

QWEST CORP

FORM 10-Q (Quarterly Report)

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UNITED STATES SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-Q

☒ QUARTERLY REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE
SECURITIES EXCHANGE ACT OF 1934

For the Quarterly Period Ended September 30, 1996

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) 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
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Form 10-Q - Part I U S WEST Communications, Inc.
CONSOLIDATED STATEMENTS OF INCOME (Unaudited)

Dollars in millions	Three Months	Three Months	Nine Months	Nine Months
	Ended	Ended	Ended	Ended
	Sept. 30, 1996	Sept. 30, 1995	Sept. 30, 1996	Sept. 30, 1995
Operating revenues:				
Local service	\$ 1,208	\$ 1,105	\$ 3,532	\$ 3,231
Interstate access service	606	594	1,854	1,774
Intrastate access service	192	186	571	558
Long-distance network services	272	298	840	891
Other services	178	151	507	455
Total operating revenues	2,456	2,334	7,304	6,909
Operating expenses:				
Employee-related expenses	848	780	2,525	2,277
Other operating expenses	386	403	1,148	1,159
Taxes other than income taxes	92	92	284	299
Depreciation and amortization	541	507	1,565	1,499
Total operating expenses	1,867	1,782	5,522	5,234
Income from operations	589	552	1,782	1,675
Interest expense	104	98	308	284
Gains on sales of rural telephone exchanges	2	34	51	112
Other expense - net	10	10	25	43
Income before income taxes, extraordinary item and cumulative effect of change in accounting principle	477	478	1,500	1,460
Provision for income taxes	183	173	574	543
Income before extraordinary item and cumulative effect of change in accounting principle	294	305	926	917
Extraordinary item:				
Early extinguishment of debt - net of tax	-	(5)	-	(5)
Income before cumulative effect of change in accounting principle	294	300	926	912
Cumulative effect of change in accounting principle - net of tax	-	-	34	-
NET INCOME	\$ 294	\$ 300	\$ 960	\$ 912

See Notes to Consolidated Financial Statements.

CONSOLIDATED BALANCE SHEETS (Unaudited)

Dollars in millions	September 30, 1996	December 31, 1995
-----	-----	-----
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 94	\$ 191
Accounts and notes receivable - net	1,533	1,546
Inventories and supplies	124	142
Deferred tax asset	213	240
Prepaid and other	60	43
	-----	-----
Total current assets	2,024	2,162
	-----	-----
Gross property, plant and equipment	31,936	30,988
Accumulated depreciation	18,204	17,540
	-----	-----
Property, plant and equipment - net	13,732	13,448
Other assets	759	740
	-----	-----
Total assets	\$ 16,515	\$ 16,350
	=====	=====
LIABILITIES AND SHAREOWNER'S EQUITY		
Current liabilities:		
Short-term debt	\$ 1,107	\$ 995
Accounts payable	664	864
Employee compensation	255	281
Current portion of restructuring charge	202	270
Other	1,282	1,081
	-----	-----
Total current liabilities	3,510	3,491
	-----	-----
Long-term debt	5,375	5,411
Postretirement and other postemployment benefit obligations	2,293	2,316
Deferred taxes, credits and other	1,351	1,386
Shareowner's equity:		
Common shares - one share without par value	7,603	7,348
Cumulative deficit	(3,617)	(3,602)
	-----	-----
Total shareowner's equity	3,986	3,746
	-----	-----
Total liabilities and shareowner's equity	\$ 16,515	\$ 16,350
	=====	=====

Contingencies (See Note B to the Consolidated Financial Statements)

See Notes to Consolidated Financial Statements.

CONSOLIDATED STATEMENTS OF CASH FLOWS (Unaudited)

Dollars in millions	Nine Months Ended	Nine Months Ended
	Sept. 30, 1996	Sept. 30, 1995
OPERATING ACTIVITIES		
Net income	\$ 960	\$ 912
Adjustments to net income:		
Depreciation and amortization	1,565	1,499
Gains on sales of rural telephone exchanges	(51)	(112)
Cumulative effect of change in accounting principle - net of tax	(34)	-
Deferred income taxes and amortization of investment tax credits	(8)	120
Changes in operating assets and liabilities:		
Restructuring payments	(114)	(253)
Postretirement medical and life costs - net of cash fundings	(28)	(159)
Accounts and notes receivable	5	(188)
Inventories, supplies and other current assets	(2)	(49)
Accounts payable and accrued liabilities	83	(48)
Other - net	9	17
Cash provided by operating activities	2,385	1,739
INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(1,883)	(1,696)
Proceeds from sales of rural telephone exchanges	130	162
Payments on disposals of property, plant and equipment	(1)	(2)
Cash (used for) investing activities	(1,754)	(1,536)
FINANCING ACTIVITIES		
Net proceeds from issuance of short-term debt	257	406
Proceeds from issuance of long-term debt	16	495
Repayments of long-term debt	(271)	(248)
Dividends paid on common stock	(965)	(905)
Equity infusions from U S WEST Communications Group	235	-
Cash (used for) financing activities	(728)	(252)
CASH AND CASH EQUIVALENTS		
Decrease	(97)	(49)
Beginning balance	191	114
Ending balance	\$ 94	\$ 65

See Notes to Consolidated Financial Statements.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS
For the Nine Months Ended September 30, 1996 and 1995
(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 the interim 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 these 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, 1995.

New Accounting Standard

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." SFAS No. 121 requires that long-lived assets and associated intangibles be written down to fair value whenever an impairment review indicates that the carrying value cannot be recovered on an undiscounted cash flow basis. SFAS No. 121 also requires that a company no longer record depreciation expense on assets held for sale.

Adoption of SFAS No. 121 resulted in income of \$34 (net of tax of \$22) from the cumulative effect of reversing depreciation expense recorded in prior years related to rural telephone exchanges held for sale. Depreciation expense was reversed from the date the Company formally committed to a plan to dispose of the rural exchange assets through January 1, 1996. The income has been recorded as a cumulative effect of change in accounting principle in accordance with SFAS No. 121. The carrying value of the rural exchange assets was approximately \$338 at

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS (Continued)
(Unaudited)

New Accounting Standard (Continued)

December 31, 1995. As a result of adopting SFAS No. 121, depreciation expense for the nine months ended September 30, 1996 was reduced by \$21 (\$13 after tax). In 1996, depreciation expense will decrease approximately \$25 as a result of adopting SFAS No. 121. The combined effects of lower depreciation expense and the cumulative effect of adoption of the new standard will be directly offset by lower recognized gains on future rural exchange sales.

B. Contingencies

There are pending regulatory actions in local regulatory jurisdictions that call for price decreases, refunds or both. In one such instance, the Utah Supreme Court has remanded a Utah Public Service Commission ("PSC") order to the PSC for reconsideration, 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. This action is still in the discovery process. If a formal filing - made in accordance with the remand from the Supreme Court - alleges that the exceptions apply, the range of possible risk is \$0 to \$155.

On April 11, 1996, the Washington State Utilities and Transportation Commission ("WUTC" or the "Commission") acted on the Company's 1995 rate request. In February 1995, the Company sought to increase revenues by raising rates for basic residential services over a four-year period. The two major issues in this proceeding involve the Company's requests for improved capital recovery and elimination of the imputation of Yellow Pages revenue. Instead of granting the Company's request, the Commission ordered approximately \$91.5 in annual revenue reductions, effective May 1, 1996. Based on the above 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.

On April 29, 1996, the Court stayed the rate decreases ordered by the WUTC. The Court granted the stay pending a decision on the Company's appeal. Effective May 1, 1996, the Company began collecting revenues subject to refund with interest. The Company expects its appeal to be successful and plans not to accrue any of the amounts subject to refund. However, an adverse judgment on the appeal would have a significant impact on the Company's future results of operations. The Company expects the Court to rule on the appeal in November 1996.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Dollars in millions)

Results of Operations

Comparative details of income before extraordinary item and cumulative effect of change in accounting principle for the nine months ended September 30 follow:

	Nine Months Ended	Nine Months Ended	Percent
	Sept. 30, 1996	Sept. 30, 1995	Change
Income before extraordinary item and cumulative effect of change in accounting principle	\$ 926	\$ 917	1.0

Income before extraordinary item and cumulative effect of change in accounting principle for the nine-month period ended September 30, 1996, adjusted to exclude certain nonoperating items, was \$882, an increase of \$35, or 4.1 percent, compared with the same period in 1995. The adjustments include the 1996 current year-to-date impact of \$13 from adopting SFAS No. 121 and gains of \$31 and \$70 on the sales of rural telephone exchanges during 1996 and 1995, respectively.

Effective January 1, 1996, the Company adopted SFAS No. 121 (See Note A) 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 one-time gain of \$34 (net of tax of \$22), related to the cumulative effect of change in accounting principle.

Increased income at the Company is primarily attributable to higher demand for services. Partially offsetting the effects of higher demand was an increase in costs incurred to address the requirements associated with increased business growth and continuing service-improvement initiatives. Further offsetting the effects of higher demand were third quarter 1996 costs associated with the discontinuance of the Omaha broadband video service trial.

Increased demand for the Company's services resulted in growth in earnings before interest, taxes, depreciation, amortization and other ("EBITDA") of 5.5 percent for the nine-month period ended September 30, 1996. EBITDA also excludes gains on sales of certain rural telephone exchanges in 1996 and 1995.

The Company believes EBITDA is an important indicator of the operational strength of the business. 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.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Operating Revenues

An analysis of changes in the Company's operating revenues follows:

Nine Months Ended ----- September 30, -----			Higher ----- (Lower) Higher -----				Increase ----- (Decrease) (Decrease) -----	
	1996	1995	Prices	Refunds	Demand	Other	Dollars	Percent
Local service	\$3,532	\$3,231	\$ 19	\$ (4)	\$ 301	\$ (15)	\$ 301	9.3
Interstate access	1,854	1,774	(43)	(46)	174	(5)	80	4.5
Intrastate access	571	558	(17)	-	32	(2)	13	2.3
Long-distance network	840	891	(6)	(1)	(28)	(16)	(51)	(5.7)
Other services	507	455	-	-	-	52	52	11.4
Total	\$7,304	\$6,909	\$ (47)	\$ (51)	\$ 479	\$ 14	\$ 395	5.7
	=====	=====	=====	=====	=====	=====	=====	=====

Local service revenues increased principally as a result of higher demand for services. Total reported access lines increased 633,000, or 4.3 percent during the last 12 months, of which 234,000 is attributed to second lines. Second line installations increased 31.4 percent during the past year. Access line growth was 5.1 percent when adjusted for sales of approximately 116,000 rural telephone access lines during the last 12 months. Also contributing to the increase in local service revenues was expanded growth in new central office features such as caller identification, last call return and continuous redial. Local service revenues from these features were approximately \$130, an increase of over 100 percent as compared to 1995.

Higher revenues from interstate access services resulted from access line growth and an increase of 8.9 percent in interstate billed access minutes of use for the nine-month period ended September 30, 1996. The increased volume of business was partially offset by the effects of price reductions and sharing related accruals for refunds to interexchange carriers. Intrastate access revenues increased slightly primarily due to higher demand partially offset by the effects of price reductions.

Long-distance network service revenues decreased by 5.7 percent, compared with the same period in 1995, primarily due to the effects of competition and the implementation of a multiple toll carrier plan ("MTCP") in Iowa in May 1996. The MTCP allows independent telephone companies to act as toll carriers. The impact of the MTCP for the nine-month period ended September 30, 1996 was long-distance revenue losses of \$16, offset by an increase in intrastate access revenues of \$2 and a decrease in other operating expenses (i.e., access expense) of \$13.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Operating Revenues (Continued)

Excluding the effects of the MTCP, long-distance network service revenues decreased 3.9 percent for the nine-month period ended September 30, 1996. Erosion of long-distance revenue will continue due to the loss of exclusivity of 1+ dialing in Minnesota, effective in February 1996, and in Arizona, effective in April 1996.

Revenues from other services increased primarily as a result of continued market penetration in voice messaging service and increases in inside wire service.

Future revenues at the Company may be affected by pending regulatory actions in local regulatory jurisdictions.

Costs and Expenses

	Nine Months Ended	Nine Months Ended	Percent
	September 30, 1996	September 30, 1995	Change
Employee-related expenses	\$ 2,525	\$ 2,277	10.9
Other operating expenses	1,148	1,159	(0.9)
Taxes other than income taxes	284	299	(5.0)
Depreciation and amortization	1,565	1,499	4.4
Interest expense	308	284	8.5
Other expense - net	25	43	(41.9)

Employee-related expenses increased \$248 compared to the prior year. The increase is primarily attributable to continued efforts to meet the requirements associated with increased business growth and service-improvement initiatives.

Salaries and wages increased employee-related expenses by approximately \$119 over the prior year primarily due to inflation-driven wage increases. The increase is also attributable to absorbing certain employee transfers from affiliate companies during 1995. Salaries and wages were reduced through employee reductions associated with the Company's restructuring program; however, costs associated with employee transfers, along with other workforce additions needed to meet increased business growth and service-improvement initiatives, have offset these benefits.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Costs and Expenses (Continued)

Contract labor increased approximately \$115 for the nine-month period ended September 30, 1996. The increase was primarily due to increased network operations costs incurred to meet increased business growth and marketing organization costs associated with the implementation of new products and services. Also contributing to the increase was \$6 of third-quarter 1996 costs related to the discontinuance of the Omaha broadband video service trial.

Approximately \$15 of the increase in employee-related expenses (i.e., contract labor and overtime) was attributed to severe flooding in Washington and Oregon in the first quarter of 1996. Partially offsetting the increase in employee-related expenses was a reduction in the postretirement benefits accrual and lower travel and conference expenses.

The slight decrease in other operating expenses is primarily attributable to lower affiliate costs and reduced access expense of which a portion related to the implementation of the MTCP in Iowa in May 1996. Increased uncollectible expense, higher advertising costs and greater materials and supplies expense partially offset these decreases. Also partially offsetting was an \$11 third-quarter 1996 charge related to the discontinuance of the Omaha broadband video service trial.

Increased depreciation and amortization expense was attributable to the effects of a higher depreciable asset base, partially offset by the effects of 1995 sales of rural telephone exchanges, and the effects of adopting SFAS No. 121. Interest expense increased primarily due to higher average debt levels.

Provision for Income Taxes

	Nine Months Ended	Nine Months Ended	Percent
	September 30 1996	September 30 1995	Change
Provision for income taxes	\$ 574	\$ 543	5.7
Effective tax rate	38.3%	37.2%	-

The increase in the effective tax rate resulted primarily from higher income before income taxes and lower amortization of the investment tax credit.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)**Restructuring Charge**

The Company's 1993 results reflected an \$880 restructuring charge (pretax). The related restructuring plan (the "Restructuring Plan") is designed to provide faster, more responsive customer services while reducing the costs of providing these services.

Following is a schedule of the costs included in the Restructuring Plan:

Restructuring Plan Costs	Actual 1994	Actual 1995	Estimate 1996	Estimate 1997	Total
Cash expenditures:					
Employee separation (1) <F1>	\$ 19	\$ 76	\$ 82	\$ 106	\$ 283
Systems development	118	129	113	-	360
Real estate	50	66	14	-	130
Relocation	21	21	5	-	47
Retraining and other	8	23	22	7	60
Total cash expenditures	216	315	236	113	880
Remaining 1991 plan employee costs (1)	56	-	-	-	56
Total	\$ 272	\$ 315	\$ 236	\$ 113	\$ 936

<F1>

(1) Employee separation costs, including the balance of the 1991 restructuring reserve at December 31, 1993, aggregate \$339.

Employee separation costs include severance payments, health-care coverage and postemployment education benefits associated with the planned reduction of 10,000 employees. System development costs include new systems and the application of enhanced system functionality to existing single-purpose systems to provide integrated, end-to-end customer service. Real estate costs include preparation costs for the new service centers. The Company has consolidated its 560 customer service centers into 26 centers in 10 cities. The relocation and retraining costs are related to moving employees to the new service centers and retraining employees on the methods and systems required in the new, restructured mode of operation.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)**Restructuring Charge (Continued)**

The timing and mix of employee separations has been changed. Managerial and occupational employee separations under the Restructuring Plan are estimated to be 3,670 and 6,330, respectively, as compared with previous estimates of 2,738 and 7,262. As a result of this change, the currently estimated cost for employee separations is \$339, compared with \$311 as previously estimated. The cost increase will be funded through a transfer from the reserve for employee relocations.

Additionally, 1,000 employee separations previously scheduled for 1997 will occur in 1996. Accordingly, estimated employee separation costs increased by \$49 in 1996, of which \$21 was transferred from 1997 and \$28 was reallocated from the reserve for employee relocations. Following are current estimates of employee separations and separation costs:

Employee Separations	Actual 1994	Actual 1995	Estimate 1996	Estimate 1997	Total
-----	-----	-----	-----	-----	-----
Managerial	497	682	1,435	1,056	3,670
Occupational	1,683	1,643	565	2,439	6,330
-----	-----	-----	-----	-----	-----
Total	2,180	2,325	2,000	3,495	10,000
=====	=====	=====	=====	=====	=====

Employee Separation Costs	Actual 1994(1) <F1>	Actual 1995	Estimate 1996	Estimate 1997	Total
-----	-----	-----	-----	-----	-----
Managerial	\$ 5	\$ 30	\$ 69	\$ 49	\$ 153
Occupational	14	46	13	57	130
-----	-----	-----	-----	-----	-----
Total	19	76	82	106	283
Remaining 1991 reserve	56	-	-	-	56
-----	-----	-----	-----	-----	-----
Total	\$ 75	\$ 76	\$ 82	\$ 106	\$ 339
=====	=====	=====	=====	=====	=====

<F1>

(1) Includes the remaining employees and the separation amounts associated with the balance of a 1991 restructuring reserve at December 31, 1993.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Restructuring Charge (Continued)

Progress Under the Restructuring Plan:

Following is a reconciliation of restructuring reserve activity during the first nine months of 1996:

	Reserve Balance	First Nine Months	Change in Relocation/	Reserve Balance
	December 31, 1995	1996 Activity	Employee Separation	September 30, 1996
			Amounts (1)<F1>	
Employee separations				
Managerial	\$ 63	\$ (28)	\$ 55	\$ 90
Occupational	97	(11)	(27)	59
Total separations	160	(39)	28	149
Systems development				
Service delivery	44	(26)	-	18
Service assurance	26	(7)	-	19
Capacity provisioning	42	(22)	-	20
All other	1	-	-	1
Total systems	113	(55)	-	58
Real estate	14	(4)	-	10
Relocation	33	(2)	(28)	3
Retraining and other	29	(14)	-	15
Total	\$ 349	\$ (114)	\$ -	\$ 235
	=====	=====	=====	=====

<F1>

(1) As a result of the change in the estimated mix of total employee separations, \$27 was transferred from the occupational to the managerial employee separation reserve. Additionally, \$28 was reallocated from the relocation reserve to the managerial employee separation reserve.

	1994	1995	First Nine Months	Cumulative
	Separations	Separations	1996 Separations	Separations At
				Sept. 30, 1996
Employee separations				
Managerial	497	682	549	1,728
Occupational	1,683	1,643	444	3,770
Total	2,180	2,325	993	5,498
	=====	=====	=====	=====

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Contingencies

There are pending regulatory actions in local regulatory jurisdictions that call for price decreases, refunds or both. In one such instance, the Utah Supreme Court has remanded a Utah Public Service Commission ("PSC") order to the PSC for reconsideration, 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. This action is still in the discovery process. If a formal filing - made in accordance with the remand from the Supreme Court - alleges that the exceptions apply, the range of possible risk is \$0 to \$155.

On April 11, 1996, the WUTC acted on the Company's 1995 rate request. In February 1995, the Company sought to increase revenues by raising rates for basic residential services over a four-year period. The two major issues in this proceeding involve the Company's requests for improved capital recovery and elimination of the imputation of Yellow Pages revenue. Instead of granting the Company's request, the Commission ordered approximately \$91.5 in annual revenue reductions, effective May 1, 1996. Based on the above 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.

On April 29, 1996, the Court stayed the rate decreases ordered by the WUTC. The Court granted the stay pending a decision made on the Company's appeal. Effective May 1, 1996, the Company began collecting revenues subject to refund with interest. The Company expects its appeal to be successful and plans not to accrue any of the amounts subject to refund. However, an adverse judgment on the appeal would have a significant impact on the Company's future results of operations. The Company expects the Court to rule on the appeal in November 1996.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Regulatory Environment

On August 8, 1996, the Federal Communications Commission ("FCC") established a framework of detailed national rules that will enable the states and the FCC to begin implementing the local competition provisions of the Telecommunications Act of 1996. Included in the order are requirements that local exchange carriers ("LECs"): a) provide interconnection to any requesting telecommunications carrier at any technically feasible point, equal in quality to that provided by the incumbent LEC; b) provide unrestricted access to network services on an unbundled basis; c) provide physical collocation of equipment necessary for interconnection at the incumbent LEC's premises, unless physical collocation is not practical for technical reasons or because of space limitations; and d) offer for resale any telecommunications services that the LEC provides at retail to subscribers who are not telecommunications carriers. The order also stipulates that commercial mobile radio service operators ("CMRS") are entitled to reciprocal compensation arrangements and that a LEC may not charge a CMRS provider for terminating LEC-originated traffic. The FCC's order continues to provide for access charge recovery by LECs from interexchange carriers until it further evaluates the issues of access charge reform and universal service.

The FCC order also established rigid costing and pricing rules which, from the Company's perspective, significantly impede negotiations with new entrants, State Public Utility Commission ("PUC") interconnection rulemakings, and interconnection arbitrations. U S WEST appealed the FCC order and sought a stay of portions of the order, including certain pricing provisions, pending appellate review. On October 15, 1996, the Eighth Circuit Court of Appeals ("Eighth Circuit") issued its order granting a stay of all the pricing provisions of the FCC order. The stay does not postpone implementation of the Telecommunications Act of 1996. Rather the effect of the stay is to have interconnection and network unbundled element pricing be resolved through negotiations or state PUC arbitrations without the PUCs being limited in their consideration of relevant costs.

Subsequently, the FCC and certain interexchange carriers requested the United States Supreme Court ("Supreme Court") to review and vacate the Eighth Circuit stay. On October 31, 1996, the Supreme Court denied these requests. Thereafter, the FCC and certain interexchange carriers petitioned the Supreme Court for further consideration of vacating the stay. On November 12, 1996, the Supreme Court rejected these further petitions. Thus, the Eighth Circuit stay will remain in effect until modified by that court or until the appeal is resolved. A decision on the appeal is expected by May 1997. The order's impact on the Company's future results is unknown.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations (Continued)

Other Items

During October 1996, the Company's credit ratings were lowered in connection with the regulatory uncertainty surrounding the WUTC's \$91.5 rate reduction order (See "Contingencies") and U S WEST's planned merger with Continental Cablevision, Inc. Duff & Phelps lowered the senior unsecured debt rating to AA-minus and reaffirmed the D-1-plus commercial paper rating. Fitch lowered the senior unsecured debt rating to A-plus and the commercial paper rating to F-1.

The Company and the other regional Bell operating companies ("RBOCs") continue to explore the disposal of their interests in Bell Communications Research Inc. ("Bellcore"), one-seventh of which is owned by the Company. The majority of the Company's research and development activities are currently conducted at Bellcore. Following such disposal, Bellcore and other third parties will provide research and development and other services to the Company on a contract basis.

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) greater than anticipated competition from new entrants into the local exchange and intralata toll markets, (ii) changes in demand for products and services, including optional custom calling features, (iii) higher 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.

PART II - OTHER INFORMATION

Item 1. Legal Proceedings

On April 11, 1996, the Washington State Utilities and Transportation Commission ("WUTC" or the "Commission") acted on the Company's 1995 rate request. In February 1995, the Company sought to increase revenues by raising rates for basic residential services over a four-year period. The two major issues in this proceeding involve the Company's requests for improved capital recovery and elimination of the imputation of Yellow Pages revenue. Instead of granting the Company's request, the Commission ordered approximately \$91.5 in annual revenue reductions, effective May 1, 1996. Based on the above 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.

On April 29, 1996, the Court stayed the rate decreases ordered by the WUTC. The Court granted the stay pending a decision on the Company's appeal. Effective May 1, 1996, the Company began collecting revenues subject to refund with interest. The Company expects its appeal to be successful and plans not to accrue any of the amounts subject to refund. However, an adverse judgment on the appeal would have a significant impact on the Company's future results of operations. The Company expects the Court to rule on the appeal in November 1996.

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 Third Quarter of 1996:

(i) No reports on Form 8-K were filed.

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.

/S/ ALLAN R. SPIES

*U S WEST Communications, Inc.
Allan R. Spies
Vice President and Controller*

November 13, 1996

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

	Quarter Ended	
	9/30/96	9/30/95
Income before income taxes, extraordinary item and cumulative effect of change in accounting principle	\$477	\$478
Interest expense (net of amounts capitalized)	104	98
Interest factor on rentals (1/3)	12	13
Earnings	\$593	\$589
Interest expense	105	109
Interest factor on rentals (1/3)	12	13
Fixed charges	\$117	\$122
Ratio of earnings to fixed charges	5.07	4.83

	Year-to-Date	
	9/30/96	9/30/95
Income before income taxes, extraordinary item and cumulative effect of change in accounting principle	\$1,500	\$1,460
Interest expense (net of amounts capitalized)	308	284
Interest factor on rentals (1/3)	41	44
Earnings	\$1,849	\$1,788
Interest expense	337	314
Interest factor on rentals (1/3)	41	44
Fixed charges	\$378	\$358
Ratio of earnings to fixed charges	4.89	4.99

ARTICLE 5

CIK: 0000068622

NAME: U S WEST COMMUNICATIONS, INC.

MULTIPLIER: 1,000,000

PERIOD TYPE	3 MOS	9 MOS
FISCAL YEAR END	DEC 31 1996	DEC 31 1996
PERIOD END	SEP 30 1996	SEP 30 1996
CASH	94	94
SECURITIES	0	0
RECEIVABLES	1,533	1,533
ALLOWANCES	0	0
INVENTORY	124	124
CURRENT ASSETS	2,024	2,024
PP&E	31,936	31,936
DEPRECIATION	18,204	18,204
TOTAL ASSETS	16,515	16,515
CURRENT LIABILITIES	3,510	3,510
BONDS	5,375	5,375
PREFERRED MANDATORY	0	0
PREFERRED	0	0
COMMON	7,603	7,603
OTHER SE	(3,617)	(3,617)
TOTAL LIABILITY AND EQUITY	16,515	16,515
SALES	2,456	7,304
TOTAL REVENUES	2,456	7,304
CGS	0	0
TOTAL COSTS	0	0
OTHER EXPENSES	1,867	5,522
LOSS PROVISION	0	0
INTEREST EXPENSE	104	308
INCOME PRETAX	477	1,500
INCOME TAX	183	574
INCOME CONTINUING	294	926
DISCONTINUED	0	0
EXTRAORDINARY	0	0
CHANGES	0	34
NET INCOME	294	960
EPS PRIMARY	0	0
EPS DILUTED	0	0

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