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UTILITY DIVISION
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May 5, 2005

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VIA FEDERAL EXPRESS

Ms. Carole Washburn
Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
1300 South Evergreen Park Dr. S.W.
Olympia, WA 98504-7250

Re: Petition of Verizon Northwest Inc. for Waiver of WAC 480-120-395

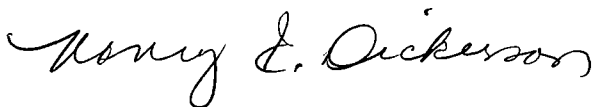
Dear Ms. Washburn:

Enclosed please find an original and 20 copies of the Petition of Verizon Northwest Inc. For Waiver of WAC 480-120-395 and Declaration of Service to be filed in the above-referenced matter.

Please date-stamp and return to us with the UT Number, a copy of the filing for our records in the enclosed stamped, self-addressed envelope provided for your convenience. If you have any questions, please call me at (206) 340-9381.

Very truly yours,

GRAHAM & DUNN PC



Nancy E. Dickerson
Assistant to Judith A. Endejan

Enclosures

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ORIGINAL

BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

REQUEST FOR A WAIVER OF CERTAIN PROVISIONS OF WAC 480-120-395)	Docket No.
)	PETITION OF VERIZON
)	NORTHWEST INC.
)	FOR WAIVER OF
)	WAC 480-120-395

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PETITIONER

- Petitioner is Verizon Northwest Inc. ("Verizon Northwest"), 1800 41st Street, Everett, Washington 98201. Petitioner's counsel is Judith A. Endejan, Graham & Dunn PC, Pier 70, 2801 Alaskan Way – Suite 300, Seattle, Washington 98121-1128.

RELIEF REQUESTED

- Pursuant to WAC 480-07-110, Verizon Northwest petitions the Washington Utilities and Transportation Commission (the "Commission") for a waiver of WAC 480-120-395, which, beginning on June 1, 2005, requires it to annually file a report of transactions with its sole subsidiary, Verizon West Coast Inc. ("Verizon West Coast"), a small local exchange company regulated by the California Public Utilities Commission.
- This waiver is warranted because the new report is not needed to protect Verizon Northwest's financial viability or to prevent inappropriate rates from being charged to its Washington customers, which are the purposes to be served by the new rule. Indeed, if this new report does not accomplish these purposes,

then this filing requirement would only create an unnecessary regulatory burden, contrary to the Governor's Executive Order 97-02.

BACKGROUND

4. On October 2, 2002 the Commission issued a Preproposal Statement of Inquiry (form CR-101) to consider establishing a rule that requires the filing of reports of regulated utilities' transactions with subsidiaries, reasoning:

The regulated transportation and utility business environments have undergone a number of significant developments that include corporate and industry restructuring, competition, bankruptcy, financial rating downgrades, volatile commodity supply and demand, volatile pricing, and concern with accuracy of corporate financial statements and reports. In this new environment, transactions between regulated companies and their affiliates and subsidiaries may significantly impact ratepayers. [New reports] would provide the Commission with more timely identification and disclosure of intercompany transactions that pose difficult regulatory issues.

The proposal covered household goods carriers, commercial ferries, auto transportation companies, solid waste and collection companies, petroleum pipeline companies, gas companies, low level radioactive waste, electric companies, water companies and telecommunications companies. The matter was docketed as A-021178.

5. In an October 9, 2002 Notice of Opportunity to File Written Comments the Commission stated: "It is not our intent that this rulemaking will apply to competitively classified telecommunications companies or local exchange companies that service less than two percent of the state's access lines under RCW 80.04.530" (which generally exempts such companies from reporting requirements). Thus, the only telecommunications companies subject to the new

requirement would be Qwest Communications, Verizon Northwest, the CenTel companies and United Telephone of the Northwest (Sprint).

6. The Commission issued a series of drafts of proposed rule language, conducted workshops, accepted written comments from interested parties, and held rulemaking hearings.
7. In all of its comments, Verizon Northwest described its one subsidiary (Verizon West Coast), pointed out that the companies' relationship did not implicate any of the concerns the Commission said motivated the rulemaking, and proposed wording changes that would result in the proposed rules not applying to Verizon West Coast transactions.
8. On March 4, 2005 the Commission issued its General Order No. R-518 (G.O. R-518), which, among other things, adopted an amendment to WAC 480-120-395 that requires telecommunications companies (other than competitively classified companies¹ and the statutorily exempt small companies) to file annual reports of transactions with affiliates.²
9. In G.O. R-518 the Commission stated (§ 39) it was adopting the new reporting requirement because transactions between regulated utilities and subsidiaries "can directly and substantially affect the assets and liabilities of the regulated company, and in turn, the rates and services provided by the regulated company to its ratepayers." This paragraph continued:

¹ Competitively classified telecommunications companies are exempt by virtue of the waiver set forth in WAC 480-121-063(1)(x), also adopted in General Order R-518.

² On March 30, 2005 the Commission issued a correcting order that did not
(continued . . .)

The fact that a subsidiary of a utility is itself a regulated utility does not, in and of itself, eliminate the possibility that transactions between the two entities could be disadvantageous to one of them. The regulator would not have reviewed the terms of the transaction, and it would not be at arms length. Therefore effective oversight of the regulated utility requires information on its transactions with regulated subsidiaries. If there are specific circumstances where this concern is not present, the affected utility may seek an exemption. (emphasis supplied)

10. Verizon West Coast has been a wholly owned subsidiary of Verizon Northwest since the 1968 merger of West Coast Telephone Company into General Telephone Company of the Northwest.³ Currently, Verizon West Coast provides service only in parts of California. It is not, and has never been, in a position to disadvantage Verizon Northwest and this presents specific circumstances to justify an exemption, according to G.O. R-518 (¶ 39).
11. Verizon West Coast is Verizon Northwest's only subsidiary.
12. Verizon West Coast is a rural incumbent local exchange company. It is subject to rate of return regulation by the California Public Utilities Commission.
13. Verizon Northwest operates in Washington, Oregon and Idaho. As stated in its 2004 Annual Report filed with the Commission on April 29, 2005, Verizon Northwest's total company telecommunications plant in service is over \$4 billion and its total company operating revenues are over \$1 billion. Verizon Northwest has approximately 1.7 million access lines in service.
14. At the end of 2004 Verizon West Coast had 15,800 access lines in service, and its telecommunications plant in service was \$42 million. For the year, its total operating revenues were approximately \$8.8 million.

affect WAC 480-120-395.

³ Since 1968 the companies' names have been changed from "General
(continued . . .)

15. The Verizon Northwest total company figures reported to the WUTC include the Verizon West Coast operation.
16. Since October 2002 Verizon West Coast has not obtained funding from Verizon Northwest but instead borrows directly from Verizon Network Funding Inc. Verizon West Coast has no outstanding debt to Verizon Northwest. Verizon Northwest is not a guarantor on any Verizon West Coast debt nor has it assumed any Verizon West Coast debt.
17. In the over thirty-five years that Verizon West Coast has been a subsidiary of Verizon Northwest there have been no transactions between the companies that have affected the financial viability of Verizon Northwest or adversely impacted the rates charged to Washington customers.
18. Governor's Executive Order 97-02, Regulatory Improvement, states that rules imposing regulatory burdens should be confined to meeting clear, significant needs.

DISCUSSION

19. There is no need to impose this new regulatory burden on Verizon Northwest.
20. There are no past or current transactions between Verizon Northwest and Verizon West Coast that have affected or might affect the financial viability of Verizon Northwest or the Commission regulated rates it charges its Washington customers.

Telephone" to "GTE" to "Verizon."

21. Since Verizon West Coast's operation accounts for less than one percent (1%) of the total Verizon Northwest operation,⁴ any theorized possible misallocation of expenses could not significantly adversely affect the financial ability of Verizon Northwest to provide service to its Washington customers. The Commission has recognized that such small transactions do not warrant reporting. For example, G.O. R-518 adopted a five percent threshold for reporting cash transfers and the assumption of financial obligations.⁵
22. Moreover, the financial impact of the Verizon West Coast operation is already included in the monitoring reports that Verizon Northwest files with the Commission.
23. Addressing the criteria set forth in WAC 480-120-015 and 480-07-110(1), the requested waiver is consistent with the public interest and the purposes underlying regulation, because transactions with Verizon West Coast do not present the risk of serious adverse Washington financial and pricing impacts that the Commission intended to address with the rules adopted by G.O. R-518. Granting the waiver is also consistent with applicable statutes, because while the law expressly gives the Commission some limited

⁴ Whether measured by access lines in service, plant in service or revenues.

⁵ See WAC 480-120-369(1)(a). This threshold is based on annual regulated Washington intrastate regulated revenues. Verizon West Coast's revenues of approximately \$8.8 million are only 0.8% of that revenue figure for Verizon Northwest for 2004.

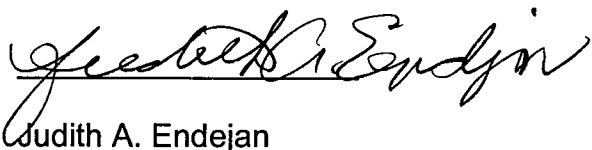
authority over transactions with affiliates, it does not expressly cover transactions with subsidiaries.⁶

CONCLUSION

24. Because transactions between Verizon Northwest and its sole subsidiary, Verizon West Coast, have not for 35 years and do not now present any likely or significant risk to Verizon Northwest's financial viability or to the appropriate level of rates charged to Washington customers, the Commission should waive the requirement of WAC 480-120-395 for an annual report of transactions between the two companies. G.O. R-518 (§ 39) contemplated specific circumstances, like those presented by Verizon West Coast, which would justify an exemption from this reporting requirement. Therefore, this petition should be granted.

Respectfully submitted this 5th day of May, 2005.

GRAHAM & DUNN PC.

By 
Judith A. Endejan
WSBA# 11016
Email: jendejan@grahamdunn.com
Attorneys for Verizon Northwest Inc.

⁶ RCW ch. 80.16.

ORIGINAL

BEFORE THE WASHINGTON UTILITIES AND
TRANSPORTATION COMMISSION

Petition for Waiver of Certain Provision of
WAC 480-120-395

) Docket No.

)
) DECLARATION OF SERVICE

I, Nancy E. Dickerson, hereby certify that a true and correct copy of the **Petition of Verizon Northwest Inc. For Waiver of WAC 480-120-395**, filed in the above matter, was served via Federal Express on this date on the following individuals:

Ms. Carole Washburn
Secretary
Washington Utilities and Transportation Committee
P.O. Box 47250
1300 South Evergreen Park Dr. S.W.
Olympia, WA 98504-7250

I declare under penalty of perjury under the laws of the State of Washington that the foregoing is true and correct to the best of my knowledge.

DATED this 5th day of May 2005.

By Nancy E. Dickerson
Nancy E. Dickerson