC ruling, the Company filed a lawsuit with the King County Superior Court (the "Court") for an appeal of the order, a temporary stay of the ordered rate reduction and an authorization to implement a revenue increase. The Court declined to change the WUTC order. The Company appealed the Court's decision to the Washington State Supreme Court (the "State Supreme Court") which, on January 22, 1997, granted a stay of the order, pending the State Supreme Court's full review of the appeal. Oral arguments were heard in June 1997. The Company is waiting a decision by the State Supreme Court.

Effective May 1, 1996, the Company began collecting revenues subject to refund. The cumulative amount of revenues collected subject to refund as of June 30, 1997, including interest, is approximately \$135.

Form 10-Q - Part I**Item 2. Management's Analysis of the Results of Operations (Dollars in millions), continued**

In another proceeding, the Utah Supreme Court remanded a Utah Public Service Commission ("PSC") order to the PSC for hearing, thereby establishing two exceptions to the rule against retroactive ratemaking: 1) unforeseen and extraordinary events, and 2) misconduct. The PSC's initial order denied a refund request from interexchange carriers and other parties related to the Tax Reform Act of 1986. The potential exposure, including interest, at June 30, 1997, is approximately \$160.

The Company has accrued \$113 at June 30, 1997, which represents its estimated liability for state regulatory proceedings. It is possible that the ultimate liability could exceed the recorded liability by an amount up to \$300. The Company continues to monitor and evaluate the risks associated with its state regulatory environment, and will adjust estimates as new information becomes available.

REGULATORY ENVIRONMENT**The Telecommunications Act of 1996**

The Telecommunications Act of 1996 (the "Telecommunications Act") replaces the Modification of Final Judgment, the antitrust consent decree entered into in 1984 in connection with the divestiture by AT&T of its local telephone business and the formation of U S WEST and the other Regional Bell Operating Companies ("RBOCs"). The Telecommunications Act permits local telephone companies, long-distance carriers and cable television companies to enter each others' lines of business. Among other things, the RBOCs will be permitted to provide interLATA long-distance services by opening their local networks to facilities-based competition and satisfying a detailed list of requirements, including providing interconnection and number portability. The Telecommunications Act also reaffirms the concept of universal service and directs the FCC and state regulators to determine universal service funding policy. The FCC and state regulators have been given the responsibility to interpret and oversee implementation of large portions of the Telecommunications Act.

On August 8, 1996, the FCC issued an order (the "FCC Order") establishing a framework of minimum national rules that would enable the states and the FCC to begin implementing the local competition provisions of the Telecommunications Act. Among other things, the FCC Order established rigid costing and pricing rules which, from U S WEST's perspective, significantly impede negotiations with new entrants to the local exchange market, state public utility commission ("PUC") interconnection rulemakings, and interconnection arbitration proceedings.

Form 10-Q - Part I**Item 2. Management's Analysis of the Results of Operations (Dollars in millions), continued**

On July 18, 1997, the Eighth Circuit Court of Appeals ("Eighth Circuit") vacated significant portions of the FCC Order. Most significantly, the Eighth Circuit ruled that jurisdiction over local interconnection prices rests with the states, not the FCC. The effect of the Eighth Circuit's decision is to have interconnection and network unbundled element pricing be resolved through negotiations or state PUC arbitration proceedings. Some of the FCC's unbundling rules, as well as its "pick and choose" provision, were also vacated by the Eighth Circuit Court.

On May 7, 1997, the FCC announced three decisions that will establish rules to implement the Universal Service provision of the Telecommunications Act of 1996 (the "Universal Service Order"), as well as rules to restructure the access charge system (the "Access Reform Order") and the FCC's current price cap plan (the "Price Cap Order").

UNIVERSAL SERVICE

Under the Universal Service Order, all providers of interstate telecommunications services will contribute to universal service funding, which will be based on retail telecommunications revenues. The Universal Service Order deferred defining a new explicit mechanism to support high-cost service in areas served by non-rural telephone companies such as the Company until January 1, 1999. Until the explicit mechanism is put in place, the existing universal service support mechanisms were left intact, except to the extent modified by the FCC's Access Reform and Price Cap Orders discussed below.

The FCC's Universal Service Order also includes the establishment of two separate funds to help connect eligible schools and libraries, and rural health care providers, to the global telecommunications network. These funds are capped at \$2.25 billion and \$400, respectively.

On July 17, 1997, U S WEST filed a petition with the FCC for reconsideration and clarification of certain issues in the Universal Service Order. Among other things, U S WEST requested the FCC to reconsider: 1) establishing a national fund to ensure high-cost support is sufficient, and 2) assessing contributions as explicit end-user surcharges. Appeals of the Universal Service Order have been filed by various other companies.

Item 2. Management's Analysis of the Results of Operations (Dollars in millions), continued

FEDERAL ACCESS REFORM

The FCC has ordered a substantial restructuring of interstate access pricing. A significant portion of the pricing that has been charged using minutes-of-use pricing will now be charged using a combination of minutes-of-use rates, presubscribed interexchange carrier charges ("PICCs") and subscriber line charges ("SLCs"). Although an increase in the SLC to multi-line business users occurred on July 1, 1997, the bulk of the mandated pricing changes will occur on January 1, 1998. Additional mandated pricing changes will also occur on January 1, 1998 through 2001. The net effect of these changes will be to decrease minutes-of-use charges by over 60 percent and increase flat-rate charges (i.e., PICCs and SLCs). The Access Reform Order also continued in place the current rules by which incumbent local exchange carriers ("LECs") may not assess interstate access charges on information service providers and purchasers of unbundled network elements. The FCC will separately address issues surrounding information service providers' usage of the public switched network in a related notice of inquiry. The impacts of access reform will occur over a number of years and cannot be evaluated until the FCC resolves all remaining issues. Generally, however, the Access Reform Order will reduce the revenues the Company derives from interstate access charges. Competition from new entrant LECs will also affect the Company's access revenues.

U S WEST has appealed the Access Reform Order. U S WEST's primary challenge is that the FCC acted unlawfully by exempting purchasers of unbundled network elements from payment of interstate access charges.

PRICE CAP ORDER

The FCC's Price Cap Order requires LECs that are subject to price cap regulation to increase their price cap index productivity factor to 6.5 percent. The order eliminates the lower productivity factor options (i.e., 4.0 percent and 4.7 percent) that required sharing of earnings above a specified level and will require LECs to set their 1997 price cap index assuming that the 6.5 percent factor had been in effect at the time of the 1996 tariff filing.

Under the FCC's previous price cap plan, the Company had elected the lowest productivity factor, 4.0 percent, in its 1996 annual interstate tariff filing. As a result, the Company remained subject to the sharing requirements for the first half of 1997. In May 1997, the Company requested a waiver of the price cap sharing rules for the first half of 1997. On June 26, 1997, the FCC granted the waiver, resulting in the Company making a one-time exogenous cost adjustment of \$22. The adjustment is reflected in the 1997 second-quarter interstate access revenues results (See "Operating Revenues"). The \$22 adjustment was reflected in lower interstate access rates over twelve months beginning July 1, 1997.

Form 10-Q - Part I**Item 2. Management's Analysis of the Results of Operations (Dollars in millions), continued**

As mandated by the Price Cap Order, the price cap index in the Company's 1997 interstate access tariff filing was established assuming that the 6.5 percent productivity factor had been in effect at the time of the 1996 tariff filing. The access rate reductions have an on-going revenue impact of approximately \$165 which will be reflected through lower interstate rates over twelve months beginning July 1, 1997.

On June 23, 1997, U S WEST petitioned the Tenth Circuit Court of Appeals ("Tenth Circuit") for a review of the Access Reform Order and Price Cap Order. Among other things, the petition requested the Tenth Circuit to review the use of a 6.5 percent productivity factor and the retroactive application of the 6.5 percent productivity factor to July 1, 1996 when determining the price cap index for the 1997 price cap filing. Through the federal court multi-district litigation forum selection process, the Access Reform Order will be reviewed by the Eighth Circuit. The Tenth Circuit has now transferred review of the Price Cap Order to the District of Columbia Court of Appeals.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

The Company and its subsidiaries are subject to claims and proceedings arising in the ordinary course of business. While complete assurance cannot be given as to the outcome of any contingent liabilities, in the opinion of the Company, any financial impact to which the Company and its subsidiaries are subject is not expected to be material in amount to the Company's operating results or its financial position.

Item 6. Exhibits and Reports on Form 8-K

(a) Exhibits

Exhibit No.	

12	Statement regarding computation of earnings to fixed charges ratio of U S WEST Communications, Inc.
27	Financial Data Schedule

(b) Reports on Form 8-K Filed During the Second Quarter of 1997:

No reports on Form 8-K have been filed for the Company during the second quarter of 1997.

SIGNATURES

Pursuant to the requirements of the Securities Exchange Act of 1934, the registrant has duly caused this report to be signed on its behalf by the undersigned thereunto duly authorized.

August 13, 1997

/s/ *Allan R. Spies*

U S WEST Communications, Inc.
Allan R. Spies
Vice President and Chief Financial Officer

U S WEST COMMUNICATIONS, Inc.
RATIO OF EARNINGS TO FIXED CHARGES
(Dollars in Millions)

	Quarter Ended	
	6/30/97	6/30/96
-----	-----	-----
Income before income taxes and cumulative effect of change in accounting principle	\$ 571	\$ 543
Interest expense (net of amounts capitalized)	93	101
Interest factor on rentals (1/3)	16	15
	-----	-----
Earnings	\$ 680	\$ 659
Interest expense	\$ 98	\$ 116
Interest factor on rentals (1/3)	16	15
	-----	-----
Fixed charges	\$ 114	\$ 131
Ratio of earnings to fixed charges	5.96	5.03
-----	-----	-----

	Year-to-Date	
	6/30/97	6/30/96
-----	-----	-----
Income before income taxes and cumulative effect of change in accounting principle	\$1,135	\$1,023
Interest expense (net of amounts capitalized)	189	204
Interest factor on rentals (1/3)	31	29
	-----	-----
Earnings	\$1,355	\$1,256
Interest expense	\$ 201	\$ 232
Interest factor on rentals (1/3)	31	29
	-----	-----
Fixed charges	\$ 232	\$ 261
Ratio of earnings to fixed charges	5.84	4.81
-----	-----	-----

ARTICLE 5

CIK: 0000068622

NAME: U S WEST COMMUNICATIONS, INC.

MULTIPLIER: 1,000,000

PERIOD TYPE	3 MOS	6 MOS
FISCAL YEAR END	DEC 31 1997	DEC 31 1997
PERIOD END	JUN 30 1997	JUN 30 1997
CASH	98	98
SECURITIES	0	0
RECEIVABLES	1,537	1,537
ALLOWANCES	0	0
INVENTORY	131	131
CURRENT ASSETS	2,007	2,007
PP&E	32,583	32,583
DEPRECIATION	18,954	18,954
TOTAL ASSETS	16,457	16,457
CURRENT LIABILITIES	3,121	3,121
BONDS	5,320	5,320
PREFERRED MANDATORY	0	0
PREFERRED	0	0
COMMON	7,888	7,888
OTHER SE	(3,617)	(3,617)
TOTAL LIABILITY AND EQUITY	16,457	16,457
SALES	2,488	5,035
TOTAL REVENUES	2,488	5,035
CGS	0	0
TOTAL COSTS	0	0
OTHER EXPENSES	1,835	3,718
LOSS PROVISION	0	0
INTEREST EXPENSE	93	189
INCOME PRETAX	571	1,135
INCOME TAX	218	433
INCOME CONTINUING	353	702
DISCONTINUED	0	0
EXTRAORDINARY	0	0
CHANGES	0	0
NET INCOME	353	702
EPS PRIMARY	0	0
EPS DILUTED	0	0

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