

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION STAFF
RESPONSES TO DATA REQUEST

DATE PREPARED: January 11, 2010
DOCKET: UT-090842
REQUESTER: Public Counsel

WITNESS: William H. Weinman
RESPONDER: William H. Weinman
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REQUEST NO. 15: Re: Proposed Settlement Condition No. 1 and Testimony of William H. Weinman in Support of the Settlement Agreement, p. 6, lines 5-6.

Please provide an explanation of how the requirement that Frontier NW report, but not limit upon any condition, intercompany receivables and payables, alleviate the concern of wealth transfers away from the operating company as expressed on page 17 of the Direct Testimony of William Weinman, Exhibit No. ____ (WHW-1T). How does Mr. Weinman anticipate the Commission will “effectively police those transaction[s] to ensure that the subsidiary is not overpaying for services it receives or undercharging for services it provides, Exhibit No. ____ (WHW-1T), p. 18, lines 9-14.

RESPONSE:

Intercompany receivables and payables fall under the rubric of “affiliated interest transactions.” *See* RCW 80.16. The reasonableness of costs associated with transactions the regulated company has with its affiliates ordinarily becomes an issue in a rate case, and it will also be an issue in the earnings review that Frontier has committed to file in connection with its AFOR filing. (The Commission also has authority to disapprove such a transaction if it is inconsistent with the public interest. RCW 80.16.020.) In setting rates (or in designing a rate cap or similar mechanism under an AFOR) the Commission may disallow costs associated with affiliated interest transactions to the extent that they exceed the greater of cost or fair market value. A reliable cost model is key to determining cost and that is why Frontier’s cost model was a concern for Staff in this case.

The possibility of a wealth transfer away from the operating company (if such a possibility exists) is significantly reduced by Frontier’s commitment to place \$40 million in escrow and to commit to significant and costly expansion of broadband on its network in Washington.