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June 9, 2004

Carole J. Washburn, Secretary  
Washington Utilities and Transportation Commission  
1300 S. Evergreen Park Dr. SW  
P. O. Box 47250  
Olympia, Washington 98504-7250

Re: *WUTC v. Verizon Northwest Inc.*  
Docket No. UT-040788

Dear Ms. Washburn:

Enclosed for filing are the original and 14 copies of the Joint Motion for Summary Determination Dismissing Verizon's Petition Seeking Interim Rate Increase, and Certificate of Service.

Very truly yours,

DONALD T. TROTTER  
Senior Counsel

DTT:kl  
Enclosures  
cc: Parties



BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

WASHINGTON UTILITIES AND  
TRANSPORTATION COMMISSION

Complainant,

v.

VERIZON NORTHWEST INC.,

Respondent.

DOCKET NO. UT-040788

JOINT MOTION FOR  
SUMMARY DETERMINATION  
DISMISSING VERIZON'S  
PETITION SEEKING INTERIM  
RATE INCREASE

1           This Joint Motion to Dismiss Verizon's Petition Seeking Interim Rate Increase  
(Motion) is filed on behalf of Commission Staff, Public Counsel, and Intervenors  
AARP, Citizens' Utility Alliance, the United States Department of Defense,  
Northwest Public Communications Council and WeBTEC (Moving Parties).

2           The Commission should dismiss the Petition because Verizon Northwest Inc.<sup>1</sup>  
fails to make a *prima facie case* for interim rate relief.

3           Commission statutes involved are RCW 80.01.040 and RCW 80.04.130.

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<sup>1</sup> The Petitioner, Verizon Northwest Inc., is referred to herein by that name, as well as "Company" and "Verizon." When specific reference is made to the Company's "Washington-intrastate operations," that description is used.

## I. OVERVIEW

4           In evaluating claims for extraordinary relief, the Commission examines the real financial problems facing the company, and then determines if Washington ratepayers should be called upon to address them before the Company proves it is entitled to general rate relief. The Commission has long applied six factors<sup>2</sup> in making its evaluation of the Company's financial health for interim rate relief purposes. Verizon acknowledges these six factors, yet it fails to satisfy them.

5           The Company's case consists of a Petition Seeking Interim Rate Increase (Petition) and the testimony and exhibits of three witnesses. Yet the Company offers no evidence that its actual ability to finance is impaired; no evidence that any alleged inability to finance is causing jeopardy to customers; and no evidence that the relief it seeks will resolve any alleged inability to attract the capital necessary to carry out the Company's public service obligations. The Company does not even describe its exact needs for external capital, or how it intends to meet those needs, and when.

6           The Company supports its claim for interim relief with an assertion that it is failing to earn its authorized rate of return in this jurisdiction, and that this failure is inherently the fault of the Commission's allegedly "punishing" decision in the

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<sup>2</sup> These factors were first enunciated in the Commission's Second Supplemental Order in *WUTC v. Pacific Northwest Bell Tel. Co.*, Cause No. U-72-30tr (1972). They are discussed in detail *infra, e.g.*, at ¶¶ 18-25 and 28-34.

AT&T access charge complaint docket.<sup>3</sup> Verizon's argument is fatally flawed. It does not recognize the Commission's long held principles for granting interim relief; it fails to consider that the Company enjoys only the opportunity to earn its authorized return, not a guarantee of that return; and it fails to demonstrate that Verizon's response to the AT&T decision was anything but dilatory and calculatedly strategic.

7           There is no financial emergency facing the Company. Verizon Northwest Inc.'s debt is rated "AA" and "A+" by Standard & Poor's (S&P).<sup>4</sup> According to S&P, this means Verizon's "capacity to meet its financial commitment on the [long term debt] obligation" is "strong."<sup>5</sup> The Company concurs that under an "A" rating, Verizon "has the flexibility to issue additional debt ... ". *Exhibit No. \_\_\_ (JHV-4T) at 10, lines 22-23.* Thus, Verizon can finance on reasonable terms in order to carry out its obligations as a public service company.

8           Verizon so completely fails to make a case for interim rate relief, no purpose is served by going forward on its Petition. The Petition must be dismissed.

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<sup>3</sup> *AT&T Communications of the Pacific Northwest, Inc. v. Verizon Northwest Inc.*, Docket No. UT-020406 (Eleventh Supplemental Order)(2003).

<sup>4</sup> See the Company's response to Staff Data Request #36, which is included in Exhibit 1 to this Motion.

<sup>5</sup> See S&P's "Ratings Definitions," which is included in Exhibit 1 to this Motion. This document was supplied as a Company workpaper in this docket.

## II. The Commission's Standard For Dispositive Motions

9 For purposes of dispositive motions such as this, the Commission applies, by analogy, Civil Rule 56. Based on the direct evidence submitted by the utility, the Commission decides "whether, putting the prefiled evidence in the light most favorable to the Company, the Commission would grant the requested relief." *WUTC v. Puget Sound Energy Co., Docket Nos. UE-011163 & 011170 (Sixth Supplemental Order)(2001) at 5, ¶ 16.* Under this standard, Verizon's case for interim rate relief must be dismissed.<sup>6</sup>

## III. Verizon's Case for Interim Rate Relief

10 The crux of the Company's case is that because its access charges were reduced by \$32 million in response to the Commission's Order in Docket No. UT-020406, the Company is somehow entitled to immediately increase local rates by some \$29.7 million.<sup>7</sup> To justify that relief, Verizon relies on the six factors the Commission applies in considering whether to grant interim rate relief. *Petition at 4, ¶ 6 and at 5-9.*<sup>8</sup>

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<sup>6</sup> If the Company's case for interim rate relief goes to evidentiary hearing, the Moving Parties do not waive their right to contest any factual assertion by Verizon.

<sup>7</sup> According to the Company, the \$32 million is equivalent to \$29.7 million based on test year units. *Petition at 2, footnote 1.*

<sup>8</sup> The Company's brief summary (*Petition at 4, ¶ 6*) of the Commission's interim rate relief factors omits key elements of the actual interim rate relief factors endorsed by the Commission.

11 Verizon's legal position is that because the Commission regulates only the  
Company's Washington-intrastate services, the Company can prove a need for  
interim rate relief based only on its Washington-intrastate operations. *Petition at 8, ¶*  
19.<sup>9</sup> Accordingly, Verizon bases its case only on Washington-intrastate results of  
operations, and whatever financial ratios result.

12 For example, Mr. Banta, Verizon's policy witness, discusses the financial  
considerations of the Company exclusively from a Washington-intrastate  
perspective. *See e.g., Exhibit No. \_\_\_ (SMB-2T) at 2, lines 10-12, and at 5, lines 6-7.*

13 Ms. Heuring, the Company's accounting witness, provides calculations based  
solely on the Company's Washington-intrastate results of operations. She computes  
negative returns using two scenarios from Verizon's general rate case presentation,  
and a return of "under 2.50%" based on what the Company calls its "Quarterly  
Surveillance Reports" to the Commission. *Exhibit No. \_\_\_ (NWH-7T) at 2, line 19 to 3,*  
*line 3 and at 5, lines 1-5; See also Petition at 3, ¶ 3).*

14 The Company's last witness, Dr. Vander Weide, analyzes only "the financial  
condition of Verizon NW's [Washington] intrastate operations on a going forward  
basis ...". *Exhibit No. \_\_\_ (JHV-4T) at 5, lines 14-16.* He hypothesizes that if Verizon's

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<sup>9</sup> The Company relies on selective quotes from the Commission's order on interim rate relief in the Olympic Pipe Line rate case. *WUTC v. Olympic Pipe Line Co., Docket No. TO-011472, Third Supplemental Order (2002) at 7, ¶ 27.* We address this issue more fully at ¶¶ 18-41, *infra*.

Washington-intrastate operations were rated by bond rating agencies, a below investment grade bond rating could result. *Id.* at 9-11; *See also* *Petition* at 8, ¶ 20).

#### IV. The Commission's Interim Rate Relief Analysis

##### A. General Concepts

15           The Commission's policy on interim rate relief reflects the principle that no utility has an automatic or presumptive right to interim rate relief. Interim rate relief is an extraordinary remedy, and the utility must prove extraordinary financial circumstances are impairing its ability to finance:

The Commission reiterates that the [sic] interim rate relief should be granted only upon a reasonable showing that an emergent condition exists and that without affirmative relief the financial integrity and ability of the Company to continue to obtain financing at reasonable costs will be compromised and placed in jeopardy.

*WUTC v. Washington Natural Gas Co., Cause No. U-80-111 (Second Supplemental Order)(1981) at 5.*

16           If a utility were earning under its authorized return, there naturally would be some lag between the time it files for rate relief, and the time it receives rate relief. Rate increases are not immediate because the utility bears the burden to prove that its requested rate increase is justified. That can take time, though at most, only ten months from the tariff's effective date. *RCW 80.04.130*. This "regulatory lag" is

common. It is also symmetric and fair, because when a utility is earning in excess of its authorized return, rate reductions are not immediate, either.<sup>10</sup>

17           Accordingly, in order for a utility to obtain interim rate relief, it is obligated to prove it is suffering from extraordinary, adverse financial circumstances, and that the extraordinary rate relief it requests is needed to enable it to finance on reasonable terms. Verizon is not exempt from this obligation.

**B.     The Commission's Six Interim Rate Relief Factors<sup>11</sup>**

18           For over thirty years, the Commission has followed a consistent policy of requiring any utility that wishes to place a rate increase into effect before its general rate case has been tested and completed, to prove an actual problem exists that is actually impairing (or is about to impair) the utility's ability to finance its operations on an ongoing basis.

19           The seminal Commission order establishing the appropriate interim rate relief factors is the Commission's Second Supplemental Order in *WUTC v. Pacific Northwest Bell Tel. Co.*, Cause No. U-72-30tr (1972)(*PNB Order*). These factors have been largely unaltered through time. Indeed, as the Commission recently observed,

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<sup>10</sup> This "symmetry" favors the utility, because, among other reasons, utility rate increase filings are subject to a statutory deadline (RCW 80.04.130(1), while earnings complaints are not.

<sup>11</sup> The Commission has authority to allow a tariff to go into effect on a temporary basis during the suspension period, "pursuant to reasonable conditions or limitations." *State ex. rel. Puget Sound Navigation Co. v. Dept. of Transp.*, 33 Wn.2d 448, 482, 206 P.2d 456 (1949). While the instant case did not arise under a general tariff filing, Verizon filed interim rate tariffs conditioned on the Commission's order on the Company's request for a general rate case. In its Petition, Verizon concedes the same interim rate relief factors apply. *Petition at 4-5.*



“in most instances historically [these factors] have been relevant and valid indicators of a proper result.”<sup>12</sup> Verizon urges no different analysis in this case. The factors are:<sup>13</sup>

- 1) The Commission has authority in proper circumstances to grant interim rate relief to a utility, but this should be done only after an opportunity for an adequate hearing.
- 2) An interim rate increase is an extraordinary remedy and should be granted only where an actual emergency exists or where necessary to prevent gross hardship or gross inequity...
- 3) The mere failure of the currently realized rate of return to equal that approved as adequate is not sufficient, standing alone, to justify the granting of interim relief.
- 4) The Commission should review all financial indices as they concern the applicant, including rate of return, interest coverage, earnings coverage and the growth, stability or deterioration of each, together with the immediate and short term demands for new financing and whether the grant or failure to grant interim relief will have such an effect on financing demands as to substantially affect the public interest.
- 5) Interim relief is a useful tool in an appropriate case to fend off impending disaster. However, the tool must be used with caution and applied only where not to grant relief would cause clear jeopardy to the utility and detriment to its ratepayers and stockholders. That is not

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<sup>12</sup> *WUTC v. Olympic Pipe Line Co.*, Docket No. TO-011472 (Third Supplemental Order)(2002) at 11, footnote 6. In that order, the Commission cautioned that these factors should not be “mechanically applied.” (*Id.*). Nonetheless, the Commission analyzed the company’s evidence using these factors.

<sup>13</sup> These factors are paraphrased from the Commission’s *PNB Order* at 13. Certain words were excised if they reflected circumstances specific to 1972.

to say that interim relief should be granted only after disaster has struck or is imminent, but neither should it be granted in any case where full hearing can be had and the general case resolved without clear detriment to the utility.

- 6) Finally, as in all matters, we must reach our conclusions with the statutory charge to the Commission in mind, that is to “Regulate in the public interest” (RCW 80.01.040). This is our ultimate responsibility and a reasoned judgment must give appropriate weight to all salient factors.

20           The foregoing factors are clear enough. The utility’s failure to earn its authorized return alone is an insufficient ground for granting interim rate relief (Factor No. 3). Rather, the Company is required to demonstrate an “actual emergency” or “gross hardship or gross inequity” that affects its ability to finance (Factor Nos. 2 and 4). That inability to finance must be of such a magnitude as to “substantially affect the public interest” (Factor No. 4).

21           Verizon’s case for interim rate relief does not pass muster under these factors.

**C. Commission Application of the Interim Rate Relief Factors in Specific Cases**

22           The Commission has issued some twenty orders on interim rate relief since it issued its *PNB Order* in 1972.<sup>14</sup> We address the Commission’s three most recent

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<sup>14</sup> *WUTC v. Puget Sound Power & Light Co.*, Cause No. U-73-57 (Second Supplemental Order)(1974); *WUTC v. Cascade Natural Gas Co.*, Cause No. U-74-20 (Second Supplemental Order)(1974); *WUTC v. Cascade Natural Gas Co.*, Cause No. U-74-20 (Second Supplemental Order)(1974); *WUTC v. Pacific Northwest Bell Tel. Co.*, Cause No. U-75-40 (11 PUR 4<sup>th</sup> 166)(1975); *WUTC v. Washington Water Power Co.*, Cause No. U-77-53 (Second Supplemental Order)(1977); *In re. Puget Sound Power and Light Co.*, Cause No. U-79-73 (Order) (1979); *WUTC v. Puget Sound Power & Light Co.*, Cause No. U-80-10

decisions on interim rate relief in ¶¶ 35-50, *infra*. We offer here a sampling of some consistent, earlier decisions.

23 Consider, for example, *WUTC v. Puget Sound Power & Light Co.*, Cause No. U-73-57 (Second Supplemental Order)(1974). In that case, Puget identified a specific financing plan (one equity financing and two debt issuances), and a specific amount of needed capital based on a construction program designed to serve its customers' needs. *Id.* at 4-5 and at 8, *Finding of Fact No. 6*. Puget also demonstrated that it could not issue these financings absent interim rate relief. *Id.* at 6, and at 8, *Finding of Fact Nos. 8, 9*. The Commission granted interim rate relief in that case.

24 Consider also *WUTC v. The Washington Water Power Co.*, Cause No. U-77-53 (Second Supplemental Order)(1977). In that case, Washington Water Power identified several specific projects that required external financing, and proved that under current tariffs, the utility would not be able to finance on reasonable terms.

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(Second Supplemental Order)(1980); *WUTC v. Washington Water Power Co.*, Cause No. U-80-13 (Second Supplemental Order)(1980); *WUTC v. Washington Natural Gas Co.*, Cause No. U-80-111 (Second Supplemental Order)(1981); *WUTC v. Washington Water Power Co.*, Cause No. U-83-26 (Fourth Supplemental Order)(1983); *WUTC v. Skamania County Sanitary Service*, Cause No. TG-2108 (First Supplemental Order)(1987); *WUTC v. Richardson Water Cos.*, Docket No. U-88-2294-T (Second Supplemental Order)(1988); *WUTC v. South Bainbridge Water System, Inc.*, Docket Nos. U-87-1355-T and U-83-50 (Second Supplemental Order)(1988); *WUTC v. Ludlow Utilities Co.*, Cause No. U-87-1550-T (Second Supplemental Order) (1988); *WUTC v. Alderton-McMillin Water Supply, Inc.*, Docket No. UW-911041 (First Supplemental Order)(1992); *WUTC v. Puget Power & Light Co.*, Cause Nos. UE-920433, UE-920499, UE-921262 (Fifteenth Supplemental Order)(1993); *WUTC v. Washington Natural Gas Co.*, Docket No. UG-950278 (Third Supplemental Order)(1995); *In re. Avista Corp.*, Cause No. UE-010395 (Sixth Supplemental Order)(2001); *WUTC v. Puget Sound Energy, Inc.*, Cause No. UE-011163 (Sixth Supplemental Order) (2001); *WUTC v. Olympic Pipe Line Co.*, Cause No. TO-011472 (Third Supplemental Order)(2002).

*Id. at 5 and 7, and at 10, Finding of Fact Nos. 6, 7.* The Commission granted interim rate relief in that case.

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These and other Commission decisions also make clear it is the utility's overall financial situation that must be evaluated in determining whether interim rate relief is justified. In one case, the Commission rejected interim rate relief when the utility failed to demonstrate that the company overall was unable to address the alleged "emergency:"

Here, the company's financial condition is not particularly strong, but does not demonstrate a real emergency. All of the Stock of Ludlow Utilities Company is owned by Pope Resources, a limited partnership, which is also connected to other types of operations. Ludlow Utilities Company recently received a commitment for a 15-year bank loan in its own name for sewer operations, which are not part of the regulated portions of this utility. The company reports no plans for immediate expansion of the water system. The concern expressed was that, without interim relief, the company might not be able to continue to maintain the system.

The Commission does not believe that the situation poses a real threat to the company's water operations. No reason has been demonstrated that the company could not use a similar financing arrangement to obtain funds to perform any needed repairs to the water system.

*WUTC v. Ludlow Utilities Co., Cause No. U-87-1550-T (Second Supplemental Order)*

(1988) at 4.

## IV. ARGUMENT

26 As the forgoing discussion demonstrates, in order to obtain the extraordinary remedy of interim rate relief, Verizon must have properly addressed the following key questions:

- What are the utility's imminent financing needs, and what is causing it to be unable to finance on reasonable terms to meet its public service obligations?
- How will the grant or denial of interim rate relief affect the utility's ability to meet those needs for capital?
- As a practical matter, can the Company await completion of its general rate case to address its needs?

27 Verizon's case for interim rate addresses none of these key questions.

Consequently, the Petition must be dismissed.

### **A. Verizon Fails to Provide the Evidence Required of Any *Prima Facie* Case for Interim Rate Relief**

28 Interim rate relief Factor Nos. 2, 3 and 4 state:<sup>15</sup>

2. An interim rate increase is an extraordinary remedy and should be granted only where an actual emergency exists or where necessary to prevent gross hardship or gross inequity...

3. The mere failure of the currently realized rate of return to equal that approved as adequate is not sufficient, standing alone, to justify the granting of interim relief.

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<sup>15</sup> If Verizon's Petition is allowed to go forward, Verizon will comply with Factor No. 1, which requires that a hearing be held on any application for interim rate relief.

4. The Commission should review all financial indices as they concern the applicant, including rate of return, interest coverage, earnings coverage and the growth, stability or deterioration of each, together with the immediate and short term demands for new financing and whether the grant or failure to grant interim relief will have such an effect on financing demands as to substantially affect the public interest.

29 These factors require Verizon to describe its actual financial situation and how that is affecting its ability to finance. Verizon fails to provide such evidence.

30 For example, the Company fails to describe its specific external financing needs, *i.e.*, when it needs to finance, how much it needs to finance, and how it intends to finance (*i.e.*, through a debt issuance or equity infusion). The Company also fails to explain how the relief it seeks (\$29.7 million annually) will enable it to finance on reasonable terms. In fact, though Commission Staff bears no burden of proof in this case, Staff asked for Verizon Northwest Inc.'s financing plans, and none were provided.<sup>16</sup>

31 The Company presents evidence on its Washington-intrastate results of operations, but no Company witness testifies that Verizon Northwest Inc. actually finances on a Washington-intrastate-only basis. In fact, Verizon does not finance on

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<sup>16</sup> See the Company's response to Staff Data request #9, which is Exhibit 2 to this Motion. According to that response, apparently, Verizon Communications does not produce financing plans for its individual operating telephone company subsidiaries. Whatever the case, the Company has provided no financing plan to support its request for interim rate relief.

a Washington-intrastate only basis.<sup>17</sup> Accordingly, Verizon's case is insufficient on its face.

32           Moreover, while the Company speculates that if Verizon were a Washington-intrastate only company, its bonds likely would be rated below investment grade, nowhere does Verizon say its bonds are *actually* rated below investment grade, or that Verizon Northwest Inc. faces any impediments whatsoever in *actually* financing its operations in this state. In fact, Verizon's debt enjoys "AA" and "A+" ratings by Standard & Poor's (S&P).<sup>18</sup> According to S&P, this means Verizon's "capacity to meet its financial commitment on the [long term debt] obligation" is "strong."<sup>19</sup> The Company concurs that under an "A" rating, Verizon "has the flexibility to issue additional debt ... ". *Exhibit No. \_\_\_ (JHV-4T) at 10, lines 22-23.* Accordingly, the Company can finance on reasonable terms, assuming it has a need to finance at all.

33           Interim rate relief Factor Nos. 5 and 6 state:

5) Interim relief is a useful tool in an appropriate case to fend off impending disaster. However, the tool must be used with caution and applied only where not to grant relief would cause clear jeopardy to the utility and detriment to its ratepayers and stockholders. That is not to say that interim relief should be granted only after disaster has struck or is imminent, but neither should it be granted in any case where full hearing can be had and the general case resolved without clear detriment to the utility.

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<sup>17</sup> See the Company's response to Staff Data Request #12, which is Exhibit 3 to this Motion.

<sup>18</sup> See the Company's response to Staff Data Request #36, which is included in Exhibit 1 to this Motion.

<sup>19</sup> See S&P's "Ratings Definitions," which is included in Exhibit 1 to this Motion. This document was supplied as a Company workpaper in this docket.

6) Finally, as in all matters, we must reach our conclusions with the statutory charge to the Commission in mind, that is to “Regulate in the public interest” (RCW 80.01.040). This is our ultimate responsibility and a reasoned judgment must give appropriate weight to all salient factors.

34 Verizon has offered no evidence that “clear jeopardy” will result if it is required to litigate its rate case without emergency relief. Its case is devoid of any evidence that any project will be deferred, or any service degraded, because Verizon is, or soon will be, unable to finance on reasonable terms.

**B. Verizon’s Reliance on the Olympic Case is Unfounded**

35 Verizon mistakenly relies on the Commission’s Third Supplemental Order in *WUTC v. Olympic Pipe Line Co.*, Docket No. TO-011472 (2002)(*Olympic Case*)<sup>20</sup> for the proposition that because the Commission regulates only the Company’s intrastate operations,<sup>21</sup> the financial considerations related only to Verizon’s intrastate operations are relevant in this case. *See Petition at 8, ¶ 19.*<sup>22</sup>

36 Verizon misses the point of the Commission’s Order in the *Olympic Case*. In that Order, the Commission did not say it would give a utility interim rate relief if the utility could create a hypothetical financial emergency by focusing only on its

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<sup>20</sup> In basing its approach on the Commission’s Order in the *Olympic Case*, Verizon chose to ignore the Commission’s express admonition therein: “we caution against the use of elements of this decision as a model for future decision.” *Olympic Case*, Third Supplemental Order at 4, ¶ 12.

<sup>21</sup> *Petition at 8, ¶ 19*, quoting excerpts from the *Olympic Case*, Third Supplemental Order at 7, ¶ 27.

<sup>22</sup> As noted earlier, Verizon supported its case with only Washington-intrastate information. *See discussion of Verizon’s direct evidence, supra at ¶¶ 11-14.*



Washington-intrastate results of operations. In the passage relied on by Verizon in its Petition, the Commission was simply explaining that it could only address Washington's jurisdictional share of Olympic Pipe Line's true financial emergency. As the Commission noted, "in determining *rates*, however, [the Commission will] consider only the intrastate revenues and only the intrastate-allocated portion of the Company's investment and expenses." *Olympic Case at 7, ¶ 27 [emphasis supplied]*.

37           Indeed, in the *Olympic Case*, as with prior Commission decisions, the Commission specifically analyzed Olympic's actual ability to finance, under the actual circumstances facing the company, including the nature of the company's debt and the sources of capital available to it (*i.e.*, through outside lenders or its owners, BP and Equilon).

38           The Commission found that Olympic Pipe Line Company was faced with a true financial emergency, based on the evidence Olympic filed in that case. Olympic could not access capital markets; it was in technical default on its loans; and its sole source of external capital was through one of its parent companies.<sup>23</sup> The result: Olympic was "in dire financial straits," and had "no shareholder equity, as such."<sup>24</sup>

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<sup>23</sup> *Olympic Case*, Third Supplemental Order at 8, ¶¶ 31, 32 and at 3, ¶ 8.

<sup>24</sup> *Id.* at 3, ¶ 8.

Olympic also proved “[f]unding is imminently needed,” and that the company was in a “critical situation” because its “debt exceed[ed] the book value of its assets.”<sup>25</sup>

39            Verizon’s case shrivels in comparison. The Company is actually capitalized with 38% debt and 62% equity. *Exhibit No. \_\_\_\_ (JHV-4T) at 6, lines 18-19*. It is not in default on any loan, and no prospect of default is alleged. In fact, as described in ¶ 32, *supra*, Verizon’s debt enjoys “AA” and “A+” ratings by Standard & Poor’s, conclusive proof Verizon can actually access capital markets on reasonable terms, and that it faces no actual difficulties in financing its operations.

40            Moreover, as described in ¶ 30, *supra*, Verizon fails to describe its actual needs for external capital; it fails to explain how it intends to meet those needs, whatever they are; and it fails to explain how \$29.7 million in interim rate relief is the amount necessary to enable it to finance whatever its external capital needs may be.

41            Bottom line: Verizon’s theory is invalid and its supporting evidence is fatally deficient.

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<sup>25</sup> *Id.* at 11, ¶ 42 and at 12, ¶ 44.

**C. Verizon's Case for Interim Rate Relief is Very Similar to That of Puget Sound Energy in Docket Nos. UE-011163 & 011170, and It Deserves a Similar Result: Dismissal**

42 A comparison of Verizon's case with the Commission's three most recent decisions on interim rate relief, confirms that dismissal of Verizon's case is the appropriate result. One of these decisions is the Commission's Order in the *Olympic Case*. As discussed in detail at ¶¶ 27-34, *supra*, Verizon has shown no actual financial circumstances similar to those facing Olympic Pipe Line in that case.

43 The other two decisions are *WUTC v. Puget Sound Energy Co.*, Docket Nos. UE-011163 & 011170 (Sixth Supplemental Order)(2001)(*PSE Case*), in which the Commission granted a motion to dismiss PSE's request for interim rate relief, and *WUTC v. Avista Corp.*, Docket No. UE-010395 (Sixth Supplemental Order)(2001), in which the Commission granted interim rate relief.

44 Verizon's case is very similar to the *PSE Case*, and justifies the same result: dismissal. For example, in its Order in the *PSE Case*, the Commission noted that Avista had taken "extraordinary steps" in an attempt to improve its ability to finance its ongoing public service obligations, while PSE had not.<sup>26</sup>

45 It is abundantly clear that at any time since April 3, 2002 (the date Docket No. UT-020406, the AT&T Complaint docket, was initiated), Verizon could have filed for

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<sup>26</sup> *PSE Case*, Sixth Supplemental Order at 7, ¶ 20(2).

rate relief to address any access charge reductions that might have occurred.

Instead, the Company waited over two years to file.<sup>27</sup> This does not resemble the behavior of a utility facing an actual or imminent financial emergency.

46           In its Order in the *PSE Case*, the Commission also contrasted the financial condition of Avista versus PSE. The Commission noted that without interim relief, Avista would not be able to obtain financing, and observed that Avista had named specific projects it could not complete without the needed financing. The Commission found that PSE had made no such showing.<sup>28</sup>

47           Like PSE, Verizon makes no showing that it cannot obtain financing, and it has identified no project that needs to be financed now, that will not be financed without interim rate relief.

48           In its Order in the *PSE Case*, the Commission observed “Avista asserted that without relief it would lose access to capital markets when the need for financing was clear and immediate. PSE makes no such assertion.”<sup>29</sup> Like PSE, Verizon makes

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<sup>27</sup> Moreover, the Commission, in its Eleventh Supplemental Order in *AT&T Communications of the Pacific Northwest, Inc. v. Verizon Northwest Inc.*, Docket No. UT-020406 (2003) at 43, ¶ 144, delayed the effective date of the \$32 million reduction in Verizon access charges to enable the Company to consider the decision, and determine whether it should request an increase in its other rates. That Order was issued August 12, 2003. For reasons unexplained, Verizon waited over 8½ months to file a rate case. This belies any claim by Verizon that a serious financial emergency was caused by that Order. It also proves Verizon failed to take prompt and reasonable steps before the Commission to protect itself from any alleged harm from that Order. Verizon elected to expend its time and efforts pursuing a judicial stay of that Order, but so far, one has not been issued.

<sup>28</sup> *PSE Case*, Sixth Supplemental Order at 7, ¶ 20(3).

<sup>29</sup> *Id.* at 7, ¶ 20(4).

no such assertion, either. Verizon cannot make that assertion because it is an A-rated utility. It is able to finance on reasonable terms.

49 In the end, the Commission concluded that “PSE’s filing as a whole simply does not show that it is in dire, or emergency, or extraordinary need of rate or accounting relief.”<sup>30</sup> The Commission granted a motion to dismiss PSE’s case for interim rate relief.

50 Like PSE, Verizon has also failed to make a *prima facie* showing that it is entitled to interim rate relief. As in the *PSE Case*, dismissal is the proper response in this case.

#### IV. CONCLUSIONS

51 Verizon has not provided a *prima facie* case for interim rate relief. Verizon Northwest Inc.’s debt is rated “AA” and “A+.” It can finance on reasonable terms. Verizon’s financial integrity is not threatened.

52 It remains to be seen whether Verizon is able to prove a need for general rate relief in some amount, to be determined after full hearings. However, the Company has not made a *prima facie* case justifying the extraction of \$29.7 million from


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<sup>30</sup> *Id.* at 8, ¶ 21.

ratepayers before the general rate case is complete. Therefore, Verizon's Petition Seeking Interim Rate Increase should be dismissed.

DATED this 9<sup>th</sup> day of June, 2004.

CHRISTINE O. GREGOIRE  
Attorney General



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DONALD V. TROTTER  
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Attorney General

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SIMON FITCH  
Assistant Attorney General  
Public Counsel Section

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DATED this 9<sup>th</sup> day of June, 2004.

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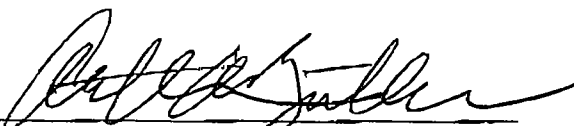
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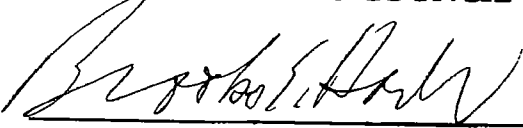
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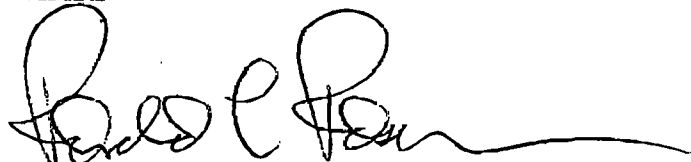
JOINT MOTION FOR SUMMARY  
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DATED this 9<sup>th</sup> day of June, 2004.

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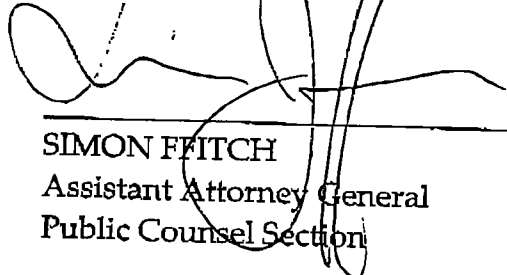
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**EXHIBIT 1**

**Verizon Northwest Inc.'s  
Response to Staff Data Request No. 36**

**And**

**Standard & Poor's  
"Ratings Definitions,"  
Supplied as a Company workpaper in this docket**

Docket No. UT-040788  
WUTC Staff Data Requests to Verizon No. 36  
June 8, 2004

**Data Request No. 36:**

Please provide the most current Standard & Poor's and Moody's corporate credit or bond rating and all current issue ratings for Verizon Northwest Inc. and Verizon Communications, Inc. Please provide this information by date of issuance and include any credit watch information.

**RESPONSE:**

	<b>Moody's</b>	<b>S&amp;P</b>	<b>Fitch</b>
Verizon Communications	A2	A+	A+
Verizon Northwest-Mortgage Bonds	Aa3	AA	AA
Verizon Northwest-Debentures	A1	A+	AA

On March 26, 2004 S&P placed the long term debt of Verizon and related entities on CreditWatch with negative implications.

Prepared By: Robert G. Deter  
Date: June 2, 2004  
Witness: James H. Vander Weide

# Ratings Definitions

A Standard & Poor's issue credit rating is a current opinion of the creditworthiness of an obligor with respect to a specific financial obligation, a specific class of financial obligations, or a specific financial program (such as medium-term note programs and commercial paper programs). The rating takes into consideration the creditworthiness of guarantors, insurers, or other forms of credit enhancement on the obligation, as well as the currency in which the obligation is denominated. The issue credit rating is not a recommendation to purchase, sell, or hold a financial obligation, inasmuch as it does not comment on market price or suitability for a particular investor.

Issue credit ratings are based on information furnished by the obligors or obtained by Standard & Poor's from other sources it considers reliable. Standard & Poor's does not perform an audit in connection with any credit rating and may, on occasion, rely on unaudited financial information. Credit ratings may be changed, suspended, or withdrawn as a result of changes in, or unavailability of, such information.

Issue credit ratings can be either long term or short term. Short-term ratings are assigned to those obligations considered short term in the relevant market. In the U.S., for example, that means obligations with an original maturity of no more than 365 days—including commercial paper. Short-term ratings are also used to indicate the creditworthiness of an obligor with respect to put features on long-term obligations. The result is a dual rating, in which the short-term rating addresses the put feature in addition to the usual long-term rating.

Medium-term notes are assigned long-term ratings. Medium-term notes' ratings pertain to the program established to sell these notes. There is no review of individual notes, and, accordingly, the rating does not apply to specific notes (with certain exceptions).

*Issue* and *issuer* credit ratings use the identical symbols. The definitions closely corre-

spond to each other, as the issue rating definitions are expressed in terms of default risk, which refers to likelihood of payment—the capacity *and* willingness of the obligor to meet its financial commitment on an obligation in accordance with the terms of the obligation. However, issue credit ratings also take into account the protection afforded by, and relative position of, the obligation in the event of bankruptcy, reorganization, or other arrangement under the laws of bankruptcy and other laws affecting creditors' rights.

Junior obligations are typically rated lower than the issuer credit rating to reflect the lower priority in bankruptcy, as noted above. (Such differentiation applies when an entity has both senior and subordinated obligations, secured and unsecured obligations, operating company and holding company obligations, or preferred stock.) Debt that provides excellent prospects for ultimate recovery (such as secured debt) is often rated higher than the issuer credit rating. Accordingly, in the cases of junior debt and secured debt, the rating may not conform exactly with the category definition.

## Long-term credit ratings

'AAA' An obligation rated 'AAA' has the highest rating assigned by Standard & Poor's. The obligor's capacity to meet its financial commitment on the obligation is extremely strong.

'AA' An obligation rated 'AA' differs from the highest-rated obligations only to a small degree. The obligor's capacity to meet its financial commitment on the obligation is very strong.

'A' An obligation rated 'A' is somewhat more susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher rated categories. However, the obligor's capacity to meet its financial commitment on the obligation is still strong.

'BBB' An obligation rated 'BBB' exhibits adequate protection parameters. However, adverse economic conditions or changing

circumstances are more likely to lead to a weakened capacity of the obligor to meet its financial commitment on the obligation.

Obligations rated 'BB', 'B', 'CCC', 'CC', and 'C' are regarded as having significant speculative characteristics. 'BB' indicates the least degree of speculation, and 'C' the highest. While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposure to adverse conditions.

'BB' An obligation rated 'BB' is less vulnerable to nonpayment than other speculative issues. However, it faces major ongoing uncertainties or exposure to adverse business, financial, or economic conditions that could lead to the obligor's inadequate capacity to meet its financial commitment on the obligation.

'B' An obligation rated 'B' is more vulnerable to nonpayment than obligations rated 'BB'; but the obligor currently has the capacity to meet its financial commitment on the obligation. Adverse business, financial, or economic conditions will likely impair the obligor's capacity or willingness to meet its financial commitment on the obligation.

'CCC' An obligation rated 'CCC' is currently vulnerable to nonpayment and is dependent on favorable business, financial, and economic conditions for the obligor to meet its financial commitment on the obligation. In the event of adverse business, financial, or economic conditions, the obligor is not likely to have the capacity to meet its financial commitment on the obligation.

'CC' An obligation rated 'CC' is currently highly vulnerable to nonpayment.

'C' The 'C' rating may be used when a bankruptcy petition has been filed or similar action has been taken but payments on this obligation are being continued. 'C' is also used for a preferred stock that is in arrears (as well as for junior debt of issuers rated 'CCC' and 'CC').

'D' The 'D' rating, unlike other ratings, is not prospective; rather, it is used only when a default has actually occurred—and not when a default is only expected. Standard & Poor's changes ratings to 'D':

- On the day an interest and/or principal payment is due and is not paid. An exception is made if there is a grace period and Standard & Poor's believes a payment will be made, in which case the rating can be maintained;

- Upon voluntary bankruptcy filing or similar action. An exception is made if Standard & Poor's expects debt service payments will continue to be made on a specific issue. In the absence of a payment default or bankruptcy filing, a technical default (i.e., covenant violation) is not sufficient for assigning a 'D' rating;

- Upon the completion of a distressed exchange offer, whereby some or all of an issue is either repurchased for an amount of cash or replaced by other securities having a total value that is clearly less than par; or
- In the case of preferred stock or deferrable payment securities, upon nonpayment of the dividend or deferral of the interest payment.

With respect to issuer credit ratings (that is, corporate credit ratings, counterparty ratings, and sovereign ratings), failure to pay a financial obligation—rated or unrated—leads to a rating of either 'D' or 'SD'. Ordinarily, an issuer's distress leads to general default, and the rating is 'D'. 'SD' (selective default) is assigned when an issuer can be expected to default selectively, that is, continue to pay certain issues or classes of obligations while not paying others. In the corporate context, selective default might apply when a company conducts a coercive exchange with respect to one or some issues while intending to honor its obligations with regard to other issues. (In fact, it is not unusual for a company to launch such an offer precisely with such a strategy—to restructure part of its debt to keep the company solvent.)

Nonpayment of a financial obligation subject to a bona fide commercial dispute or a missed preferred stock dividend does not cause the issuer credit rating to be changed.

Plus (+) or minus (-) The ratings from 'AA' to 'CCC' may be modified by the addition of a plus or minus sign to show relative standing within the major rating categories.

r In 1994, Standard & Poor's initiated a symbol to be added to an issue credit rating when the instrument could have significant non-credit risk. The symbol "r" was added to such instruments as mortgage interest-only strips, inverse floaters, and instruments that pay principal at maturity based on a non-fixed source, such as a currency or stock index. The symbol was intended to alert investors to non-credit risks and emphasizes that an issue credit rating addressed only the credit quality of the obligation. Use of the "r" was discontinued as of July 2000.



**EXHIBIT 2**

**Verizon Northwest Inc.'s  
Response to Staff Data Request No. 9**

Docket No. UT-040788  
WUTC Staff Data Requests to Verizon Nos. 1-28  
May 21, 2004

**Data Request No. 9 (General)**

Please produce all documents containing Verizon Northwest Inc.'s current plan for future long term financings. Please state where in the document the plan is contained if that is not self-evident. If the document does not exist, or it does not show the next permanent financing anticipated by Verizon Northwest Inc., please describe in detail the next permanent financing anticipated by Verizon Northwest Inc.

**RESPONSE:**

Verizon does not produce financing plans for its individual operating telephone company subsidiaries.

Prepared By: Robert G. Deter  
Date: May 13, 2004  
Witness: James H. Vander Weide

**EXHIBIT 3**

**Verizon Northwest Inc.'s  
Response to Staff Data Request No. 12**

JOINT MOTION FOR SUMMARY  
DETERMINATION DISMISSING  
PETITION SEEKING INTERIM RATE INCREASE

Docket No. UT-040788  
WUTC Staff Data Requests to Verizon Nos. 1-28  
May 21, 2004

**Data Request No. 12 (General)**

Does Verizon Northwest Inc. finance its Washington intrastate operations separately from its intrastate operations in Oregon and Idaho, or separately from its interstate operations? If so, please identify any financing in which it has done so.

**RESPONSE:**

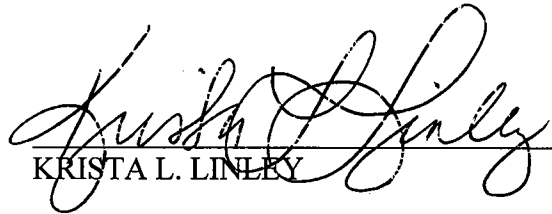
No. The Company does not finance its Washington intrastate operations separately from the other jurisdictions making up Verizon Northwest Inc.

Prepared By: Robert G. Deter  
Date: May 13, 2004  
Witness: James H. Vander Weide

Docket No. UT-040788  
CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon the persons and entities listed on the Service List below by depositing a copy of said document via e-mail and by United States mail, addressed as shown on said Service List, with first class postage prepaid. In addition, a copy was sent to Ms. Judith Endejan via Federal Express for delivery June 9, 2004.

DATED at Olympia, Washington this 9<sup>th</sup> day of June, 2004.



KRISTA L. LINLEY

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