

QWEST CORP

FORM 10-Q (Quarterly Report)

Filed 11/13/1997 For Period Ending 9/30/1997

Address	1801 CALIFORNIA ST SUITE 2950 DENVER, Colorado 80202
Telephone	303-896-3099
CIK	0000068622
Fiscal Year	12/31

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 September 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
TABLE OF CONTENTS

Item ----	Page ----
PART I - FINANCIAL INFORMATION	
1. Financial Statements	
Consolidated Statements of Operations - Three and Nine Months Ended September 30, 1997 and 1996	3
Consolidated Balance Sheets - September 30, 1997 and December 31, 1996	4
Consolidated Statements of Cash Flows - Nine Months Ended September 30, 1997 and 1996	6
Notes to Consolidated Financial Statements	7
2. Management's Analysis of the Results of Operations - (Reduced disclosure format pursuant to General Instruction H(2))	10
PART II - OTHER INFORMATION	
1. Legal Proceedings	18
6. Exhibits and Reports on Form 8-K	18

CONSOLIDATED STATEMENTS OF U S WEST COMMUNICATIONS, INC.
OPERATIONS (Unaudited)

	Three Months Ended September 30, 1997	Three Months Ended September 30, 1996	Nine Months Ended September 30, 1997	Nine Months Ended September 30, 1996
Dollars in millions				
Operating revenues:				
Local service	\$ 1,314	\$ 1,208	\$ 3,739	\$ 3,532
Interstate access service	663	606	2,028	1,854
Intrastate access service	208	192	608	571
Long-distance network services	231	272	721	840
Other services	193	178	548	507
	-----	-----	-----	-----
Total operating revenues	2,609	2,456	7,644	7,304
Operating expenses:				
Employee-related expenses	850	848	2,498	2,525
Other operating expenses	479	386	1,303	1,148
Taxes other than income taxes	100	92	300	284
Depreciation and amortization	528	541	1,574	1,565
	-----	-----	-----	-----
Total operating expenses	1,957	1,867	5,675	5,522
	-----	-----	-----	-----
Income from operations	652	589	1,969	1,782
Interest expense	93	104	282	308
Gains on sales of rural telephone exchanges	30	2	77	51
Other expense	11	10	51	25
	-----	-----	-----	-----
Income before income taxes and cumulative effect of change in accounting principle	578	477	1,713	1,500
Provision for income taxes	220	183	653	574
	-----	-----	-----	-----
Income before cumulative effect of change in accounting principle	358	294	1,060	926
Cumulative effect of change in accounting principle - net of tax	-	-	-	34
	-----	-----	-----	-----
NET INCOME	\$ 358	\$ 294	\$ 1,060	\$ 960
	-----	-----	-----	-----

See Notes to Consolidated Financial Statements.

Form 10-Q - Part I**CONSOLIDATED BALANCE SHEETS U S WEST COMMUNICATIONS, INC.**

(Unaudited)

Dollars in millions	September 30, 1997	December 31, 1996
ASSETS		
Current assets:		
Cash and cash equivalents	\$ 172	\$ 92
Accounts and notes receivable - net	1,513	1,550
Inventories and supplies	147	109
Deferred tax asset	145	152
Prepaid and other	55	57
	-----	-----
Total current assets	2,032	1,960
	-----	-----
Gross property, plant and equipment	32,831	32,451
Less accumulated depreciation	19,120	18,522
	-----	-----
Property, plant and equipment - net	13,711	13,929
Other assets	834	743
	-----	-----
Total assets	\$ 16,577	\$ 16,632
	-----	-----

See Notes to Consolidated Financial Statements.

Form 10-Q - Part I

CONSOLIDATED BALANCE SHEETS U S WEST COMMUNICATIONS, INC.

(Unaudited), continued

Dollars in millions	September 30, 1997	December 31, 1996
LIABILITIES AND SHAREOWNER'S EQUITY		
Current liabilities:		
Short-term debt	\$ 423	\$ 834
Accounts payable	1,219	998
Employee compensation	291	308
Dividends payable	357	307
Advanced billing and customer deposits	286	250
Other	865	754
	-----	-----
Total current liabilities	3,441	3,451
	-----	-----
Long-term debt	5,023	5,375
Postretirement and other postemployment benefit obligations	2,294	2,347
Deferred income taxes	841	807
Deferred credits and other	614	592
Contingencies (See Note C to the Consolidated Financial Statements)		
Shareowner's equity:		
Common shares - one share without par value, owned by parent	7,981	7,677
Cumulative deficit	(3,617)	(3,617)
	-----	-----
Total shareowner's equity	4,364	4,060
	-----	-----
Total liabilities and shareowner's equity	\$ 16,577	\$ 16,632
	-----	-----

See Notes to Consolidated Financial Statements.

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

	Nine Months Ended September 30, 1997	Nine Months Ended September 30, 1996
Dollars in millions		
OPERATING ACTIVITIES		
Net income	\$ 1,060	\$ 960
Adjustments to net income:		
Depreciation and amortization	1,574	1,565
Gains on sales of rural telephone exchanges	(77)	(51)
Cumulative effect of change in accounting principle	-	(34)
Deferred income taxes and amortization of investment tax credits	1	(8)
Changes in operating assets and liabilities:		
Restructuring payments	(55)	(114)
Postretirement medical and life costs, net of cash fundings	8	(28)
Accounts receivable	37	5
Inventories, supplies and other current assets	(55)	(2)
Accounts payable and accrued liabilities	302	83
Other adjustments - net	111	9
Cash provided by operating activities	2,906	2,385
INVESTING ACTIVITIES		
Expenditures for property, plant and equipment	(1,291)	(1,883)
Purchase of PCS wireless licenses	(57)	-
Proceeds from sales of rural telephone exchanges	51	130
Proceeds from (payments on) disposals of property, plant, and equipment	27	(1)
Cash (used for) investing activities	(1,270)	(1,754)
FINANCING ACTIVITIES		
Net (repayments of) proceeds from short-term debt	(700)	257
Proceeds from issuance of long-term debt	-	16
Repayments of long-term debt	(107)	(271)
Dividends paid on common stock	(1,009)	(965)
Equity infusions from U S WEST Communications Group	260	235
Cash (used for) financing activities	(1,556)	(728)
CASH AND CASH EQUIVALENTS		
Increase (decrease)	80	(97)
Beginning balance	92	191
Ending balance	\$ 172	\$ 94

See Notes to Consolidated Financial Statements.

U S WEST COMMUNICATIONS, INC.

NOTES TO CONSOLIDATED FINANCIAL STATEMENTS

For the Nine Months Ended September 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") and a major component of U S WEST Communications Group ("Communications Group").

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.

B. U S WEST Split

On October 27, 1997, U S WEST announced its intention to split Communications Group and U S WEST Media Group ("Media Group") into separate public companies. Communications Group will be renamed U S WEST, Inc. ("new U S WEST") and Media Group will be renamed MediaOne Group, Inc. ("MediaOne Group"). Under the terms of the proposed transaction, new U S WEST will include the telephone, data and wireless operations of the Communications Group, as well as the Yellow Pages and electronic directory businesses of U S WEST Dex, Inc. ("Dex"). Dex is currently part of the Media Group and will be transferred to the Communications Group as part of the proposed transaction (the "Dex Transfer").

MediaOne Group will include the cable/broadband, wireless and domestic and international investments of the Media Group.

Under the terms of the proposed split, Communications Group shareowners will receive one share of new U S WEST common stock for each share of Communications Group common stock. Media Group shareowners will receive one share of MediaOne Group common stock for each share of Media Group common stock. In addition, Media Group shareowners will receive shares of new U S WEST common stock for each share of Media Group common stock which represents their interest in Dex, totaling approximately \$850. Under the terms of the Dex Transfer, Media Group debt will be reduced and Communications Group debt will be increased by \$3.9 billion.

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

(Unaudited)

B. U S WEST Split (continued)

The transaction is subject to a number of approvals, including approvals by regulators and both shareowner groups, and receipt of a favorable ruling from the Internal Revenue Service. The split is expected to be complete in the second half of 1998.

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.

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 September 30, 1997, totals approximately \$150.

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.

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

(Unaudited)

C. Contingencies (continued)

Effective May 1, 1996, the Company began collecting revenues subject to refund. The cumulative amount of revenues collected subject to refund as of September 30, 1997, including interest, is approximately \$155.

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 September 30, 1997, is approximately \$160.

The Company has accrued \$125 at September 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 approximately \$340. 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 - NINE MONTHS ENDED SEPTEMBER 30, 1997 COMPARED WITH 1996

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

	Nine Months Ended September 30, 1997	Nine Months Ended September 30, 1996	Increase (Decrease) Dollars	Increase (Decrease) Percent
Reported net income	\$ 1,060	\$ 960	\$ 100	10.4
Adjustments to reported net income:				
Gains on sales of rural telephone exchanges	(48)	(31)	(17)	(54.8)
Cumulative effect of change in accounting principle (1)<F1>	-	(34)	34	-
Current year effect of change in accounting principle (1)<F1>	-	(13)	13	-
Normalized income	\$ 1,012	\$ 882	\$ 130	14.7

<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 \$130, or 14.7 percent, primarily due to higher demand for services and continued cost control efforts in the core business which accelerated in the latter half of 1996. Additional expenses related to interconnection and accruals to recognize the Company's estimated state regulatory liability partially offset the increase. (See Note C - Contingencies - to the Consolidated Financial Statements.) The Company anticipates that spending increases related to interconnection requirements and entry into wireless personal communications services ("PCS") markets, combined with rate reductions resulting from the Federal Communications Commission's (the "FCC") price cap regulation, will partially offset future net income growth.

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

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 income tax expenses of \$22), related to the cumulative effect of change in accounting principle.

Operating Revenues

	Nine Months Ended September 30, 1997	Nine Months Ended September 30, 1996	Increase (Decrease) Dollars	Increase (Decrease) Percent
Local service	\$ 3,739	\$ 3,532	\$ 207	5.9
Interstate access service	2,028	1,854	174	9.4
Intrastate access service	608	571	37	6.5
Long-distance network services	721	840	(119)	(14.2)
Other services	548	507	41	8.1
Total	\$ 7,644	\$ 7,304	\$ 340	4.7

Local Service Revenues. Local service revenues increased predominately 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 576,000, or 3.8 percent, during the past 12 months, of which 274,000 was attributable to second lines. Second-line installations increased 28 percent during the past 12 months. Access lines grew 663,000, or 4.3 percent, when adjusted for sales of approximately 87,000 rural telephone access lines during the past 12 months. Also contributing to the revenue increase were rate increases in various states and interim compensation revenue from interexchange carriers as a result of the FCC's payphone orders which took effect in April 1997.

Partially offsetting the increase were accruals of approximately \$100 to recognize the Company's estimated state regulatory liabilities (See Note C - Contingencies - to the Consolidated Financial Statements) and lower wireless interconnection access prices mandated by the Telecommunications Act of 1996 (the "Telecommunications Act").

Interstate Access Service Revenues. Higher interstate access service revenues resulted from increased demand for private line services, access line growth and a 6.2 percent increase in billed interstate access minutes of use. Also contributing to the increase were the effects of sharing-related accruals for refunds to interexchange carriers recorded in 1996. These increases were partially offset by 1997 price reductions. Beginning July 1, 1997, the Company reduced prices for interstate services as a result of the FCC's current price cap plan. The access rate reductions have an on-going annual revenue impact of approximately \$165 which is reflected in lower interstate 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**

Intrastate Access Service Revenues. Intrastate access service revenues increased largely as a result of an 11.4 percent increase in billed intrastate minutes of use and increased demand for private line services.

Long-Distance Network Service Revenues. Long-distance network service revenues decreased 14.2 percent primarily due to the effects of competition and the implementation of multiple toll carrier plans ("MTCs") in Iowa and Nebraska in 1996, and in several states in 1997. The MTCs essentially allow independent telephone companies to act as toll carriers and are net income neutral with the reduction in toll revenues largely offset by increased intrastate access revenues and lower access expense.

Excluding the effects of the MTCs, long-distance network service revenues decreased 9.4 percent. The Company believes that 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 competitive dial-around activity in other states within the Company's 14 state region. The Company is responding to competition through competitive pricing of intraLATA long-distance services and increased promotional efforts to retain customers.

Other Services Revenues. Other services revenues increased primarily as a result of continued market penetration of voice messaging services and greater sales of inside wire maintenance.

Revenue growth may be affected by pending regulatory actions in federal and local regulatory jurisdictions.

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

	Nine Months Ended September 30, 1997	Nine Months Ended September 30, 1996	Increase (Decrease) Dollars	Increase (Decrease) Percent
Employee-related expenses	\$ 2,498	\$ 2,525	\$ (27)	(1.1)
Other operating expenses	1,303	1,148	155	13.5
Taxes other than income taxes	300	284	16	5.6
Depreciation and amortization	1,574	1,565	9	0.6
Interest expense	282	308	(26)	(8.4)
Gains on sales of rural telephone exchanges	77	51	26	51.0
Other expense	51	25	26	-

Employee-Related Expenses. Employee-related expenses decreased \$27, or 1.1 percent, primarily as a result of lower salaries and wages related to employee reductions totaling 4,180 during the last 12 months (which includes the transfer of 1,200 employees during third-quarter 1997 to an unregulated affiliate). Lower overtime costs and lower conference and travel expenses were largely offset by higher contract labor costs. The contract labor increase reflects increased marketing and sales efforts, systems development work (which include expenses related to interconnection), and the launch of new products and services. Further offsetting the decrease in employee-related expenses were increases in certain employee-related benefit costs.

Other Operating Expenses. Other operating expenses increased \$155, or 13.5 percent, predominantly as a result of increased network software purchases (which include expenses related to interconnection), advertising costs and professional fees. Additionally, operating expenses increased as a result of a reserve adjustment associated with billing and collection activities performed for interexchange carriers, increased affiliate expense as a result of transferring 1,200 employees to an unregulated affiliate in third-quarter 1997 and repair costs associated with flooding in North Dakota. Partially offsetting the increases were reduced access expenses (primarily related to the implementation of the MTCs in 1996 and 1997), lower materials and supplies, and a 1996 charge to discontinue the Omaha broadband video service trial.

Taxes Other Than Income Taxes. Taxes other than income taxes increased \$16, or 5.6 percent, as a result of increased 1997 use taxes and property tax true-ups in 1996.

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

Earnings Before Interest, Taxes, Depreciation and Amortization ("EBITDA"). EBITDA increased 5.9 percent, to \$3,543, primarily due to higher demand for services and continued cost control efforts in the core business which accelerated in the latter half of 1996. Additional expenses related to interconnection and accruals to recognize the Company's estimated state regulatory liability partially offset the increase. (See Note C - Contingencies - to the Consolidated Financial Statements.) 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.

Depreciation and Amortization. Depreciation expense increased during the nine-month period. The effects of a higher depreciable asset base were partially offset by a third-quarter 1996 depreciation adjustment.

Interest Expense. Interest expense decreased \$26, or 8.4 percent, primarily a result of lower average debt levels as compared to 1996. Partially offsetting the decrease was a reduction 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 the nine-month period, the Company sold selected rural telephone exchanges in Iowa, South Dakota, Nebraska, Idaho, and Minnesota for pretax gains of \$77. The 1996 gains were a result of sales in Utah, North Dakota and South Dakota.

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

Provision for Income Taxes

	Nine Months Ended September 30, 1997	Nine Months Ended September 30, 1996	Percent Change
Provision for income taxes	\$ 653	\$ 574	13.8
Effective tax rate	38.1%	38.3%	-

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

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

During the nine-month period ended September 30, 1997, the restructuring reserve decreased \$55 to a balance of \$68. Reserve usage is primarily a result of expenditures for 492 employee separations during the first nine months 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.

Other Items

In connection with U S WEST's announcement of its intention to split the Communications Group and the Media Group into separate public companies, Standard & Poor's placed the Company's senior unsecured debt rating on credit watch with positive implications and reaffirmed the Company's commercial paper ratings. Duffs & Phelps reaffirmed the Company's senior unsecured debt and commercial paper ratings. The Company's senior unsecured debt rating remains under review by Moody's, which may result in a downgrading.

CONTINGENCIES

There are pending regulatory actions in local regulatory jurisdictions that call for price decreases, refunds or both. For a discussion of the specific pending regulatory items, see Note C - Contingencies - to the Consolidated Financial Statements.

The Company has accrued \$125 at September 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 approximately \$340. 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**INTERCONNECTION**

In August 1996, the FCC issued an order (the "FCC Order") establishing a framework of mandatory 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 impeded 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 (the "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 unbundled network 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.

On October 14, 1997, the Eighth Circuit clarified that incumbent telecommunications providers are not required to make rebundled service offerings available to competitors at unbundled element pricing. This decision substantially reduces new entrants' ability to arbitrage between resale of finished services and the pricing of unbundled network elements.

The Eighth Circuit is reviewing the FCC's August 1997 order that required shared transport be made available in combination with local switching as an unbundled element. This review is still pending.

NUMBER PORTABILITY

Among other things, the Telecommunications Act requires all local exchange carriers ("LECs") to provide permanent number portability to facilitate local exchange competition. The FCC has established a schedule for deployment of number portability during 1998. This schedule includes 10 markets in the Company's 14 state region. The FCC, however, has not issued cost recovery rules as required by the Telecommunications Act. On October 23, 1997, U S WEST filed a petition in the Tenth Circuit Court of Appeals (the "Tenth Circuit"), seeking an order which would require the FCC to issue its cost recovery rules. The Company will also seek cost recovery through state ratemaking proceedings and interconnection cost recovery dockets. The Company expects its estimated costs to deploy number portability will be significant over the next few years. Due to legal and regulatory uncertainties, the Company cannot provide assurance the one-time costs of deploying number portability will ultimately be recovered.

UNIVERSAL SERVICE, ACCESS REFORM AND PRICE CAP

On May 7, 1997, the FCC announced three decisions that will establish rules to implement the Universal Service provision of the Telecommunications Act (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

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 other issues addressed by the Universal Service Order have been filed by various other companies.

Form 10-Q - Part I

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 services that have 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, 1999 through 2001. The net effect of these changes will be to decrease minutes-of-use charges up to 60 percent and increase flat-rate charges (i.e. PICCs and SLCs). Although the effects of the mandated pricing changes beginning January 1, 1998 will initially be revenue neutral, the Access Reform Order coupled with the Price Cap Order, will over time reduce the revenues the Company derives from interstate access charges. Competition from competitive LECs will also affect the Company's access revenues.

U S WEST and other incumbent LECs have 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, while not providing for the immediate replacement of subsidies contained within those same access charges. This case is pending in the Eighth Circuit and will be heard in January 1998.

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 eliminated the lower productivity factor options (i.e. 4.0 percent and 4.7 percent) that required sharing of earnings above a specified level and required 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.

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 annual revenue impact of approximately \$165 which are being reflected through lower interstate rates over twelve months beginning July 1, 1997.

On June 23, 1997, U S WEST petitioned the Tenth Circuit for a review of the Price Cap Order. The Tenth Circuit has transferred review of the Price Cap Order to the District of Columbia Court of Appeals. Among other things, U S WEST and other appellants are requesting the District of Columbia Court of Appeals 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. This case will be heard in 1998.

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 Third Quarter of 1997:

No reports on Form 8-K have been filed for the Company during the third 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.

November 13, 1997

/s/ Allan R. Spies

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

RATIO OF EARNINGS TO FIXED CHARGES
(Dollars in Millions)

<BTB>

	Quarter Ended 9/30/97	Quarter Ended 9/30/96
-----	-----	-----
Income before income taxes	\$ 578	\$ 477
Interest expense (net of amounts capitalized)	93	104
Interest factor on rentals (1/3)	16	12
-----	-----	-----
Earnings	\$ 687	\$ 593
Interest expense	\$ 97	\$ 105
Interest factor on rentals (1/3)	16	12
-----	-----	-----
Fixed charges	\$ 113	\$ 117
Ratio of earnings to fixed charges	6.08	5.07
-----	-----	-----

<BTB>

	Year-to -Date 9/30/97	Year-to -Date 9/30/96
-----	-----	-----
Income before income taxes and cumulative effect of change in accounting principle	\$ 1,713	\$ 1,500
Interest expense (net of amounts capitalized)	282	308
Interest factor on rentals (1/3)	48	41
-----	-----	-----
Earnings	\$ 2,043	\$ 1,849
Interest expense	\$ 297	\$ 337
Interest factor on rentals (1/3)	48	41
-----	-----	-----
Fixed charges	\$ 345	\$ 378
Ratio of earnings to fixed charges	5.92	4.89
-----	-----	-----

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 1997	DEC 31 1997
PERIOD END	SEP 30 1997	SEP 30 1997
CASH	172	172
SECURITIES	0	0
RECEIVABLES	1,513	1,513
ALLOWANCES	0	0
INVENTORY	147	147
CURRENT ASSETS	2,032	2,032
PP&E	32,831	32,831
DEPRECIATION	19,120	19,120
TOTAL ASSETS	16,577	16,577
CURRENT LIABILITIES	3,441	3,441
BONDS	5,023	5,023
PREFERRED MANDATORY	0	0
PREFERRED	0	0
COMMON	7,981	7,981
OTHER SE	(3,617)	(3,617)
TOTAL LIABILITY AND EQUITY	16,577	16,577
SALES	2,609	7,644
TOTAL REVENUES	2,609	7,644
CGS	0	0
TOTAL COSTS	0	0
OTHER EXPENSES	1,957	5,675
LOSS PROVISION	0	0
INTEREST EXPENSE	93	282
INCOME PRETAX	578	1,713
INCOME TAX	220	653
INCOME CONTINUING	358	1,060
DISCONTINUED	0	0
EXTRAORDINARY	0	0
CHANGES	0	0
NET INCOME	358	1,060
EPS PRIMARY	0	0
EPS DILUTED	0	0

End of FilingPowered By **EDGAR**
Online

© 2005 | EDGAR Online, Inc.