Allan T. Thoms
Vice President - Public Policy &
External Affairs - Northwest Region

1800 - 41st Street, WA0101RA
P.O. Box 1003
Everett, WA 98206-1003

Phone 425 261-5691
Fax 425 261-5262

May 15, 2003

Ms. Marilyn Showalter
Chairwoman
Washington Utilities and
Transportation Commission
Chandler Plaza Building
1300 S. Evergreen Park Drive SW
Olympia, Washington 98504

Subject: **A-021178 – VERIZON SUPPLEMENTAL COMMENTS**

Dear Chairwoman Showalter:

As you know from our previously filed comments in this rulemaking docket and from the discussion at the May 9, 2003 workshop, Verizon does not support the language as proposed in 480-120-304 - Special Reports. While Verizon believes it better understands the Commission's intent, our position has not changed from that presented in our written comments filed March 13, 2003. For your convenience I have attached a copy of those comments.

I will not repeat those written and oral comments here except to point out that as a practical matter Verizon will not be able to comply with a 20-day advance notice requirement. In order to efficiently manage financial matters, Verizon subsidiaries (including Verizon Northwest) pay for many routine "business as usual" expenditures centrally, for example:

A. Federal Income Taxes are paid to Verizon Communications, which consolidates payments and forwards one payment to the Internal Revenue Service. The amount of the payment often is not established until the day before the tax payment is made.

B. Payments for employee benefits, such as pension and health insurance, are paid monthly to Bell Atlantic Administrative Services, which consolidates payments and forwards one payment to the various vendors.

C. Materials and Supplies are purchased and paid by Verizon Logistics on behalf of Verizon subsidiaries. The subsidiaries are billed monthly by Verizon Logistics for these items.

If the Commission adopts the proposed (or a similar) rule, then the rule should contain certain exceptions and reporting thresholds to exclude legitimate routine transactions.

The following is a list of exceptions for routine "business as usual" expenditures for which reporting should not be required:

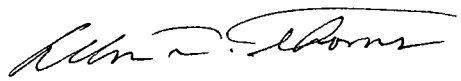
A. Goods and Services
B. Federal Income Tax
C. Benefits
D. Dividends
E. Capital expenditures
F. Payroll
G. Rent

Additionally, draft rule 480-120-304(a)(i) should be clarified as follows: "A single transaction amount exceeds five percent of prior calendar year total company gross operating revenue".

In compliance with WAC 480-146-360, Verizon files an Annual Affiliated Interest report each year. The report contains detailed information on payments from Verizon Northwest to affiliates and payments from affiliates to Verizon Northwest.
The report also contains balance statements. Verizon should not be required to produce additional extremely burdensome reports on the very same transactions that it already has to report to the Commission in its Annual Affiliated Interest Report. This is duplicative, unnecessary and in any case would fail to produce the type of information the Commission appears to want to receive. Corporations intent on falsifying reports or conducting business in a fraudulent manner will do so regardless of a Commission reporting requirement. Moreover, the only telephone companies subject to this requirement will be the four large ILECs in the state - Qwest, Verizon, Sprint/United and CenturyTel. If the Commission has concerns with any of these companies, it should address its attention to that particular company, not adopt broad rules that apply unnecessarily to all four.

In closing, I urge you to not adopt this new additional reporting requirement for telephone companies. However, if you decide to do so, at a minimum the proposed rule should be modified to include the exceptions and reporting threshold discussed above.

Very truly yours,



Allan T. Thoms
Vice President – Public Policy & External Affairs – Northwest Region

Attachment
c: mydocuments/Ltr.doc

c: Carole Washburn, WUTC

Joan M. Gage

03/13/03 01:34 PM

To: records@wutc.wa.gov
cc: Joan M. Gage/EMPL/WA/Verizon@VZNotes, Kim A. Douglass/EMPL/TX/Verizon@VZNotes
Subject: Verizon Comments

A021178 comments 031303.do

Joan Gage
State Manager - Regulatory Affairs
425-261-5238 voice and page
425-261-5262 fax
1800 41st Street, Everett, WA
WA0101RA

RE: Draft Financial Reporting Rules
Docket No. A-021178

Pursuant to the Commission's February 18, 2003 Notice, Verizon Northwest Inc. (Verizon) provides its comments on the draft rules applicable to telecommunications companies.

The rules should not be adopted as drafted. Moreover, it may not be necessary to have rules on this topic at all. Due to the exemption of competitively classified companies and small local exchange carriers, the rules would apply only to Verizon, the CenturyTel companies[1], United Telephone Company of the Northwest (Sprint), and Qwest Communications Corporation. The Commission's objective could well be accomplished by open communications with each company that keep the Commission updated on their structures and operations and, if necessary, company-specific formal reporting requirements.

Verizon understands that recent events in various utility sectors across the country have heightened awareness about possible consumer effects due to "risky" corporate financial behavior. Verizon understands that the Commissioners do not want to be surprised by any such developments affecting Washington. Thus, the apparent intent of the draft rules is to bring unusual and risky transactions by the four local telephone operations named above to the Commission's attention.

If rules are needed at all to accomplish this objective while also meeting the standards of the Governor's Executive Order 97-02 (need, effectiveness and efficiency, clarity, intent and statutory authority, coordination, cost, and fairness), they would need to be substantially clarified and narrowed. Verizon makes specific comments on these points below. Verizon also continues to investigate the practical impact of the draft rules internally and will share further information with the Commission Staff on these issues.

The New 20-day Advance Notice Requirement

Draft WAC 480-120-304 would impose a new "short fuse" reporting requirement on the handful of affected telecommunications companies. The draft rule contains some ambiguities, some requirements that duplicate other existing

[1] CenturyTel of Cowiche, Inc., CenturyTel of Inter Island, Inc., CenturyTel of Washington, Inc.

requirements, and some provisions that do not appear to serve the presumed objective.

"Transfer of cash, credit or any pecuniary interest"

Verizon believes it understands what "transfer of cash" means in the context of this rule.

The meaning of "transfer of *** credit" is not clear. Verizon assumes it means the telephone company assuming debt for the benefit of a subsidiary or affiliate, e.g., "co-signing" on a loan. The draft rule should be clarified on this point

Moreover, the draft rule duplicates existing requirements under RCW Chapters 80.08 and 80.16 and WAC Chapter 480-146. The draft rule and/or the WAC 480-146 rules should be amended to remove the overlap and duplication. Verizon believes that would leave just the short-term transactions covered by the exemption in RCW 80.08.043. Thus, a new advance reporting requirement should only be imposed if it were determined that a real need exists as to such transactions, and any such rule should be narrowly tailored to the type of short term transactions that truly warrant an additional regulatory burden.

Also, the meaning of "transfer of *** any pecuniary interest" is not clear. When the meaning of a requirement is not clear, companies can never be certain that they are in compliance with the Commission's rule. This phase appears to be a vague catchall. It should be dropped. Any legitimate concerns should be covered by clear, specific rule requirements.

"Between"

The proposed reporting requirement would, apparently, cover not only cash moving from the telephone company to affiliates and subsidiaries but also cash moving to the telephone company. The Commission's presumed objective does not appear to require this broad of a rule. Any rule should be limited to cash flowing out from the telephone company.

Also, the structure of the draft sentence appears to require reporting of transactions between affiliates even if the telephone company is not involved. Verizon is certain this is not the intent. Thus, the draft rule should instead read: "* * * from a company to a subsidiary or affiliate, ..."

Dollar threshold

Verizon appreciates that the purpose of draft WAC 480-120-304(4)(a)(i) and (ii) is to create a reporting threshold that captures only those transactions that genuinely pose a possible financial risk to the handful of telephone companies affected by the rule. As drafted, the rule is unclear and the proposed threshold is

probably too low, at least for Verizon. The differences in the structures and operations of the affected companies may, in fact, make it impossible to enact a reasonable and effective general rule on this point. The Commission should carefully consider pursuing its objectives with company-specific actions rather than by imposing an ill-fitting rule on the industry.

The meaning of "gross operating revenue" is not made clear by the draft rule. Verizon understands Staff intends the use of regulated intrastate revenues, i.e., the same base on which the companies pay their annual Commission regulatory fee. For single-state operations, such as Verizon understands the CenturyTel companies to be, the use of this base and the proposed five percent threshold may be acceptable. It would, however, create problems for multistate firms such as Verizon.

Financial transactions are often made for multistate purposes. For example, Verizon may transfer funds to an affiliate to purchase supplies or pay taxes for its entire four-state operation, not just for Washington. Thus, it would be impossible to allocate the transfers so as to synch up with the jurisidictionally separated threshold amount. While Verizon is still investigating the practical impact of the draft rule, it can at this time say that the formula intended by Staff would appear to produce a threshold that is to low to capture only the extraordinary, risky transactions with which the Commission is concerned.

Besides changing the threshold formula and level, the Commission should also consider including specific exceptions in the rule for normal though large transactions. When Verizon completes its internal investigation, it will provide specific ideas to the Staff.

The meaning of the cumulative transaction amount condition in draft WAC 480-120-304(4)(a)(ii) is also unclear. Is the cumulative amount per affiliate/subsidiary or a roll up transactions with all affiliates and subsidiaries? If it were the latter, the threshold would need to be set at a high enough level so as not to capture a year's worth of normal, legitimate transactions.

The New Subsidiary Report

As drafted, the breadth of WAC 480-120-304(4)(b) would require make-work reports of little relevance to the concerns that are presumably motivating this rulemaking.

Verizon has one subsidiary: Verizon West Coast Inc., which operates as a local exchange company in the northwest corner of California, adjacent to Verizon's southern Oregon territory. Verizon West Coast is a separate corporate entity (and, therefore, a "subsidiary") due to historical circumstances peculiar to California. As a practical matter, it is integrated with Verizon's Washington,

Oregon and Idaho operations. The Commission has no requirement -- and no need -- for reports of transactions across the Oregon and Idaho borders. No point would be served by adding a new requirement as to "transactions" between Verizon and Verizon West Coast. One way to avoid such an unnecessary new regulatory burden would be to have any rule specifically except subsidiaries that are local exchange companies.